File Ref.: FH CR 1/3822/13

LEGISLATIVE COUNCIL BRIEF

VOLUNTARY HEALTH INSURANCE SCHEME – INLAND REVENUE (AMENDMENT) (NO. 4) BILL 2018

INTRODUCTION

At the meeting of the Executive Council on 8 May 2018, the Council ADVISED and the Chief Executive ORDERED that the Inland
A Revenue (Amendment) (No. 4) Bill 2018 (the Bill), at **Annex A**, should be introduced into the Legislative Council (LegCo).

JUSTIFICATIONS

Voluntary Health Insurance Scheme (VHIS)

2. The VHIS seeks to improve the quality of individual indemnity hospital insurance products [1] (IHIPs) and offers consumers a more comprehensive quality choice of IHIP. By improving the accessibility, quality and transparency of IHIPs, consumers will have more confidence and certainty in making use of their insurance coverage to patronage private healthcare services, thereby alleviating the long-term pressure on the public healthcare system. We hope to encourage people to purchase IHIPs at a younger age to benefit from continuous protection for lifetime.

3. The Food and Health Bureau (FHB) has set out the requirements of VHIS in a set of **Standard Plan Policy Template** and **Code of Practice for insurance companies under the ambit of VHIS** respectively. The two draft documents were published on 1 March 2018. FHB will establish a VHIS Office to certify IHIP products that are VHIS-compliant (Certified Plans). The tax deduction is an added incentive for the public to purchase Certified Plans.

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[1] In this paper, individual hospital indemnity insurance refers to an individual hospital indemnity insurance where the insured will be reimbursed or indemnified by the insurer for his/her actual expenses incurred for medical treatments (in a hospital or an ambulatory setting). Other “health-related” insurance products, e.g. non-indemnity critical illness insurance, hospital income/cash plans, dental insurance coverage, outpatient insurance plans, are not covered by VHIS.

4. Under the VHIS, there are two types of Certified Plans, namely the Standard Plan and Flexi Plans, both of which are eligible for tax deduction -

(a) The **Standard Plan** provides a basic level of protection (e.g. benefit limits for room and board at ward class) and meets all the requirements prescribed by FHB.

(b) **Flexi Plans** provide enhanced benefits, e.g. higher limits of indemnity (say higher room and board benefit limits), wider benefit coverage with less restriction for enhanced protection.

Insurers that join the VHIS must make the Standard Plan available for consumers to apply[2], while insurers are encouraged to offer Flexi Plans. Insurers can still issue and sell non-compliant IHIPs in the market to satisfy the needs of some consumers, but these insurance plans will not be eligible for tax deduction.

Key Features of the Bill

5. The Bill will amend the Cap. 112 to give concessionary deduction under salaries tax and personal assessment to policy holder of insurance policy issued under a Certified Plan. Key features of the Bill are set out in the ensuing paragraphs.

(a) <u>Allowable Deduction</u>

6. The Bill sets out that a deduction in respect of **qualifying premiums** paid for an insured person under a **VHIS policy** is allowable to a person (taxpayer)[3] for a year of assessment, if the qualifying premiums are paid by the taxpayer **during the year of assessment as the policy holder** of the policy, and that the insured person is either the **taxpayer himself/herself**, **or a specified relative** of the taxpayer. There is **no cap on the number of specified relatives**.

7. The maximum deduction allowable **to each taxpayer** in respect of **each insured person** for a year of assessment (i.e. **$8,000**) will be set out in a schedule to Cap. 112. To allow greater flexibility and for the benefits of taxpayers, there is no cap on the number of taxpayers who can make a claim

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2 For the avoidance of doubt, insurers are not required to guarantee its acceptance to all applications under VHIS. They can underwrite and consider accepting or rejecting an application.

3 To recognise the special relation between husband and wife, a person is allowed to claim a deduction of premiums paid by his/her spouse who is not living apart.

for deduction of premiums for the same insured person, or on the number of policies per insured person.

