

## **Subsidy Scheme for Abolition of MPF Offsetting Arrangement** **Frequently Asked Questions**

### **(I) Introduction to the Scheme**

#### **Q1: What is the Subsidy Scheme for Abolition of MPF Offsetting Arrangement?**

A1: In tandem with the abolition of the offsetting arrangement under the Mandatory Provident Fund (“MPF”) System on 1 May 2025, the Labour Department (“LD”) launches the Subsidy Scheme for Abolition of MPF Offsetting Arrangement (“Subsidy Scheme”).

The Subsidy Scheme provides 25 years’ subsidies to employers to share out employers’ expenses on **severance payment (“SP”) / long service payment (“LSP”) in respect of their employees’ employment period from 1 May 2025 onwards** (i.e. the post-transition portion of SP/LSP). The subsidy ratio will be progressively reduced over the subsidy period to gradually increase the share ratio of employers in respect of the SP/LSP of their employees with a view to helping employers adapt to the policy change.

Besides, after the abolition of the MPF offsetting arrangement, employees who receive less aggregate benefits than they would have received if the MPF offsetting arrangement had not been abolished (i.e. the “worse-off” employees) may also apply for subsidies under the Subsidy Scheme to make up for the shortfall in aggregate benefits.

[The Subsidy Scheme will start to receive applications on 1 May 2025.]

### **(II) Subsidy applications by employers**

#### **Q2: What criteria should employers meet to apply for subsidies?**

A2: Employers must meet the following criteria:

- the relevant date of termination of employment of the concerned employee falls within the 25-year subsidy period of the Subsidy Scheme (i.e. **from 1 May 2025 to 30 April 2050**, both dates inclusive);
- the employee is entitled to SP/LSP under the Employment Ordinance (“EO”), and the employer has **paid SP/LSP to the employee in full**;
- the employer is affected by the abolition of MPF offsetting arrangement (i.e. the employer has enrolled the employee in an MPF

scheme in accordance with the Mandatory Provident Fund Schemes Ordinance (“MPFSO”) or an employer-funded exempt occupational retirement scheme (“ORS”) per the employment contract, and has made contributions to the scheme for the employee during the whole or part of the post-transition employment period); and

- the SP/LSP expenses of the employee **have not been/will not be** fully covered/subsidised by other government funding.

**Employer-funded exempt ORS** includes:

- an ORS that is granted exemption under MPFSO;
- the provident fund schemes under the Grant Schools Provident Fund Rules and the Subsidized Schools Provident Fund Rules; and
- a provident, pension, retirement or superannuation scheme (however described) in a place outside Hong Kong to which the employer has made contributions for the employee (including an imported worker) and due to which, the employee is exempted from joining an MPF scheme in Hong Kong.

**Q3: How is the subsidy amount for employers calculated?**

A3: There is a specified subsidy ratio for each subsidy year (i.e. from 1 May of each year to 30 April of the following year during the subsidy period) under the Subsidy Scheme. For details, please refer to [Appendix](#).

The Service Centre for Subsidy Scheme for Abolition of MPF Offsetting Arrangement (the “Service Centre”) calculates the subsidy amount payable to an employer by applying the subsidy ratio of the applicable subsidy year to the net amount of post-transition portion of SP/LSP actually paid to an employee in each application. If the amount of the post-transition portion of SP/LSP calculated in accordance with EO and after deducting the amount used by the employer to offset SP/LSP is less than the actual amount paid by the employer, the amount calculated according to EO will be adopted to calculate the subsidy amount payable to the employer. Applications are counted on the basis of individual employees.

In the initial nine subsidy years, there is a “capped amount” on an employer’s expenses on an employee’s post-transition portion of SP/LSP for approved applications falling within the \$500,000 threshold. If the SP/LSP amount to be shouldered by the employer after deducting the subsidy amount calculated according to the subsidy ratio is higher than the “capped amount”, the amount in excess will be subsidised by the Government.

For approved applications beyond the \$500,000 threshold, there is no “capped amount” on an employer’s expenses on the post-transition portion of SP/LSP payable to an employee.

From the 13<sup>th</sup> subsidy year onwards, no subsidy will be provided for applications beyond the \$500,000 threshold.

**Q4: How is the \$500,000 threshold for each employer calculated?**

A4: The \$500,000 threshold refers to whether the cumulative amount of post-transition portion of SP/LSP payable by an employer of approved applications in the same subsidy year (i.e. from 1 May of each year to 30 April of the following year during the 25-year subsidy period) exceeds \$500,000.

