Pilot program on promoting commercial health insurance products coupled with individual income tax break

Regulations discussed in this issue:

- *Notice on Individual Income Tax Treatment on Commercial Health Insurance*, Cai Shui [2015] No.56, issued on 8 May 2015

Background

Following the release of *Notice on Issues Pertaining to the Collection and Administration of Individual Income Tax on Enterprise Annuities and Occupational Pensions (Cai Shui [2013] No. 103)*, which allows tax deductions for voluntary employee contributions to approved Enterprise Annuities and Occupational Pensions, the Ministry of Finance ("MOF"), State Administration of Taxation ("SAT") and China Insurance Regulatory Commission ("CIRC") joined forces and issued *Cai Shui [2015] ("Circular 56")*, introducing favourable tax treatment on premiums paid for qualified commercial health insurance products. The program is to be rolled out in pilot cities throughout China.

Circular 56 came into effect on 8 May, 2015.

Main features

Circular 56 indicates that a major city of each province will be nominated for the implementation of the pilot program. All the areas of Beijing, Shanghai, Tianjin and Chongqing, municipalities directly under the Central Government, are included in the program.

In a nutshell, taxpayers in the pilot cities who earn income from the following sources will be eligible to claim a tax deduction against the respective category of assessable income, an amount of premium they pay for qualified commercial health insurance products:

- wages and salaries;
- remuneration for providing services;
- production or business operations conducted by self-employed industrial and commercial households;
- contracted or leased operations of enterprises or social service providers partly or wholly funded by state assets

An annual cap of RMB2,400 (or RMB200 per month) has been set as the allowable tax deduction in respect of the relevant premiums paid. The qualified commercial health insurance products in question refer to the comprehensive health insurance products which are developed by the CIRC to cater for the needs of the general public, and approved and released jointly by the MOF, SAT and CIRC.

KPMG Observations

The issuance of Circular 56 echoes the spirit of *Several Opinions of the State Council on Expediting the Development of Healthcare Industry (Guo Fa [2013] No. 40)*, by providing tax break for qualified commercial health insurance products. This is not only consistent with the message delivered by Premier Li Keqiang at the executive meeting of the State Council held on 6 May, 2015 about encouraging the general public to purchase comprehensive health insurance products by leveraging international experience, but also demonstrates the resolve of the SAT to reform the individual income tax regime.

To date, the types of allowable deductions for wage earners in China are limited. The release of Circular 56 provides some room to employers for tax effective remuneration planning.

It is also mentioned in Circular 56 that various authorities will work together to develop the work plans for implementing the pilot program in the coming month and will submit them to the MOF, SAT and CIRC for filing and approval. KPMG will closely follow up the details of the plans and share our insights in due course.

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