8. Three illustrative examples of tax deduction are set out as follows -

Example 1: A taxpayer purchased a policy under a Certified Plan for himself

	Annual Premium Paid (Depending on age/product)	Tax-deductible Amount (Capped at $8,000 per insured person)	Amount of Tax Saved (Assuming Tax Rate is 15%[4])
Scenario 1	$3,000	$3,000	$450
Scenario 2	$4,000	$4,000	$600
Scenario 3	$4,800	$4,800	$720
Scenario 4	$8,000	$8,000	$1,200
Scenario 5	$12,000	$8,000	$1,200

Example 2: A taxpayer purchased policies under Certified Plans for himself and his dependants

Insured Person	Annual Premium Paid (Depending on age/product)	Tax-deductible Amount (Capped at $8,000 per insured person)	Amount of Tax Saved (Assuming Tax Rate is 15%[5])
Taxpayer	$5,000	$5,000	
Spouse	$4,100	$4,100	
Grandmother	$16,000	$8,000	
Father	$12,000	$8,000	
Mother	$11,000	$8,000	
Son	$2,500	$2,500	
Total	$50,600	$35,600	$5,340

[4] 15% is the standard tax rate. The marginal tax rates for the year of assessment 2018/19 as proposed in the 2018-19 Budget are 2%, 6%, 10%, 14% and 17%.

Example 3: Two taxpayers (a son and a daughter) purchased three policies under Certified Plans for the same insured person (a father)

Taxpayer	Policies and Annual Premium Paid	Tax-deductible Amount (Capped at $8,000 per insured person)	Amount of Tax Saved (Assuming Tax Rate is 15%[5])	Total Amount of Tax Saved
Son	Policy 1: $4,000	$4,000	$600	$1,200
	Policy 2: $4,000	$4,000	$600	
Daughter	Policy 3: $6,000	$6,000	$900	$900

(b) <u>Qualifying Premiums for Certified Plan</u>

9. The Bill defines a **VHIS policy** as an insurance policy that is **in whole or in part** issued under an insurance plan certified[5] by the Secretary for Food and Health to be in compliance with the VHIS. Hence, for a consumer who purchases a policy issued under a Certified Plan together with elements of other insurance plans (e.g. an accident insurance plan), only the sum of moneys payable in respect of the Certified Plan will be considered as **qualifying premiums** of a VHIS policy.

(c) <u>Specified Relatives</u>

10. The Bill sets out the definitions of **specified relatives**, which covers the taxpayer's spouse and children[6], and the taxpayer's or his/her spouse's grandparents, parents[7] and siblings[8]. The abovementioned types of familial

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[5] Under current insurance licensing requirements, insurers with long-term license can issue IHIP policies only when the policies also provide long-term insurance coverage (e.g. life insurance). As such, the long-term insurers may provide the IHIP portion through a life insurance policy or in the form of a rider to a life insurance policy, although the underlying premium for the life benefits may only form a minor part of the total premium of the whole policy. Recognising the licensing constraints and adopting a more accommodating approach, the VHIS Office would certify plans consists of a small portion of non-health (e.g. life benefits) or specified non-IHIP (e.g. hospital cash) element. This element must not constitute more than 10% of the actuarially fair value of the entire plan. If the above requirement is met, the VHIS Office would certify the plan in entirety. The concerned requirement has been developed in consultation with some industry stakeholders.

[6] A child should be unmarried and – (a) under the age of 18; (b) of or over the age of 18 but under the age of 25 and is receiving full time education at a university, college, school or other similar educational establishment; or (c) of or over the age of 18 and is, by reason of physical or mental disability, incapacitated for work.

[7] A grandparent or parent should be – (a) of or over the age of 55; or (b) below the age of 55 and eligible to claim an allowance under the Government's Disability Allowance Scheme.

relationships are the same as the relationships covered by the existing dependant allowances in Cap. 112.

(d) Insured Person

11. The Bill sets out that an insured person or (for a child who is under 11 years old and does not hold a Hong Kong Identity Card) his/her parent[9] should be a **Hong Kong Identity Card holder**[10]. This requirement serves to ensure that the tax incentive is provided for people who have a nexus to Hong Kong, who are the target group that we wish to encourage to purchase IHIPs and consider shifting from using public hospital services to private healthcare services.

(e) "Equal Share presumption" for scenarios with Multiple Policy Holders

12. In cases where there is more than one policy holder for a VHIS policy, the qualifying premiums paid for an insured person under the policy is regarded as having been paid by all of the policy holders in **equal shares**. A taxpayer can only claim deduction in respect of his/her share of the premiums paid for VHIS policies for specified relatives.