**Q5: How is the subsidy amount calculated if the SP/LSP amount of an application straddles the \$500,000 threshold?**

A5: The subsidy amount for an application straddling the \$500,000 threshold is calculated on a pro-rata basis by the Service Centre. The subsidy for the portion of SP/LSP falling within the \$500,000 threshold and the subsidy for the portion of SP/LSP beyond the \$500,000 threshold are calculated according to the respective subsidy ratios within and beyond the \$500,000 threshold. From the 13<sup>th</sup> subsidy year onwards, no subsidy will be granted in respect of the SP/LSP amount beyond the \$500,000 threshold.

Please refer to the following example for detailed calculation:

Assuming an employer has submitted and has been approved several subsidy applications in the sixth subsidy year, with the total expenses on employees’ post-transition portion of SP/LSP reaching \$460,000. The employer now submits a new application, and the net amount of post-transition portion of SP actually paid to the employee is \$50,000, among which, \$40,000 falls within the \$500,000 threshold while the remaining \$10,000 falls beyond the \$500,000 threshold. If the new application is approved, the subsidy amount payable to the employer is calculated as follows:

<b>Amount (a) or (b) below, whichever is more</b>			
(a) By applying the subsidy ratio		(b) By applying the “capped” amount	
Subsidy amount payable for the SP expenses within the <u>\$500,000 threshold</u> :	Subsidy amount payable for the SP expenses beyond the <u>\$500,000 threshold</u> :	Subsidy amount payable for the SP expenses within the <u>\$500,000 threshold</u> :	Subsidy amount payable for the SP expenses beyond the <u>\$500,000 threshold</u> :
$\$40,000 \times 35\%$	$\$10,000 \times 35\%$	[ $\$40,000 - (\$25,000 \times \frac{\$40,000}{\$50,000})$ ]*]	$\$10,000 \times 35\%$
Total amount of subsidy: $\$17,500$		Total amount of subsidy: $\$23,500$	

\* A “capped amount” of \$25,000 is set on an employer’s expenses in respect of an employee’s SP falling within the \$500,000 threshold in the sixth subsidy year. The figure derived from the formula in the brackets is the pro-rata “capped amount” based on the proportion of the SP expenses falling within the \$500,000 threshold to the total SP expenses in the application.

The subsidy amount payable to the employer is \$23,500.

**Q6: Are employers required to pay SP/LSP to employees in full before applying for subsidy under the Subsidy Scheme?**

A6: Yes.

**Q7: Can organisations currently receiving funding from the Government apply for subsidy on SP/LSP expenses under the Subsidy Scheme? How about organisations which are subvented by these organisations?**

A7: To ensure no “double benefit” is granted, employers cannot apply for subsidy under the Subsidy Scheme if the SP/LSP expenses of the concerned employees have been / will be fully covered / subsidised by other Government funding.

**Q8: How does LD determine whether individual public bodies or organisations subvented by the Government are eligible for subsidy on SP/LSP expenses under the Subsidy Scheme?**

A8: Employers are required to declare that SP/LSP paid to the concerned employees have not been/will not be fully covered/subsidised by other Government funding when submitting applications under the Subsidy Scheme. If necessary, LD may request the organisations concerned to prove that the SP/LSP involved in the applications are not fully covered/subsidised by the Government before considering to grant subsidy.

**Q9: For some subvented organisations, their SP/LSP expenses are partly paid from the Government funding and partly from other income (e.g. donations or service fees). Can these organisations apply for subsidy on SP/LSP expenses under the Subsidy Scheme?**

A9: If the SP/LSP paid to the concerned employees are not fully covered/subsidised by the Government funding, the organisations may apply for subsidy on SP/LSP expenses in respect of these employees under the Subsidy Scheme as other employers.

**Q10: If the SP/LSP actually paid to an employee is more than the statutory requirement under EO, can the employer apply for subsidy based on the actual amount paid to the employee?**

A10: The Service Centre will calculate the subsidy amount payable to the employer with reference to the employee's statutory SP/LSP entitlement under EO, or the actual SP/LSP amount paid to the employee, whichever is less. The amount in excess of the statutory entitlement is not eligible for subsidy.

**Q11: Can employers apply for subsidy on the SP/LSP paid to domestic servants?**

A11: As domestic servants are currently not covered by the MPF System and their employers are not affected by the abolition of the MPF offsetting arrangement, employers' expenses on the SP/LSP paid to domestic servants are not eligible for subsidy.

