

ADDITIONAL AVENUES FOR HIGHER TAX DEDUCTION FOR MEDICAL EXPENSES

Aim

- 1 This circular sets out the extension of higher tax deduction for medical expenses to arrangements where employers provide their employees with inpatient medical benefits in the form of MediShield or Medisave-approved private integrated plan (referred to as “Shield plan”) or make ad-hoc contributions to employees’ Medisave accounts.
- 2 The maximum tax deduction for medical expenses incurred in any financial year is still capped at 2% of the total employees’ remuneration for that financial year.

Background

- 3 Since 1 April 2004, employers implementing the Portable Medical Benefits Scheme (PMBS) or the Transferable Medical Insurance Scheme (TMIS) can enjoy a higher tax deduction for medical expenses of up to 2% of their employees’ remuneration, compared to 1% for other companies. The features of PMBS and TMIS are at Annex 1.

Extending higher tax deduction for medical expenses to employers providing employees with inpatient medical benefits in the form of Shield plan

- 4 Feedback from employers indicate that some of them prefer to provide inpatient medical benefits in the form of Shield plan to their employees, instead of implementing PMBS or TMIS. They will either pay the premium of such plans directly to the insurance company or reimburse the premium into employees’ Medisave accounts. As these arrangements can also achieve the objective of enhancing portability of medical benefits, the Government has agreed with the tripartite partners’ proposal to extend

higher tax deduction for medical expenses to employers with such arrangements.

5 With effect from the Year of Assessment 2008, employers providing their employees with Shield plan can claim tax deduction for medical expenses incurred, up to 2% of total employees' remuneration, if they meet the following qualifying conditions:

a) provide Shield plans for at least 20% of their local employees¹ as at the first day of the financial year being assessed and all local employees who commence their employment during that financial year; and

b) pay Shield plans premium on behalf of their employees directly to the insurance company or reimburse the premium into their employees' Medisave accounts.

6 However, the additional tax deduction mentioned above excludes premiums for "Riders² on Shield plans" that cover deductibles and co-payments. This is because the Government does not want to incentivise employers to take up such riders that can potentially result in an over-consumption of healthcare services.

Encouraging employers to make ad-hoc Medisave contribution

7 Currently, employers can make additional contributions to employees' Medisave accounts subject to a limit of \$1,500 per employee per year under the "Additional Medisave Contribution Scheme" administered by the CPF Board. The scheme accepts monthly contributions made under the PMBS as well as ad-hoc contributions made when companies are performing well or when there is unused balance in employees' outpatient

¹ Under section 14(8) of the Income Tax Act, "local employee" means a full-time or part-time employee who is a citizen or permanent resident of Singapore, and "part-time employee" has the same meaning as in section 66A of the Employment Act.

² Rider is a provision or modification to an existing insurance policy that provides additional coverage to an insurance policy.

budget. The additional contributions would help enhance employees' Medisave adequacy to meet future medical needs.

- 8 **To encourage employers to make ad-hoc Medisave contribution in good years, additional tax deduction beyond the 1% limit will be allowed for the amount of ad-hoc Medisave contributions made, even if employers are not adopting any of the portable medical benefits arrangements (i.e. PMBS, TMIS or provision of Shield plan). The overall tax deduction for medical expenses will be subject to the overall cap of 2%.**

Administrative requirements

- 9 Employers who wish to reimburse the premium of Shield plan into employees' Medisave account or make ad-hoc Medisave contribution have to apply for a new employer reference number with the Collection Planning & Registration Section of CPF Board.

FAQs and Enquiries

- 10 A list of **frequently asked questions** can be found in Annex 2. Enquires can be made with:

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CPF Board

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FEATURES OF THE PORTABLE MEDICAL BENEFITS SCHEME AND THE TRANSFERABLE MEDICAL INSURANCE SCHEME

Both the Portable Medical Benefits Scheme (PMBS) and the Transferable Medical Insurance Scheme (TMIS) are designed for the provision of **inpatient medical benefits**.

