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Payroll in Hong Kong

Supporting flexible remuneration policies



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Payroll in Hong Kong: a flexible system with its own set of rules

In each country, payroll processing is driven by local labor laws, different layers of legislation and specific rules. This makes it a challenge for multinational companies and companies expanding internationally.

A specially administered region

Using a local payslip as a reference point, this brochure explores the main features of payroll in Hong Kong. A former British territory, Hong Kong is a specially administered region of China with its own legal system and labor regulations.

Sample Hong Kong payslip

Employee PaySlip		Company Logo	
Payroll Month:	201309	Cost Centre:	B001
Name:	***	Employee No.:	00137
			Amount(HKD)
Monthly Basic Salary			16666.67
Prorated Monthly Basic Salary			16666.67
TOTAL SALARY			16666.67
Bonus			8000.00
Commission			24000.00
TOTAL OTHER EARNINGS			32000.00
ESPP Contribution			1667.00
ESPP Contribution Refund			
ESPP Residual Balance Refund			
TOTAL ESPP			1667.00
MPF EE MC			1250.00
MPF EE VC			0
Grand Total			45749.67
MPF ER MC			1250.00
MPF ER VC			433.33
REMARK:			

If you have any queries regarding payroll item, please email the HR department within 5 working days. Otherwise, we assume you acknowledge the information above

HONG KONG PAYROLL HIGHLIGHTS

The Hong Kong payroll system is relatively simple and clearly less complex than in mainland China. There is, for instance, no income tax withholding at source and only one mandatory social contribution, which goes to the national pension scheme.

A lot of flexibility

Payroll in Hong Kong is based on one straightforward set of rules. Companies have a lot of flexibility in defining employee remuneration packages.

The most painstaking aspect lies with the remuneration of absence and leave days, in accordance with the law. Calculations are based on the employee's average wages over the last 12 months.

KEY PAYROLL COMPONENTS

- Flexible remuneration package including base salary, commissions and bonuses
- A series of optional allowances, with housing allowance being very common
- No income tax withholding at source
- Mandatory contribution to the national pension scheme
- Mandatory fringe benefits including payment of holidays, annual leave days, sick days and maternity allowances
- Additional benefits that can be granted by each company
- Payroll components can be stipulated on the employee's contract

NOTEWORTHY AND TIME-CONSUMING ASPECTS

- Employer compensation of different categories of leave and absence involving complex calculation rules
- The Employment Amendment Ordinance of July 2007 defines the rules for performing these calculations
- Pension contributions submitted to 19 possible recipients that use different interfaces
- Six reports to file with the tax authorities



BEHIND A HONG KONG PAYSリップ

Payslips in Hong Kong are generally simple. Their content is determined by the remuneration package offered by the company and by specific events (annual leave, termination of employment, etc.).

An in-depth description of a complete Hong Kong payslip offers additional keys to understand the country's payroll system.

Sample detailed Hong Kong payslip

Employee PaySlip		Company Logo	
Payroll Month:	201309	Cost Centre:	8001
1 Name:	***	Employee No.:	00137
			Amount(HKD)
2	Monthly Basic Salary		16666.67
	Prorated Monthly Basic Salary		16666.67
	Salary Adjustment		
	Additional Remuneration		
	No Pay Leave Deduction		
	Rental Reimbursement		
	TOTAL SALARY		16666.67
	Award		
	Bonus		8000.00
	Car Allowance		
	Commission		24000.00
	Holiday Payment		
	In Lieu of Annual Leave Payment	3	
	Other Allowance		
	Other Payment / Deduction		
4	OT Payment		
	Referral Bonus		
	Severance Payment		
	Pay In Lieu of Notice		
	TOTAL OTHER EARNINGS		32000.00
	ESPP Contribution		1667.00
5	ESPP Contribution Refund		
	ESPP Residual Balance Refund		
	TOTAL ESPP		1667.00
	MPF EE MC		1250.00
	MPF EE VC		0
6	Grand Total		45749.67
	MPF ER MC		1250.00
	MPF ER VC		433.33
	REMARK:		

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BEHIND A HONG KONG PAYS LIP (CONT.)

1 Employee information

The employee information section is extremely short and contains two main pieces of information.

- **Name**
- **Employee number**

3 Allowances

- **Rental reimbursement or housing allowance**
It is very common for companies in Hong Kong to support their employees' accommodation expenses.

This can take different forms: direct payment of rent, full or partial reimbursement to the employee. Companies must check that the allowance is used for the intended purpose.

- **Car allowance**
- **Other allowance**
Companies can grant their employees different kinds of allowances to cover fuel, education, food, water or medical expenses.

5 Miscellaneous benefits

- **ESPP (Employee Stock Purchase Plan)**

6 Social contributions

- **MPF (Mandatory Provident Fund)** pension scheme.
The sole social contribution in Hong Kong. Paid by both employee (EE) and employer (ER), at the following rates in December 2013:

Monthly base income	ER	EE
Less than HKD6,500	5%	None
HKD6,500 to HKD25,000	5%	5%
More than HKD25,000	HKD1,250	HKD1,250

On top of the mandatory contribution (MC), employer and employee can opt for an additional voluntary contribution (VC).