(f) Qualifying Premiums not Commensurate with the Risk Profile

13. To guard against any possible abuse of tax deduction by charging unreasonably high premiums for Certified Plans, the Bill sets out that the Commissioner for Inland Revenue (the Commissioner) may determine whether the qualifying premiums are commensurate with the risk profile of the insured person. The amount so determined will then be regarded as the qualifying premiums paid for the policy. The VHIS Office will provide advice to the Inland Revenue Department (IRD) in considering these cases.

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8 A sibling should be unmarried and – (a) under the age of 18; (b) of or over the age of 18 but under the age of 25 and receiving full time education at a university, college, school or other similar educational establishment; or (c) of or over the age of 18 and is, by reason of physical or mental disability, incapacitated for work.

9 In this case, the natural parent, or the adoptive parent if applicable, should be a Hong Kong Identity Card holder at the time of birth (or adoption) of the insured person.

10 For the avoidance of doubt, the requirement is only applicable for the purpose of tax deduction. Insurers are free to sell Certified Plans to consumers (be they policy holders or insured persons) with or without Hong Kong Identity Card.

(g) Refund of Qualifying Premiums

14. In cases where a policy holder cancels a Certified Plan, he/she may receive a refund from the insurer. The Bill sets out that if such a refund is made after a taxpayer claims a deduction, the taxpayer must notify the Commissioner in writing of the refund within three months after the date of the refund. An additional assessment may then be made by IRD. A taxpayer who fails to notify the Commissioner is liable on conviction to a fine at level 3 and a further fine of treble the undercharged amount.

(h) Transitional Provisions

15. The Bill also sets out transitional provisions relating to the holding over of payment of provisional salaries tax in respect of the year of assessment 2019/20.

OTHER OPTIONS

16. There is no other alternative to provide tax deduction for VHIS under Cap. 112 without introducing the Bill.

THE BILL

17. The main provisions of the Bill are set out below –

(a) **Clauses 3 to 7** – add Division headings to Part 4A of Cap. 112 to improve the presentation;

(b) **Clause 8** – adds a new Division 6 to Part 4A of Cap. 112, which sets out the tax deduction under VHIS;

(c) **Clauses 9, 10 and 11** – amend existing sections 80, 82A and 89 of Cap. 112 to allow for penalties, additional tax in certain cases and transitional provisions;

(d) **Clause 12** – adds a new Schedule 3E to Cap. 112, which sets out the maximum amount of tax deduction allowable; and

(e) **Clause 13** – adds a new Schedule 46 to Cap. 112, which sets out the transitional provisions.

LEGISLATIVE TIMETABLE

18. The tentative legislative timetable will be –

Publication in the Gazette	18 May 2018
First Reading and commencement of Second Reading Debate	23 May 2018
Resumption of Second Reading Debate, Committee Stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSALS

19. The proposals are in conformity with the Basic Law, including the provisions concerning human rights. There are no environmental or productivity implications arising from taking forward the proposals. The proposal will not affect the binding effect of the existing provisions of Cap. 112 and its subsidiary legislation. The proposals have financial, civil service, economic, sustainability, family and gender implications as set out in
B **Annex B**.

PUBLIC CONSULTATION

20. We consulted the public on the VHIS proposals by launching a Public Consultation exercise on 15 December 2014. The Public Consultation ended on 16 April 2015. The Consultation Report was released on 9 January 2017 and we briefed the LegCo Panel on Health Services on the outcome of the consultation on 16 January 2017. We also convened four meetings of the Consultative Group on the VHIS to engage the stakeholders between May 2017 to February 2018.

21. We consulted the LegCo Panel on Health Services on the legislative proposal on 19 March 2018.

PUBLICITY

22. A press release will be issued. A line-to-take will be prepared and a government spokesperson will be available to answer questions.

ENQUIRY

23. Enquiries on this brief may be directed to Mr Bill Li, Principal Assistant Secretary (Health) 4, Food and Health Bureau, at 3509 8929.

Food and Health Bureau
16 May 2018

Annex A

Inland Revenue (Amendment) (No. 4) Bill 2018

Contents

A BILL

To

Amend the Inland Revenue Ordinance to introduce a new concessionary deduction concerning salaries tax and tax under personal assessment that may be allowed for premiums paid in respect of insurance plans certified to be in compliance with the Government's Voluntary Health Insurance Scheme; and to provide for related and transitional matters.

Enacted by the Legislative Council.

1. Short title and commencement

(1) This Ordinance may be cited as the Inland Revenue (Amendment) (No. 4) Ordinance 2018.