Portable Medical Benefits Scheme (PMBS)

- The PMBS rides on the Medisave/MediShield framework.
- In lieu of the existing inpatient benefits, employer makes additional contribution to employee's Medisave account every month for him to purchase medical insurance to cover his inpatient needs.
- The additional Medisave contribution rate is to be negotiated between employers and unions/employees, taking into account the current level of medical benefits provided by the employer.
- Employee uses the additional Medisave contribution to purchase MediShield and Medisave-approved private integrated plan. Information is available at CPF website (URL : www.cpf.gov.sg). Under any of these insurance scheme, the CPF members/employees continues to be medically insured even though he is not employed as long as the premium is paid up.
- Any remaining Medisave contribution would accumulate in employee's Medisave account and earn interest at the Medisave interest rate (currently 4% p.a.). Employee can use the savings in the Medisave account to meet his future medical needs or that of his dependants.

Qualifying Conditions for Higher Tax Deduction for Medical Expenses

- Employers implementing PMBS can enjoy tax deduction for medical expenses up to 2% of total employees' remuneration if they meet the following qualifying conditions:
 - Employers must implement PMBS for at least 20% of the local employees employed by them as at the first day of the financial year being assessed and all local employees who commence their employment during that financial year
 - For full time employees, the additional monthly contribution to Medisave account should be of at least 1% of an employee's gross monthly salary, subject to a minimum contribution of \$16 per calendar month
 - For part-time employees, the additional monthly Medisave contribution should be computed based on at least 1% of the employee's gross rate of pay for the calendar month.

Transferable Medical Insurance Scheme (TMIS)

- The TMIS is an enhancement of the existing employer-sponsored group medical insurance outside the CPF Medisave framework.
- It provides inpatient medical benefits coverage up to prevailing retirement age (currently 62 years old).
- TMIS offers extension of inpatient coverage up to a maximum period of 12 months when an employee leaves employment due to any reasons, as long as the premium is paid.
- Employee covered under TMIS plans will be treated as continuously insured when he joins a new employer who has also purchased a TMIS plan. An employee will not be excluded from coverage even if he is having a pre-existing illness before joining the new employer.
- There are 18 insurance companies providing TMIS plans. They may provide various insurance plans under TMIS with different levels of benefits and premiums. The 18 companies are:
 1. Allianz Insurance Co of Singapore Pte Ltd
 2. American International Assurance Co Ltd
 3. Asia Insurance Co Ltd
 4. Asia Life Assurance Society Ltd
 5. Aviva Ltd
 6. AXA Insurance Singapore Pte Ltd
 7. Great Eastern Life Assurance Co Ltd
 8. HSBC Insurance (Singapore) Pte. Limited
 9. Liberty Insurance Pte Ltd
 10. NTUC Income Insurance Co-op Ltd
 11. Prudential Assurance Co Singapore (Pte) Ltd
 12. QBE Insurance (International) Ltd
 13. UOB Life Assurance Ltd
 14. Tokio Marine & Fire Insurance Co
 15. Nipponkoa Insurance Co Ltd
 16. Mitsui Sumitomo Insurance (S) Pte Ltd
 17. Royal & Sun Alliance Insurance (Singapore) Limited
 18. MSIG Insurance (Singapore) Pte Ltd

Qualifying Conditions for Higher Tax Deduction for Medical Expenses

- Employers implementing TMIS can enjoy 2% tax deduction if they implement the scheme for at least 50% of the local employees who are employed by them as at the first day of the financial year being assessed.

**FREQUENTLY ASKED QUESTIONS ON
PORTABLE MEDICAL BENEFITS ARRANGEMENTS AND
TAX DEDUCTION POLICY FOR MEDICAL EXPENSES**

Portable Medical Benefits Arrangements

1. What are the benefits of portable medical benefit arrangements?

Company-based medical benefits cease when an employee leaves the company or retires from employment. The employee may be subject to underwriting when he joins a new company, or seeks to purchase his own medical insurance. The new medical insurance policy may also exclude from coverage any pre-existing illness.

