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People's Republic of China – Health Insurance Tax Relief Pilot Program

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The government of the People's Republic of China ("PRC") has issued *Cai Shui [2015] ("Circular 56")*, introducing favorable tax treatment on premiums paid for qualified commercial health insurance products.[1] The new policy is to be rolled out in pilot cities throughout the PRC.

Circular 56 came into effect on 8 May 2015.

Why This Matters

To date, the types of allowable deductions for wage earners in the PRC have been limited. The release of Circular 56 could provide some leeway for tax-effective remuneration planning by employers and some tax-advantageous planning by employees.

Background

Jointly issued by the Ministry of Finance ("MOF"), State Administration of Taxation ("SAT"), and China Insurance Regulatory Commission ("CIRC"), Circular 56 follows on 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.

Main Features

Circular 56 indicates that a major city of each PRC 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 respect of the amount of premium they pay for qualified commercial health insurance products, taxpayers in the pilot cities who earn income from the following sources will be eligible to claim a tax deduction against certain assessable income:

- 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 RMB 2,400 (or RMB 200 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 include the comprehensive health insurance products that 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 Note

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 breaks 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 leveraging international experience and encouraging the general public to purchase comprehensive health insurance products; it also demonstrates the resolve of the SAT to reform the individual income tax regime.

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 months and will submit them to the MOF, SAT, and CIRC for filing and approval.

KPMG will monitor the details of the plans and will endeavor to keep *Flash Alert* readers informed as matters develop further.

Footnote:

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

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