(2) This Ordinance comes into operation on 1 April 2019.

2. Inland Revenue Ordinance amended

The Inland Revenue Ordinance (Cap. 112) is amended as set out in sections 3 to 13.

3. Part 4A, Division 1 heading added

Before section 26B—

Add

"Division 1—Preliminary".

4. Part 4A, Division 2 heading added

Before section 26C—

Add

"Division 2—Approved Charitable Donations".

5. Part 4A, Division 3 heading added

Before section 26D—

Add

"Division 3—Elderly Residential Care Expenses".

6. Part 4A, Division 4 heading added

Before section 26E—

Add

"Division 4—Home Loan Interest".

7. Part 4A, Division 5 heading added

Before section 26G—

Add

"Division 5—Contributions to Recognized Retirement Schemes".

8. Part 4A, Division 6 added

Part 4A, after Division 5—

Add

"Division 6—Health Insurance Premiums

26H. Application

This Division applies in relation to the year of assessment commencing on 1 April 2019 and to all subsequent years of assessment.

26I. Interpretation

(1) In this Division—

adopted (領養) means adopted in any manner recognized by the laws of Hong Kong;

insured person (受保人), in relation to a VHIS policy, means an individual whose risks are covered by the policy;

policy holder (保單持有人), in relation to a VHIS policy, means a legal holder of the policy;

qualifying premiums (合資格保費), in relation to a VHIS policy, means the net sum of moneys that is payable under the policy to the insurer for writing or renewing the policy in so far as it relates to the insurance plan certified by the Secretary for Food and Health to be in compliance with the Government's Voluntary Health Insurance Scheme (***VHIS***);

specified relative (指明親屬)—see section 26J;

VHIS policy (自願醫保計劃保單) means an insurance policy that is in whole or in part issued under an insurance plan certified by the Secretary for Food and Health to be in compliance with the VHIS.

(2) A note located in the text of this Division is provided for information only and has no legislative effect.

26J. Meaning of *specified relative*

(1) An individual is a specified relative of a person in a year of assessment if the individual is, in relation to the person, at any time during the year of assessment—

(a) a spouse;

(b) a parent or grandparent who fulfils the condition mentioned in subsection (2); or

(c) a child or sibling who fulfils the conditions mentioned in subsection (3).

(2) The condition is that the parent or grandparent is, at any time during the year of assessment—

(a) aged 55 or more; or

(b) under the age of 55 but eligible to claim an allowance under the Government's Disability Allowance Scheme.

(3) The conditions are that the child or sibling is, at any time during the year of assessment, unmarried and—

(a) under the age of 18;

(b) aged 18 or more but under the age of 25 and receiving full time education at a university, college, school or other similar educational establishment; or

(c) aged 18 or more but incapacitated for work by reason of physical or mental disability.

(4) In this section—

child (子女), in relation to a person—

(a) means a child of the person or of the person's spouse or former spouse, whether or not the child was born in wedlock; and

(b) includes the adopted or step child of either or both of the following—

(i) the person;

(ii) the person's spouse or former spouse;

grandparent (祖父母或外祖父母), in relation to a person, means a grandparent or grandparent of his or her spouse;

Note—

See the definition of ***grandparent or grandparent of his or her spouse*** in section 2(1).

parent (父母), in relation to a person, means a parent or parent of his or her spouse;

Note—

See the definition of ***parent or parent of his or her spouse*** in section 2(1).

sibling (兄弟姊妹), in relation to a person, means—

(a) a full or half blood sibling of the person or of the person's spouse;

(b) an adopted sibling of the person or of the person's spouse;

(c) a step sibling of the person or of the person's spouse; or

(d) if the person's spouse is deceased—an individual who would have been the sibling of the person under paragraph (a), (b) or (c) if the spouse had not died.

26K. Qualifying premiums paid under VHIS policy

(1) Subject to the other provisions of this section and to sections 26L and 26M, a deduction in respect of qualifying premiums paid during a year of assessment for an insured person under a VHIS policy is allowable to a person (***taxpayer***) for the year of assessment if—

(a) the qualifying premiums were paid by the taxpayer or the taxpayer's spouse, not being a spouse living apart from the taxpayer, as a policy holder of the policy;

(b) the insured person is either—

(i) the taxpayer; or

(ii) a specified relative of the taxpayer in the year of assessment; and

(c) the insured person is either—

(i) a holder of an identity card issued under the Registration of Persons Ordinance (Cap. 177) (***HKID card holder***) at any time during the year of assessment; or

(ii) under the age of 11 and not an HKID card holder at any time during the year of assessment but an individual—

(A) unless the insured person has been adopted—whose natural parent was, at the time of birth of the insured person, an HKID card holder; or

(B) if the insured person has been adopted—whose adoptive parent was, at the time of adoption of the insured person, an HKID card holder.