Portable medical benefits arrangements provide continuous medical coverage for employees in-between jobs and after retirement. They minimise overlapping or duplication of coverage, and so reduce cost for employers and employees. Hence, the tripartite partners have recommended that companies implement portable medical benefits arrangements.

2. What are the portable medical benefits arrangements recommended by the tripartite partners?

The portable medical benefits arrangements recommended by the tripartite partners are listed in the table below:

| | Summary of main features |
|---|---|
| Portable Medical Benefits Scheme (PMBS) | Employer makes additional contribution (at least 1% of gross wages, subject to a minimum contribution of \$16 per month) to employees' Medisave account every month. Employees will use the Medisave contribution to purchase medical insurance to cover his inpatient needs. |
| Transferable Medical Insurance Scheme (TMIS) | An enhanced group medical insurance purchased by employer. It offers extension of inpatient coverage up to a maximum period of 12 months when an employee leaves employment. |
| Provision of Shield plan (i.e. MediShield or Medisave-approved private integrated plan) | Employer provides inpatient medical benefits in the form of Shield plan to their employees. He either pays the premium of Shield plan directly to the insurance company or reimburses the premium into employees' Medisave accounts. |

3 Does PMBS, TMIS or Shield plan (i.e MediShield or Medisave-approved private integrated plan) cover an employee's outpatient medical benefits?

PMBS, TMIS or Shield plan provides coverage for hospitalisation, surgery and some outpatient catastrophic treatments. Employees would still be entitled to their existing outpatient benefits as per their employment contracts, collective agreements or the Employment Act.

4 What is MediShield?

MediShield is an individual catastrophic medical insurance designed to help Singaporeans pay part of the large hospitalisation bills for treatment of serious illnesses or prolonged hospitalisation at the Class B2/C level. MediShield is administered by the Central Provident Fund Board. The premium of Medishield can be paid by Medisave, subject to a maximum of \$800 per year.

5 What is Medisave-approved private integrated plan?

Medisave-approved private integrated plan refers to medical insurance plan approved by the Ministry of Health under the Central Provident Fund (Private Medical Insurance Scheme) Regulations 2005. It offers additional benefits on top of that provided by MediShield. Employees who buy a Medisave-approved private integrated plan will also be covered under MediShield subject to eligibility conditions such as age and citizenship status. The premium can be paid by Medisave, subject to a maximum of \$800 per year.

While the Medisave-approved private integrated plan is jointly insured by the private insurer and the Central Provident Fund Board, policyholders only need to approach the private insurer, which will provide the single point of contact, on matters relating to the integrated plan and to file claims.

6 Which insurance companies are offering Medisave-approved private integrated plan?

The participating private insurers and the plans they offer are as follows:

- a) American International Assurance - Healthshield Gold
- b) Aviva – MyShield
- c) Great Eastern Life – Supremehealth
- d) NTUC Income – Incomeshield
- e) Prudential Assurance - PRUShield (also known as MediSure Plus)

- 7 My employee is currently covered under MediShield. What will happen to his MediShield cover if my company buys a Medisave-approved private integrated plan for him? Can the employee subsequently downgrade to MediShield again?**

Your employee's MediShield cover will continue when your company buys him a Medisave-approved private integrated plan. This means that his MediShield cover will not be subject to any additional exclusion which may be imposed by the private insurer on the integrated plan. The employee may downgrade to MediShield again at anytime. His MediShield cover will not be subject to further underwriting.

- 8 My employee is currently not covered under MediShield. If my company buys him a Medisave-approved private integrated plan, can he subsequently downgrade to MediShield?**

Your employee will also be covered under MediShield (subject to eligibility conditions such as age and citizenship status) when your company buys him a Medisave-approved private integrated plan. Any exclusion imposed on his integrated plan by the private insurer will also apply on his MediShield cover. The employee may subsequently downgrade to MediShield at anytime. His MediShield cover will not be subject to further underwriting but the exclusion, if any, imposed on his integrated plan will continue to apply.

