

ANNEX K

PAY LEVEL SURVEY

Attached is a copy of the correspondence between Mr Duke, Hay Management Consultants, and Mr Ghafur of Inland Revenue. The letters are self explanatory, however, the part to note is paragraph (8) in Mr Ghafur's letter covering tax on housing.

This paragraph lays out in full the calculation of tax and salary deduction for two employees both earning \$300,000 per annum and occupying non departmental quarters, one from the Civil Service and one from the private sector.

From the calculation you can see that the major difference between the two cases is the 7 1/2% salary deduction for the Civil Servant. The tax differences as a percentage of base salary is 1.3% in favour of the Civil Servant. On this basis it was decided that tax would not be a factor on either side and the only adjustment to the value of housing would be the salary deduction for the Civil Servant.

23 September 1986

Mr Osmund Ghafur  
Assistant Commissioner  
Department Inland Revenue  
Windsor House  
Causeway Bay  
Hong Kong

Dear Mr Ghafur

1986 Government Pay Level Survey

With reference to our discussions of this morning I am writing to lay out my understanding of the points that you made with regard to taxation of certain elements of fringe benefits.

- (1) Company Car, if a company car is provided by a private sector employer to an employee so that the employee can use it for private as well as business trips then this is a non taxable benefit. There is no parallel to this in the public service as the government car is provided strictly for business purposes.
- (2) Domestic Servants, if a company hires domestic servants for their employees and the company pays the domestic's wages then this is a non taxable item. However where an employee hires a domestic servant, pays the wages and these claims back from the company this is in effect an allowance and is taxable.
- (3) Lump sum payments made to an employee on retirement as part of an approved provident fund is not taxable provided the employer contribution has not exceeded 15% of employee pay. Where the employer contribution is greater than 15% of pay then the lump sum is taxable on that amount which exceeds the 15% contribution. For example if the employer contribution is 17% then 15/17 of the lump sum is non taxable and 2/17 is taxable. This applies only to companies that are not chargeable to profits tax (eg charitable organisations). All other organisation's lump sum payments are non taxable.
- (4) Pension payments are taxable, however where an employee commutes a part of the pension to a lump sum, then the lump sum is not taxable. This is the case in the public sector.
- (5) Private sector life insurance lump sum payments paid out under a company funded policy to widows and orphans is not taxable.

- (6) Under a recent administrative concession of June 1986 payments made by employers on behalf of employees for medical, dental and hospital charges are not taxable.
- (7) Leave Passages are exempt from taxation under a section covering leave warrants, which in effect means that air passages provided by employers to employees and their immediate dependant families for leave, are non taxable.
- (8) The situation with regard to company housing in the private sector and the occupation of non departmental quarters in the public sector is rather more complicated. In the private sector where a company provides a house free of charge an amount equal to 10% of total assessable income is added to the total assessable income before calculating income tax.

In the public service where employees contribute 7 1/2% of pay towards the house rental, only 2 1/2% of total assessable income is added on to the total assessable income before calculating income tax.

In effect the two schemes for staff with the same total assessable income of \$300,000 lead to almost the same nett of tax position.

*Peter Duke*

Peter Duke  
Director & Executive Consultant

---

PD/mc



INLAND REVENUE DEPARTMENT

WINDSOR HOUSE,  
311 GLOUCESTER ROAD, CAUSEWAY BAY,  
HONG KONG.

香港稅務局

香港銅鑼灣告士打道三百一十一號  
皇室大廈

電話 Tel. No.: 5-7959- 5-8942051

ALL CORRESPONDENCE SHOULD BE ADDRESSED TO—

電報掛號 Cables: INLANREV 5-8942001.

COMMISSIONER OF INLAND REVENUE,  
G.P.O. BOX 132, HONG KONG.

文件編號 Your Ref.:

來函請寄「香港郵政總局郵箱一三二號稅務局局長收」

本局檔號 Our Ref.: HQ 465/464/02 Part III

(IN REPLY PLEASE QUOTE THIS FILE REF.)  
(來函請敘明此檔案號碼)

25 SEP 1986

Mr Peter Duke  
Director & Executive Consultant  
Hay Management Consultants  
Hong Kong Ltd.  
1704 Alexandra House  
16-20 Chater Road  
Hong Kong

Dear Mr Duke,

1986 Government Pay Level Survey

Thank you for your letter dated 23 September 1986.

I consider that your above letter correctly sets out our practice except that points (3), (6) and (8) therein should be amended as follows :-

- (3) Sums, other than pensions, received by an employee on retirement or otherwise from an approved retirement scheme including an approved provident fund is not taxable. In the case of schemes set up by employers not chargeable to Profits Tax, this exemption is limited to 15% of the employee's income from employment multiplied by the number of completed years service with that employer.
- (6) Under a recent administrative concession of July 1986, sums paid by employers as medical reimbursements are not taxable.
- (8)

		<u>Government Servant</u>	<u>Non-Government Servant</u>
Income (assuming no allowable expenses, allowable depreciation allowance and last contract gratuity involved)		\$300,000	\$300,000
Quarter Value	30,000 -22,500	7,500	30,000
Net Assessable Income		\$307,500	\$330,000
Tax payable at 17%		\$52,275 =====	\$56,100 =====

副本送交 c.c. M/S

貴客戶編號 Your Ref.:

/2 .....

524



Income		\$300,000	\$300,000
Less: rent deduction at 7.5% of income	22,500		
Tax payable	<u>52,275</u>	<u>74,775</u>	<u>56,100</u>
Net Take home pay		<u>\$225,225</u>	<u>\$243,900</u>

Yours faithfully,

(Osman Ghafur)  
Assistant Commissioner, Unit 2