(2) If there is more than one policy holder for a VHIS policy, the qualifying premiums paid during a year of assessment for each insured person under the policy are taken as paid by all of the policy holders in equal shares.

(3) The maximum deduction allowable to a taxpayer in respect of qualifying premiums paid during a year of assessment for each insured person, whether the insured person is insured under one or more than one VHIS policy, is the amount specified in Schedule 3E in relation to the year of assessment.

(4) If the Commissioner is of the opinion that the qualifying premiums paid during a year of assessment for an insured person under a VHIS policy are not commensurate with the risk profile of the insured person—

(a) the Commissioner may determine the amount of qualifying premiums that is, in the Commissioner's opinion, commensurate with the risk profile of the insured person; and

(b) the amount so determined is taken to be the qualifying premiums paid.

(5) The Commissioner may exercise a power under this Division in the way that the Commissioner considers appropriate having regard only to the information in the Commissioner's possession when exercising the power.

26L. Claim of deduction by married persons

(1) This section applies in relation to a deduction under section 26K claimed by a married person or the person's spouse or both in respect of the qualifying premiums paid by either or both of them during a year of assessment for an insured person.

(2) The qualifying premiums paid are allowable as a deduction under section 26K to either the married person or the person's spouse, or to both of them, so long as—

(a) the deduction allowed to each of them for the insured person does not exceed the amount specified in Schedule 3E in relation to the year of assessment; and

(b) the total deduction allowed to them does not exceed the qualifying premiums paid.

(3) If the Commissioner has reason to believe that a deduction under section 26K would, if allowed, be contrary to subsection (2)(b), the Commissioner must not consider any claim for the deduction until the Commissioner is satisfied that the married person and the person's spouse have reached an agreement that would result in a total deduction that accords with that subsection.

(4) Subsection (5) applies—

(a) if deductions under section 26K have been allowed to a married person and the person's spouse contrary to subsection (2)(b); or

(b) if—

(i) a deduction under section 26K has been allowed to a married person; and

(ii) within 6 months after the date of allowing the deduction, the person's spouse claims a deduction under section 26K that would, if allowed, be contrary to subsection (2)(b).

(5) The Commissioner may—

(a) invite the married person and the person's spouse to reach an agreement that would result in a total deduction that accords with subsection (2)(b); and

(b) make additional assessments under section 60 in consequence of—

(i) such an agreement reached by the married person and the person's spouse within a reasonable time; or

(ii) their failure to reach such an agreement within a reasonable time.

26M. Refund of qualifying premiums paid under VHIS policy

(1) This section applies if any of the qualifying premiums paid during a year of assessment for an insured person under a VHIS policy is refunded in respect of the insured person.

(2) The qualifying premiums paid are taken to be reduced by the amount of the refund.

(3) In addition, if the refund is made after a person claims a deduction under section 26K in respect of the qualifying premiums paid—

(a) the person must notify the Commissioner in writing of the refund within 3 months after the date of refund; and

(b) if the deduction has been allowed, then, despite any time limit for making an additional assessment under section 60, an assessor may, having regard to the reduction, make an additional assessment on the person under that section.".

9. Section 80 amended (penalties for failure to make returns, making incorrect returns, etc.)

(1) After section 80(2)(c)—

Add

"(ca) fails to comply with section 26M(3)(a);".

(2) Section 80(2), before "the failure to comply with a notice under section 51(1) or (2A)"—

Add

"the failure to comply with section 26M(3)(a),".

10. Section 82A amended (additional tax in certain cases)

(1) After section 82A(1)(c)—

Add

"(ca) fails to comply with section 26M(3)(a); or".

(2) Section 82A(1)(ii), before "the failure to comply with a notice under section 51(1) or (2A)"—

Add

"the failure to comply with section 26M(3)(a),".

(3) Section 82A(4)(a)(i)—

Repeal

"or alleged failure"

Substitute

", the alleged failure to comply with section 26M(3)(a), the alleged failure".