**Q12: Can employers apply for subsidy on the SP/LSP paid to imported workers?**

A12: Employers may apply for subsidy on the SP/LSP paid to employees who meet the following criteria:

- the relevant date of termination of employment of the employees concerned falls within the 25-year subsidy period of the Subsidy Scheme (i.e. **from 1 May 2025 to 30 April 2050**, both dates inclusive);
- the employees are entitled to SP/LSP under EO, and the employer has paid SP/LSP to the employees in full;
- the employer is affected by the abolition of MPF offsetting arrangement (i.e. the employer has enrolled the employees in an MPF scheme in accordance with MPFSO, or an employer-funded exempt ORS per the employment contract, and has made contributions to the scheme for the employees during the whole or part of the post-transition employment period); and
- the SP/LSP expenses of the employees **have not been/will not be** fully covered/subsidised by other government funding.

**Employer-funded exempt ORS** includes:

- an ORS that is granted exemption under MPFSO;
- the provident fund schemes under the Grant Schools Provident Fund Rules and the Subsidized Schools Provident Fund Rules; and
- a provident, pension, retirement or superannuation scheme (however described) in a place outside Hong Kong to which the employer has made contributions for the employees and due to which, the employees are exempted from joining an MPF scheme in Hong Kong.

**Q13: How can an employer submit an application?**

A13: Employers are required to pay SP/LSP to employees in full in accordance with EO before making an application under the Subsidy Scheme. Employers may submit applications and upload the supporting documents via the online platform (**TransitionEase**). Employers may also submit applications and supporting documents by email, facsimile, post or in person to the Service Centre or put the completed application forms together with relevant supporting documents into the drop box of the Subsidy Scheme. [The Subsidy Scheme will start to receive applications from 1 May 2025.]

**Q14: What information and supporting documents are required from employers making subsidy applications? Is there an application deadline?**

A14: Employers are required to submit a completed application form and a copy of the supporting documents. For details of the supporting documents required, please refer to [Appendix](#).

If necessary, the Service Centre may request supplementary information and documents from employers for verification of the application information.

Employers are required to submit applications **not later than three months** from the date of payment of SP/LSP to the concerned employees in full. **Late applications will not be considered.**

**Q15: How to determine which subsidy year an application falls under? Is it based on the submission date of the application or the termination date of the employment of the concerned employee?**

A15: Starting from the launch of the Subsidy Scheme, the first subsidy year is from 1 May 2025 to 30 April 2026, and the second subsidy year is from 1 May 2026 to 30 April 2027, and so forth. The subsidy ratio will be determined in accordance with the subsidy year in which the relevant date of termination of the employment of the concerned employee falls.

**Q16: Can an employer apply for subsidy on the post-transition portion of SP/LSP paid to an employee who is over 65 years old at the time of termination of employment?**

A16: Under MPFSO, employers are not required to make mandatory MPF contributions for employees in respect of the employment period after the employees have reached the age of 65. Hence for applications in which the concerned employee has reached the age of 65 at the time of termination of employment, the employer can only apply for subsidy on the post-transition portion of SP/LSP in respect of the employment period before the employee has reached the age of 65. SP/LSP expenses in respect of the employment period after the employee has reached the age of 65 are not eligible for subsidy.

**Q17: Will the employer-funded (voluntary) MPF scheme benefits and gratuities based on the length of service be taken into account by the Service Centre in the calculation of subsidy amount when processing an employer's subsidy application?**

A17: The subsidy amount is calculated based on the net amount of post-transition portion of SP/LSP paid to an employee. After the abolition of MPF offsetting arrangement, employers may continue to use the employer-funded (voluntary) MPF scheme benefits and gratuities based on the length of service to offset an employee's SP/LSP. If an employer uses the employer-funded (voluntary) MPF scheme benefits and gratuities based on the length of service to offset part or all of the post-transition portion of SP/LSP of an employee, the subsidy amount payable to the employer will be calculated based on the net amount of post-transition portion of SP/LSP paid to the employee after netting the offsetting item(s).

If the employer does not use the employer-funded (voluntary) MPF scheme benefits and gratuities based on the length of service to offset SP/LSP, the Service Centre will calculate the subsidy amount payable to the employer based on the full amount of post-transition portion of SP/LSP.

**Q18: When will applicants receive the application result after submitting an application?**

A18: In general, the Service Centre will complete processing an application and issue the Notification of Application Result within 30 working days after receipt of all necessary information and supporting documents pertaining to the application.

