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**People's Republic of  
China – Updates to Tax-  
Advantaged Health  
Insurance Products**

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## flash Alert

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The China Insurance Regulatory Commission (CIRC) issued Circular 82<sup>1</sup> which introduced pilot administrative measures for health insurance products qualifying for preferential individual income tax (IIT) treatment ("IIT-preferential health insurance policies").

Circular 82 became effective 10 August 2015.

### Why This Matters

The extension of preferential IIT treatment for a broader range of qualifying health insurance products should encourage individuals (and their employers) to take out insurance policies to help them meet their health coverage needs, get more people covered by health insurance, and offer tax-savings potential.

### Circular 82

CIRC issued *Bao Jian Fa [2015] No. 82* ("Circular 82") introducing pilot administrative measures for health insurance products that will qualify for preferential IIT treatment as prescribed in the *Notice on Individual Income Tax Treatment on Commercial Health Insurance (Cai Shui [2015] No.56)*.<sup>2</sup>

### Main Features

Circular 82 makes it clear that IIT-preferential health insurance policies are those commercial health insurance products issued in accordance with Circular 82 and purchased by individuals in the specified pilot cities. Life insurance companies and their affiliates (collectively called insurance companies) that engage in the business of IIT-preferential health insurance policies should satisfy the requirements as stated in Circular 82.

The CIRC will shortly release a list of the qualified insurance companies and update the list regularly.

Circular 82 elaborates on the types of insurance policies qualifying for preferential IIT treatment, and introduces detailed administrative measures for these policies:

- IIT-preferential health insurance policies should provide universal health coverage comprising a medical insurance component and a personal accumulation account. The medical insurance component should be linked to the basic medical insurance and supplementary medical insurance administered under the China social insurance schemes and is to be used to cover personal medical expenses incurred in excess of those covered by the basic and supplementary medical insurances. Personal medical

expenses can only be claimed once. The accumulated balance in the personal account can only be used for purchasing commercial health insurance products and covering personal medical expenses after retirement.

- IIT-preferential health insurance policies developed by insurance companies should be marked as "个人税优健康保险" and reported to the CIRC for approval.

Insurance companies should issue receipts designed specifically for IIT preferential health insurance policies to policy-holders as proof for the IIT deduction after receiving insurance premiums.

In addition, Circular 82 provides specific administrative measures on the financial management, information system management, information disclosure, and supervision of insurance companies.

### Further Details about Impact of Cai Shui [2015] No. 56 and Circular 82

Cai Shui [2015] No.56 provides that taxpayers in the pilot cities who earn income from the following sources will be eligible to claim a tax deduction in the amount of the premium they pay for qualified commercial health insurance products against the respective categories of assessable income:

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

A cap of RMB 2,400 per year (or RMB 200 per month) has been set as the maximum amount of tax deduction allowed in respect of the relevant premiums paid.

Circular 82 clarifies the criteria for those health insurance policies that will qualify for preferential IIT treatment in the pilot cities and has sped up the implementation of policies on commercial health insurance products qualifying for preferential IIT treatment.

### KPMG Note

The KPMG International member firm in the People's Republic of China ("KPMG") anticipates that qualified insurance companies will gradually roll out several IIT-preferential health insurance policies to the market in the near future.

Employers should keep a close watch on the list of qualified insurance companies to be announced by the CIRC, and make a considered assessment of such so that informed decisions can be taken on the selection of appropriate commercial health insurance products for their employees – and thus, make proper use of the preferential tax treatment available to them, and, if appropriate, adjust their remuneration packages.

Also, KPMG recommends that companies confirm the "个人税优健康保险" status of the commercial health insurance policies when selecting IIT-preferential health insurance policies for their employees, and obtain IIT-preferential health insurance receipts from the insurance company for IIT deduction purposes.

*Footnote:*

- 1 *Notice on Pilot Admin Measures on the Health Insurance Products Qualified for Individual Income Tax Preferential Treatments*, Bao Jian Fa [2015] No.82, issued by the China Insurance Regulatory Commission on 10 August 2015.
- 2 For prior coverage, see GMS [Flash Alert 2015-071](#) (4 June 2015).

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