11. Section 89 amended (transitional provisions)

Section 89—

Add

"(22) Schedule 46 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2019.".

12. Schedule 3E added

After Schedule 3D—

Add

"Schedule 3E

[ss. 26K & 26L]

Maximum Deduction for Qualifying Premiums Paid for Each Insured Person

Column 1	Column 2	Column 3
Item	Year of assessment	Amount
1.	For the year of assessment 2019/20 and for each year after that year	$8,000".

13. Schedule 46 added

The Ordinance—

Add

"Schedule 46

[s. 89(22)]

Transitional Provisions Relating to Provisional Salaries Tax in respect of Year of Assessment 2019/20

1. Interpretation

In this Schedule—

insured person (受保人) has the meaning given by section 26I(1);

qualifying premiums (合資格保費) has the meaning given by section 26I(1);

VHIS policy (自願醫保計劃保單) has the meaning given by section 26I(1);

year of assessment 2019/20 (2019/20 課稅年度) means the year of assessment commencing on 1 April 2019.

2. Application for holding over payment of provisional salaries tax on additional ground

(1) A person who is liable to pay provisional salaries tax in respect of the year of assessment 2019/20 may apply to the Commissioner to have the payment of the whole or part of the tax held over until the person is required to pay salaries tax for the year.

(2) An application may be made under subsection (1) if, for the year of assessment 2019/20, a deduction under section 26K in respect of qualifying premiums paid for an insured person under a VHIS policy is, or is likely to be, allowable to the person mentioned in subsection (1).

(3) This section does not affect the operation of section 63E.

3. Provisions supplementary to section 2 of this Schedule

(1) This section applies to an application under section 2 of this Schedule.

(2) The application must be made in writing.

(3) The application must be made not later than—

(a) the 28th day before the day by which the provisional salaries tax is to be paid; or

(b) the 14th day after the date of the notice for payment of provisional salaries tax under section 63C(6),

whichever is the later.

(4) However, the Commissioner may, if satisfied that it is appropriate, either generally or in a particular case, postpone the deadline.

(5) On receipt of the application, the Commissioner—

(a) must consider the application; and

(b) may hold over the payment of the whole or part of the provisional salaries tax.

(6) The Commissioner must, by notice in writing, inform the applicant of the Commissioner's decision.".

Explanatory Memorandum

The main object of this Bill is to amend the Inland Revenue Ordinance (Cap. 112) (***principal Ordinance***) to introduce a new concessionary deduction concerning salaries tax and tax under personal assessment that may be allowed for premiums paid in respect of insurance plans certified to be in compliance with the Government's Voluntary Health Insurance Scheme.

2. Clauses 3 to 7 divide Part 4A of the principal Ordinance into 5 Divisions to improve the presentation of that Part.

3. Clause 8 adds a new Division 6 (the new sections 26H to 26M) to Part 4A of the principal Ordinance.

4. The new section 26H provides for the application of the new Division 6. The new sections 26I and 26J provide for the interpretation of terms used in that Division, including ***qualifying premiums***, ***specified relative*** and ***VHIS policy***.

5. The new section 26K provides for the new deduction allowable for qualifying premiums paid by a taxpayer or the taxpayer's spouse (not being a spouse living apart from the taxpayer) as a policy holder of a VHIS policy for an insured person. In order for the deduction to be allowable, the insured person must be the taxpayer or a specified relative of the taxpayer. Also, either of the following conditions must be satisfied—

(a) the insured person is a holder of Hong Kong identity card (***HKID card holder***);

(b) if the insured person is under the age of 11 and not an HKID card holder—a natural parent (or an adoptive parent) of the insured person is an HKID card holder at the time of birth (or adoption) of the insured person.

6. The new section 26K also provides that if there is more than one policy holder for a VHIS policy, the qualifying premiums are taken as paid by all of the policy holders in equal shares. The maximum deduction allowable to a taxpayer in respect of qualifying premiums paid for each insured person is specified in the new Schedule 3E (added by clause 12) to the principal Ordinance.

7. The new section 26L deals with multiple claims for deduction under the new section 26K in respect of the qualifying premiums paid by a married person or the person's spouse or both of them. It provides for the related arrangement, and the related power to make additional assessments, under which the qualifying premiums paid will be allowable as a deduction to either the married person or the person's spouse or both of them.

