Hong Kong: Tax deduction for premiums paid under Voluntary Health Insurance Scheme

June 20, 2018

In brief
The Financial Secretary announced a new tax concession for subscribers of regulated insurance products under the Voluntary Health Insurance Scheme (VHIS) in his 2018/19 Budget Speech on February 28, 2018. The following day, the HKSAR Government announced the details of VHIS and a new website dedicated to VHIS. The proposed tax concession encourages more people to purchase the eligible health insurance products under the VHIS. To implement the concession, The Inland Revenue (Amendment) (No. 4) Bill 2018 was gazetted on May 18, 2018 to provide a tax incentive for individuals participating in the VHIS.

The bill proposes that taxpayers can claim a concessionary deduction under salaries tax or personal assessment for qualifying premiums paid for themselves or their specified relatives under the VHIS. The maximum deduction claimed by the taxpayer for each insured person (i.e., the specified relative) in each year of assessment is HK$8,000. For this purpose, a specified relative means the taxpayer, the taxpayer’s spouse or child, or the taxpayer’s or the spouse’s parent, grandparent, or sibling, subject to certain conditions. There is neither a cap on the number of insured persons for whom the taxpayer is eligible to claim a tax deduction, nor a cap on the number of taxpayers who can make a claim for tax deduction for the same insured person, in a year of assessment.

Upon enactment of the relevant tax legislation, the concessionary deduction for qualified premiums paid under the VHIS will be effective from the year of assessment 2019/20.

This tax incentive for individuals to purchase their own hospital insurance products under the VHIS should help encourage more people to opt for private healthcare services and relieve the pressure on the public healthcare system amid the aging population of Hong Kong.

This Insight highlights the background of the VHIS and summarizes the key features of the proposed tax deduction.

In detail
The VHIS
The VHIS is a policy initiative implemented by the Government to regulate individual indemnity hospital insurance products, with voluntary participation by insurance companies and consumers. The objectives of the VHIS are to:

• enhance the protection level of hospital insurance products,
• provide the public with an additional choice of using private healthcare services through hospital insurance, and
• encourage citizens to use private healthcare services to relieve the pressure on the public healthcare system in the long run.

After passage of the bill, the Government will announce the date of scheme implementation. For more details of the scheme, please refer to the Government’s website.

Concessionary tax deduction

Qualifying premiums under VHIS policy

A taxpayer can claim a tax deduction for the qualifying premiums paid by the taxpayer or the taxpayer’s spouse for an insured person under a VHIS policy. To qualify for the deduction, the premiums must be paid by the taxpayer or his or her spouse as a policy-holder. Qualifying premiums in relation to a VHIS policy mean the net sum that is payable under the policy to the insurer for writing or renewing the policy as it relates to the insurance plan certified by the Government to be in compliance with the VHIS.

Scope of insured person and meaning of specified relative

An insured person can either be the taxpayer or a specified relative of the taxpayer in the year of assessment in which the qualifying premiums are paid (i.e., the relevant year of assessment). A specified relative means any of the following:
• the taxpayer’s spouse,
• the taxpayer’s child, or
• the taxpayer’s or his or her spouse’s parent, grandparent, or sibling.

Certain conditions must be met by specified relatives. In general, a parent or grandparent must be aged 55 or more at any time during the relevant year of assessment and a child or sibling must be (1) unmarried and (2) under the age of 18, or aged 18 or more but under the age of 25 and receiving full time education, or aged 18 or more but incapacitated for work by reason of physical or mental disability at any time during the relevant year of assessment.

In addition, to ensure that the tax incentive is for people having a nexus to Hong Kong, the bill proposes that the insured person must be a Hong Kong identity card (HKID card) holder at any time during the relevant year of assessment. In cases where the insured person is under the age of 11 and without a HKID card at any time during the relevant year of assessment, the insured person’s parent must be an HKID card holder at the time of birth of the insured person.

Deductible amount

The maximum deduction in respect of qualifying premiums paid for each insured person for each year of assessment is HK$8,000. There is no cap on the number of insured persons for whom the taxpayer is eligible for the tax deduction in a year of assessment. For example, if a taxpayer paid qualifying premiums for himself/herself and two other specified relatives under the VHIS in a given year of assessment, the maximum annual deduction will be HK$24,000 (i.e., HK$8,000 x 3). There is also no cap on the number of taxpayers who can claim a tax deduction for the same insured person.

Other provisions

The bill also contains provisions dealing with the following issues:
• multiple deduction claims by a married person or the person’s spouse or both in respect of qualifying premiums paid for the same insured person;
• refund of qualifying premiums paid under a VHIS policy of which a deduction has been claimed – in such case, the taxpayer has the obligation to notify the Commissioner in writing within three months after the date of refund and additional assessment may be issued despite the current statutory time limit of six years for making an additional assessment;
• penalties for failing to comply with the notification requirement in relation to refund of premiums;
• excessive qualifying premiums paid that are not commensurate with the risk profile of the insured person – in such case, the Commissioner may determine the proper amount of qualifying premiums that is deductible; and
• transitional arrangement for holding over of 2019/20 provisional salaries tax.

Effective date

The bill was introduced into the Legislative Council for scrutiny on May 23, 2018. Upon enactment of the bill into law, the concessionary deduction for qualified premiums paid under the VHIS will be effective from the year of assessment 2019/20.

The takeaway

Further guidelines are pending from the VHIS. There are questions as to whether the proposed capped
A deduction of HK$8,000 would be sufficient to cover the typical premium in the market for an old-aged insured person. Notwithstanding, the introduction of the tax deduction is a welcomed step and historical change to effectively subsidise the public to purchase an insurance. We look forward to seeing further Government review to take place in the near future to enhance the effectiveness of the tax incentive (e.g., a higher limit for old aged) and periodically consider any necessary changes in line with the insurance market to ensure the policy objectives of introducing such tax deduction are achieved.

**Let’s talk**

For a deeper discussion of how this issue might affect your business, please contact your regular PwC Global Mobility Services engagement team or one of the following team members:

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