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**M E M O**

To : Clerk to Panel on Health Services  
From : Clerk to Bills Committee on Inland Revenue (Amendment)  
(No. 4) Bill 2018  
Our Ref : CB2/BC/2/17  
Date : 24 October 2018

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**Bills Committee on Inland Revenue (Amendment) (No. 4) Bill 2018**

**Referral to the Panel on Health Services**

The Bills Committee on Inland Revenue (Amendment) (No. 4) Bill 2018 has completed the scrutiny of the Bill and reported its deliberations to the House Committee.

2. In the course of scrutinizing the Bill, members have requested the Administration to review, after the implementation of the Voluntary Health Insurance Scheme ("VHIS"), the effectiveness of the introduction of a concessionary deduction for premiums paid in respect of VHIS policies in incentivizing the uptake of such policies so as to alleviate pressure on the public healthcare system. The above apart, members have been assured that the Administration would re-examine the High Risk Pool ("HRP") proposal at a later stage, taking into account, among others, the experience of the actual implementation of VHIS. The Administration has undertaken to revert to the Panel on Health Services on the above issues as and when appropriate.

3. An extract of the relevant parts of the report of the Bills Committee is attached.

  
(Maisie LAM)  
CCS(2)5

Encl.

**Extract from the report of the Bills Committee on  
Inland Revenue (Amendment) (No. 4) Bill 2018**

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The maximum deduction allowable to a taxpayer

24. Under the proposed Schedule 3E to the Ordinance, the maximum deduction allowable to a taxpayer in respect of qualifying premiums paid during a year of assessment for each insured person who is either the taxpayer or a specified relative of the taxpayer in the year of assessment (whether the insured person is insured under one or more than one VHIS policy) would be \$8,000. The majority of members cast doubt as to whether the amount of net saving in tax, which would be at a maximum of \$1,360 per insured person at a marginal tax rate of 17%, could provide adequate incentive to encourage people to take up VHIS policies so as to alleviate the pressure on the public healthcare system. Mr Holden CHOW has suggested to increase the maximum deduction claimable for those insured persons who are of an older age and need to pay a higher premium due to their higher health risks. Dr KWOK Ka-ki considers that the maximum deduction allowable to a taxpayer should be on a sliding scale in accordance with the age and health conditions of the insured persons. Mr CHUNG Kwok-pan takes the view that qualifying premiums paid under a policy issued under a Flexi Plan should be granted a higher maximum deduction. Dr Pierre CHAN has expressed particular concern about whether young people would be incentivized to purchase VHIS policies as the average monthly income of a fresh local university graduate only stands at about \$15,000.

25. The Administration has stressed that the tax deduction is not meant to be the key or sole incentive for members of the public to purchase VHIS policies. VHIS seeks to improve the quality of individual indemnity hospital insurance products and offers consumers a more comprehensive quality choice of individual indemnity hospital insurance products. Compared with many existing individual indemnity hospital insurance products, VHIS policies are more attractive in a number of ways, such as guaranteed renewal until the insured person turns 100; adjustment of premium during each policy year and upon renewal not to be based on changes in the health conditions of the insured person; no "lifetime benefit limit"; and coverage extended to include unknown pre-existing conditions that have existed prior to the policy issuance date or the policy effective date (whichever is the earlier) and ambulatory procedures including endoscopy. It is envisaged that about 90% of the policy holders of Standard Plan, the average premium of which is projected to be around \$4,800 per policy year,

could have their qualifying premiums fully deductible under the current proposal. This apart, the arrangement that there will be no cap on the number of specified relatives for whom tax deductions may be claimed by a taxpayer provides more flexibility.

26. Members have requested the Administration to review, say, two years after the implementation of VHIS, the effectiveness of the introduction of a concessionary deduction for premiums paid in respect of VHIS policies in incentivizing the uptake of such policies, in particular by the higher-risk groups, so as to alleviate pressure on the public healthcare system and enhance the long-term sustainability of the healthcare system as a whole. Ms Alice MAK takes the view that the proposed concessionary deduction would mainly attract policy holders of existing individual indemnity hospital insurance policies to migrate to VHIS policies. A VHIS without the features of guaranteed acceptance and portable insurance policy in the longer term could not improve higher-risk groups' access to individual indemnity hospital insurance policies. The Administration has advised that according to an actuarial study, it is estimated that about 1.5 million people would purchase or migrate to VHIS policies (with about 70% to 80% being Flexi Plan policies) in the first three years of implementation. The Administration has assured members that it will review the effectiveness of VHIS from time to time after its implementation and re-examine the HRP proposal at a later stage, taking into account, among others, the experience of the actual implementation of VHIS. It will revert to the Panel on Health Services in this regard as and when appropriate.

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#### **Follow-up actions by the Administration**

39. The Administration has made the following undertakings:

X X X X X

(b) in relation to VHIS,

- (i) to revert, as and when appropriate, to the Panel on Health Services on its review of the effectiveness of VHIS after its implementation and the progress in re-examining the HRP proposal (paragraph 26 refers); and

X X X X X