2 Salary components

- **Monthly base salary**

Work contracts offer flexibility to define different remuneration components:

- Additional remuneration
- Bonus
- Award
- Commission

- **OT payment:** overtime payment
There is no statutory work week time in Hong Kong. Overtime hours and pay rates are defined on the work contract.

4 Leave and absence payments

Benefits governed by Employment Amendment Ordinance (EAO) and complex rules. Calculated on the basis of the employee's average wages over the previous 12 months (excluding non-paid and non-fully paid periods).

- **Holiday payment**
12 statutory paid holidays (after three months' service).
- **Annual leave payment**
Seven to 14 days according to length of service.
- **Severance or long-term service payment**
Two-thirds of last month's salary for each year of service.
- **Payment in lieu of notice**
Payment in lieu of notice based on average wages.

As well as (not visible on payslip):

- **Sick leave allowance**
80% of average salary for justified sick absences of at least four days
- **Maternity leave payment**
10 weeks paid at 80% of average salary
- **End-of-year payment**
Contractual end-of-year payment (bonus, 13th month, double month).

Local rules, distinct from mainland China

Payroll in Hong Kong is based on one set of legal rules maintained by the government of the territory.

A single set of statutory policies for the territory

Hong Kong payroll policies are maintained by the local government (Labor Department) and apply uniformly to the whole territory. They are different and more stable than those in mainland China. The last significant change to impact Hong Kong payroll policies occurred with the Employment Amendment Ordinance (EAO) of 2007.



Hong Kong established a Statutory Minimum Wage (SMW) in May 2011. As of May 2013, the SMW was HKD30 per hour.

As the payslip shows, payroll in Hong Kong is simple. Unlike in mainland China, there is no tax withholding at source in Hong Kong and hence no subsequent calculations. Payslips can be delivered in printed form or as an e-payslip.

Simple social contributions

In terms of social protection, Hong Kong employees and employers contribute to a sole mandatory pension/retirement protection scheme (Mandatory Provident Fund, or MPF) with uniform rates across the territory. The MPF mandatory contribution can be supplemented

with a voluntary contribution from the employer and/or employee.

The MPF System was launched in December 2000. Prior to this, employees could be offered a voluntary scheme under the Occupational Retirement Schemes Ordinance (ORSO) of 1993. Employees who participated in this program have the option to maintain their ORSO scheme or switch to the MPF scheme.

This contrasts with the convoluted social contribution system in mainland China, where social benefits include five insurance schemes (pension, medical, unemployment, work injury, maternity) and one fund (Public Housing Fund) with rules that vary according to city and employee residential status.

Flexibility for companies

In addition to statutory payroll requirements, companies may have different policies. They have the flexibility to offer additional remuneration components and benefits to their employees.

Salary components and allowances

On top of the base salary, companies can pay overtime, bonuses, awards and commissions as additional remuneration components,

which can be stipulated in the employee's contract.

Companies have the flexibility to offer employees a large variety of allowances: housing, traveling, attendance, car, children's education, medical care, etc.

used for housing. In some cases, the company directly pays the rent to the landlord. The housing allowance (or more precisely the rented value – RV) must be declared separately from salary on the annual tax return.



Housing allowance

The most common allowance is to support housing costs. It is paid as a fixed amount (housing allowance) or as a rental reimbursement. Companies must check that reimbursements are effectively

Benefits

Companies can also offer miscellaneous benefits such as stock purchase plans and private health insurance.

Meticulous remuneration of absence days

The most painstaking aspect of payroll is calculating the remuneration of different categories of absence and leave days, in accordance with the law.

Compensation for leave and absence days

Employers must track and remunerate different categories of absence days such as holidays, annual leave, sickness and maternity leave. The rules that govern employees' rights and payment for those days are stated in the Employment Amendment Ordinance (EAO) of July 2007. The EAO also provides rules for contractual end-of-year payment and payment in lieu of notice.

Complex cases

The EAO sets rules for each category of absence days. These

rules are always complex for companies to manage. For instance, in the case of sickness, an employee is entitled to sick pay on days of illness at the rate of four-fifths of his average daily compensation if he has accumulated a sufficient number of paid sick days, if the sick leave taken is not less than four consecutive days and if the absence is supported by an appropriate medical certificate. An employee can accumulate two paid sick days for each month worked during the first 12 months of employment and four paid sick days for each month of employment thereafter. Employees can

accumulate up to a maximum of 120 paid sick days over the life of their employment contract.



Relationships with third parties

The payroll process entails minimal management of tax and social contributions. Companies must nevertheless interact with the relevant third parties.



No tax withholding, but mandatory reporting

In Hong Kong, there is no income tax withholding at source. This relieves companies from having to calculate subsequent amounts. It is the employee's responsibility to file his annual tax declaration and pay directly to the Inland Revenue Department (IRD), the local tax authority.

The tax year runs from April 1 to March 31. Companies need to report remuneration paid to employees by submitting an annual employer's return (BIR56A and IR56B) and the following notification forms: IR56E (new employment), IR56F (on termination of his service (or death)), IR56G (on his leaving

Hong Kong for good or for a substantial period of time).

Limited social contributions, but many third parties

The authority that manages Hong Kong's employee pension scheme tasks private financial institutions with collecting the contributions paid. These institutions are called MPF trustees.

There are currently 19 MPF trustees in Hong Kong, all of which have their own processes and interfaces. Companies – and payroll service providers – may have to interact with different MPF trustees for the same social contribution.

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