



China Tax Alert

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Nationwide individual income tax deductions for private health insurance

Regulation discussed in this issue:

- *Notice on Expanding the Pilot Policy of Individual Income Tax on Commercial Health Insurance for Nationwide Implementation* (Cai Shui [2017] No. 39) jointly issued by the Ministry of Finance (MOF), State Administration of Taxation (SAT) and China Insurance Regulatory Commission (CIRC) on 2 May 2017, which will come into effect on 1 July 2017.

Background

On 2 May 2017, MOF, SAT and CIRC jointly issued Cai Shui [2017] No. 39 (Notice No. 39). This provides that the preferential individual income tax (IIT) treatment for premiums paid for qualified commercial health insurance products shall be applied on a nationwide basis from 1 July 2017.

Main features

Notice No. 39 builds on the pilot program which allows for preferential tax treatment on qualified commercial health insurance products in pilot cities. From 1 July 2017, individuals shall be allowed to claim up to RMB2,400 per annum as IIT deductions in respect of premiums paid for qualified commercial health insurance products. This is in addition to the statutory personal tax deduction, which is currently either RMB3,500 or RMB4,800 per month, for individuals earning employment income.

The annual cap of RMB2,400 is also subject to a monthly cap of RMB200, where the employer buys the insurance for the employee, or where the employee and employer share the cost. Where an employing entity purchases eligible commercial health insurance products for its employees, such expenditure shall be included in the employees' taxable wages and salaries. The purchase is deemed as being made by these employees and the premiums paid are allowed to be deducted, by the employees for IIT purposes, up to the limit as stated above.

The monthly cap does not apply to individuals who are self-employed, or engaged in contracted or leased operations of enterprises or social service providers partly or wholly funded by state assets, sole proprietors, or partners in a partnership, as these are taxed on an annual basis.

Furthermore, Notice No. 39 also specifies the standards and conditions which products must meet in order to be treated as qualified commercial health insurance products. Criteria are set out concerning how product types are to be structured in relation to different target groups.

KPMG's observations

Previously, 31 cities in China, including Beijing, Shanghai, Tianjin and Chongqing, were permitted to allow local taxpayers to claim an IIT deduction for the premium paid for qualified commercial health insurance products. As Notice No. 39 will expand the program to the entire country, it will provide an important supplement to China's existing state-financed social insurance schemes and basic medical insurance products, and accelerate the development of the commercial health insurance industry.

So far, CIRC has identified five batches of insurance companies which are permitted to sell qualified commercial health insurance products. Companies can obtain such lists from the official website of CIRC, and assist their employees to purchase qualified commercial health insurance products. Meanwhile, companies, as IIT withholding agents, are obliged to establish mechanisms to administer the tax deduction claim for allowable premiums. This is to ensure that deduction claims are made in accordance with Notice No. 39 and the requirements of local tax authorities.

If you have any questions on the above, KPMG will be glad to provide corresponding assistance and relevant consultation services.

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