**Q19: What should an applicant do if he/she does not agree to the application result?**

A19: If an applicant is not satisfied with the application result, he/she may lodge a review request with justification(s) within four weeks from the issue date of the Notification of Application Result. If he/she is still not satisfied with the review result, he/she may lodge an appeal request with justification(s) within four weeks from the issue date of the Notification of Review Result. The result of the appeal is final.



**Q20: What is an audit check/review? What should an applicant do if the application is selected for audit check/review?**

A20: To ensure Government subsidies are properly disbursed, the Service Centre would select applications which processing has been completed for audit check/review, and would approach the applicants of the selected applications or relevant parties for further information and documents when necessary. If an application is selected for audit check/review, the applicant should provide the documents and information requested by the Service Centre. Applicants who fail to provide the information as requested without reasonable excuse will be liable to repay in full any subsidy received.

**(III) Subsidy applications by employees**

**Q21: How are the aggregate benefits of an employee calculated?**

A21: Aggregate benefits of an employee refer to:

- the amount of SP/LSP received from the employer, or the SP/LSP amount calculated by the Service Centre in accordance with EO after offsetting with the allowable offsetting item(s) (if any), whichever is larger; plus
- the remaining amount of, after offsetting with SP/LSP (if any),
  - the employer-funded MPF scheme benefits;
  - the employer-funded ORS benefits; and
  - the contractual gratuities.

**Q22: Why do some employees receive less aggregate benefits after the abolition of MPF offsetting arrangement than they would have received if the MPF offsetting arrangement had not been abolished?**

A22: In general, employees will receive more aggregate benefits after the abolition of MPF offsetting arrangement than what they would have received if there had been no abolition.

However, for employees to whom the abolition of the MPF offsetting arrangement applies, if their employment period straddles the transition date, their SP/LSP entitlement is divided into (a) the pre-transition portion (i.e. the SP/LSP in respect of the employment period before 1 May 2025), and (b) the post-transition portion (i.e. the SP/LSP in respect of the employment period from 1 May 2025 onwards). The pre-transition portion of SP/LSP is calculated on the basis of the wages immediately

preceding the transition date (instead of the wages at the termination of employment). In this connection, the amount of aggregate benefits received by these employees may be less than the amount they would have received if there had been no abolition under special circumstances, for example:

- the employee has received a substantial pay rise after the transition date; and/or
- the pre-transition employment period of the employee is very long while the post-transition employment period is relatively short.

**Q23: What criteria should employees meet to apply for the subsidy for shortfall in aggregate benefits?**

A23: Employees must meet the following criteria:

- the employment commenced **before 1 May 2025** and terminated **on or after 1 May 2025**;
- the employees are entitled to SP/LSP under EO, and their employers have paid the SP/LSP;
- the abolition of MPF offsetting arrangement applies to the employees; and
- the aggregate benefits of the employees are less than what they would have received if there had been no abolition.

Employees to whom **the abolition of the MPF offsetting arrangement applies** refer to those whose employers are obliged to enrol them in an MPF scheme under MPFSO, or an employer-funded exempt ORS per the employment contract, and have made contributions to the scheme for them.

**Employer-funded exempt ORS** includes:

- an ORS that is granted exemption under MPFSO;
- the provident fund schemes under the Grant Schools Provident Fund Rules and the Subsidized Schools Provident Fund Rules; and
- a provident, pension, retirement or superannuation scheme (however described) in a place outside Hong Kong to which the employer has made contributions for the employee (including an imported worker) and due to which, the employee is exempted from joining an MPF scheme in Hong Kong.

**Q24: How can an employee submit an application for subsidy to make up for the shortfall in aggregate benefits? Is there an application deadline?**

A24: Employees may submit applications and supporting documents by email, facsimile, post or in person to the Service Centre, or put the completed application forms together with relevant supporting documents into the drop box of the Subsidy Scheme. [The Subsidy Scheme will start to receive applications on 1 May 2025.]

Employees are required to submit the completed **Application Form** and a copy of the **supporting documents not later than six months** from the date of receipt of SP/LSP payment. **Late applications will not be considered.**

**Q25: When will an employee receive the application result after submitting an application?**

A25: Please refer to the answer to Frequently Asked Question 18 above.

**Q26: What should an employee do if he/she does not agree to the application result?**

A26: Please refer to the answer to Frequently Asked Question 19 above.

**Q27: What is an audit check/review? What should an employee do if his/her application is selected for audit check/review?**

A27: Please refer to the answer to Frequently Asked Question 20 above.