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Abolition of the MPF-Long Service Payment (LSP) offsetting mechanism in Hong Kong

Actions to be taken Communicate with key stakeholders i.e. human resources, finance personnel and auditors on the implications Perform calculation of LSP liability based on the new regulation Keep wage records of employees **Enactment of HKICPA** guideline Ordinance issued **Effective Date** 25-year **Government Subsidy Scheme** 2023 July 2022 June 2024 2025 May 2050 May

Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022

- Abolish the use of the accrued benefits of employers' mandatory contributions under the Mandatory Provident Fund ("MPF") System to offset severance payment ("SP") and long service payment ("LSP")
- No retrospective effect
- 25-year government subsidy scheme

Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong

Approach 1 ("Net basis")

Amount expected to be offset as a deemed employee contribution towards LSP benefits

Approach 2 ("Gross basis")

 Employer MPF contributions & offsetting mechanism as a funding mechanism for LSP obligation

Accounting Impact

- Full LSP liability shall be recognized as a liability
- One-off increase in the LSP provision as catch-up adjustment for prior year service
- Assess existing LSP provision if it is sufficient to cover the full LSP liability

Tax Impact

- LSP provision made based on the Employment Ordinance would be tax deductible
- Catch-up adjustment would potentially be tax deductible, complications may arise when determining the tax deductible amount
- Government subsidies would be taxable

Government Subsidy

First HK\$500,000 SP/LSP expenses

 SP/LSP payable to be calculated according to a specified share ratio with a "capped amount" per employee for the initial 9 years

SP/LSP expenses exceeding HK\$500,000

- SP/LSP payable to be calculated according to a different set of share ratio without "capped amount"
- No subsidy from Year 13 onwards

HOW CAN WE HELP



Calculation of LSP provision for pre-transition and post-transition period



Communication with employers' auditors regarding accounting treatment



Review on existing LSP provision with reference to new guidance issued by HKICPA



Advisory services on the accounting and tax implications

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