8. The new section 26M provides for requirements in relation to the refund of qualifying premiums paid. For any refund, the qualifying premiums paid are taken to be reduced by the amount of the refund. Moreover, if the refund is made after the claim of the deduction, the person claiming the deduction must notify the Commissioner in writing of the refund within 3 months after the date of refund (the new section 26M(3)(a)). It also provides that despite any time limit under section 60 of the principal Ordinance, an additional assessment under that section may be made if the deduction claimed has been allowed.

9. Clause 9 amends section 80 of the principal Ordinance to provide for penalty for a failure to comply with the new section 26M(3)(a).

10. Clause 10 amends section 82A of the principal Ordinance to provide that additional tax may be assessed against a failure to comply with the new section 26M(3)(a) in lieu of prosecution.

11. Clause 11 amends section 89 of, and clause 13 adds a new Schedule 46 to, the principal Ordinance to provide for a transitional arrangement under which application may be made for the holding

over of payment of provisional salaries tax in respect of the year of assessment 2019/20 in view of the new deduction.

Annex B

Financial, Civil Service, Economic, Sustainability, Family and Gender Implications

Financial and Civil Service Implications

As we pointed out in the Public Consultation Document of the Voluntary Health Insurance Scheme (VHIS), the VHIS itself as a voluntary supplementary financing arrangement is unlikely to be sufficient to contain or slow the growth of public health expenditure or resolve the long-term financing challenges to the Government. But it will help promote synergy between the public and private healthcare sectors and rationalise the use of healthcare resources in both sectors.

2. As announced in the 2018-19 Budget, premiums paid by a person for himself/herself and his/her dependants for Certified Plans will be allowed for tax deduction. The annual ceiling for tax deduction of premiums paid is $8,000 per insured person. It is expected that the uptake of Certified Plans will gradually increase. In the third year of VHIS implementation, about 1 million taxpayers and their specified relatives may enjoy the tax deduction. The estimated tax revenue forgone will be about $800 million.

3. FHB will set up a VHIS office in 2018. The VHIS Office is responsible for the implementation and future development of the VHIS. According to the current plan, the VHIS Office will be headed by a D2-equivalent non-civil service position proposed to be created, to be supported by 11 non-directorate civil service posts and a number of other staff. An additional funding of $22 million will be allocated to FHB in 2018-19 ($12 million full-year provision from 2022-23) for setting up the VHIS Office and related expenses on publicity and consultancy.

4. To cope with the implementation work, the Inland Revenue Department will flexibly deploy its existing resources and seek additional financial and manpower resources as necessary in accordance with the established resources allocation mechanism.

Economic Implications

5. The VHIS should help enhance the quality of hospital indemnity insurance products, strengthen consumer protection, and improve market transparency. The current proposal to provide incentives in terms of a tax deduction helps improve the overall uptake rates of IHIPs and shift some

demand for healthcare services from the public sector to the private sector, thereby contributing towards the long-term sustainability of the healthcare system as a whole.

6. As regards the competition aspect, given the voluntary nature of the VHIS, insurers are free to join the VHIS or continue to issue and sell non-compliant products, or both. They are also free to determine and thus compete on the levels of premium payable for all such products. FHB will be mindful of the effect that VHIS may have on the market to avoid any unintended restriction on competition, including barriers for new entrants, product innovation and variety, and agreements/concerted practice among insurers, while striking a balance with protection of policy holders.

Sustainability Implications

7. As a supplementary financing arrangement, the VHIS and the tax deduction proposal will contribute to the sustainable development of the dual-track healthcare system, including relieving the pressure on public healthcare by better enabling the public system to focus on its target groups, facilitating the development of private healthcare services, and improving the cost-efficiency of delivery of healthcare services as a whole.

Family Implications

8. The tax deduction proposal under VHIS encourages taxpayers to take out or maintain hospital indemnity insurance covers for themselves and their dependants, including children and elder family members. This would strengthen family relationships in supporting one another and foster mutual care of family members, and enhance family’s ability to care and fulfil financial responsibility for family members with medical needs.

Gender Implications

9. The proposed tax reduction provides some financial incentives for the taxpayers to insure not only themselves but also their family members and specified relatives like parents and grandparents. Given the longer life expectancy of Hong Kong people especially women, our women population would arguably benefit more from the proposal. Nevertheless, such impact should not be substantial, as “guaranteed renewal” under the Standard Plan of VHIS will not apply to those above 100 years old.