- 9 My employee has already bought a Medisave-approved private integrated plan ("Shield plan") from Insurer A. However, my company wants to buy another Shield plan from Insurer B for all employees. Can the employee have more than one integrated plan? If not, what shall the company do?**

An employee should only be covered by one Shield plan at any point in time. This is because the plans are similar, and it is not advisable to take up more than one plan.

If your company decides to buy a Shield plan from Insurer B, you can ask your employee whether he wishes to change his Shield plan. However, changing Shield plan will mean that your employee will be subject to underwriting and any exclusion imposed by Insurer B. If your employee prefers to continue with his existing Shield plan from Insurer A, your company may reimburse the amount of premiums for the Shield plan under Insurer B into your employee's Medisave account

10 Is my company required to pay 100% of the premium of Shield plan for employees who commence or leave employment during the financial year?

Your company can pro-rate the Shield Plan premium, based on the period of employment, for employees who do not work full 12 months during the financial year.

11 Will there be any issue if a company replaces the present inpatient benefit with one of the portable medical benefits arrangements (i.e. PMBS, TMIS, or provision of Shield plan) recommended by the tripartite partners? Can the employees claim that it is their rights to enjoy the present inpatient benefits since they were initially employed on such terms?

If your company is currently providing inpatient benefits and the employees were initially employed on such terms, you should consult and obtain the mutual agreement of the employees/unions before introducing changes to the benefits. In the event that no agreement could be reached between the two parties, the dispute can be referred to MOM for conciliation.

Ad-Hoc Additional Medisave Contribution

12 Is there a limit to the contributions under the Additional Medisave Contribution Scheme?

Yes. The annual limit is \$1,500 per employee per year. The limit will remain as \$1,500 for employees with more than one employer.

13 What would happen if my company has made additional Medisave contribution above the limit of \$1,500 per employee per year?

The CPF Board will refund the excess amount to your company.

14 what would happen to the additional Medisave contribution made by employer if an employee has reached the Medisave contribution ceiling?

The Medisave Contribution Ceiling is adjusted each year on 1 July to ensure Singaporeans have sufficient savings to meet their hospitalisation expenses. The prevailing Medisave Contribution Ceiling set on 1 July 2007 is \$33,500. Any Medisave contributions in excess of the Medisave Contribution Ceiling will be transferred from the Medisave Account to the Special Account for members aged below 55, and to the Retirement Account for members aged 55 and above, who do not meet the CPF Minimum Sum. For those who have set aside the full CPF Minimum Sum, the excess CPF contribution will be transferred from the Medisave Account to the Ordinary Account.

Tax Deduction for Medical Expenses

15 Is it compulsory for employers to adopt portable medical benefits arrangements (i.e. PMBS, TMIS or provision of Shield plan) for their employees?

No, it is not compulsory for employers to adopt portable medical benefits arrangements (i.e. PMBS, TMIS or provision of Shield plan) for their employees. However, employers adopting such arrangement can enjoy higher tax deduction for medical expenses up of 2% of total employees' remuneration, compared to 1% for other employers.

16 Can my company adopt different portable medical benefits arrangements for different employees?

Yes, your company may adopt different portable medical benefits arrangements for different groups of employees. In order to enjoy tax deduction for medical expenses up to 2% of the total employees' remuneration, all the qualifying conditions of one of the arrangements (i.e. PMBS, TMIS or provision of Shield plan) must be met.

17 How does the tax deduction for medical expenses work?

The amount of tax deductible medical expenses, together with other tax deductible expenses incurred by your company, will be deducted against your company's income in determining tax payable.

18 What are the tax deduction qualifying conditions for different portable medical benefits arrangements?

The qualifying conditions for different portable medical benefits arrangements are listed in the table below:

| | Qualifying conditions |
|------|--|
| PMBS | <ul style="list-style-type: none">➤ Employer should implement PMBS for at least 20% of the local employees employed by him as at the first day of the financial year being assessed and all local employees who commence their employment during that financial year;➤ For full time employees, the additional monthly contribution to Medisave account should be of at least 1% of an employee's gross monthly salary, subject to a minimum contribution of \$16 per calendar month; |

| | Qualifying conditions |
|--------------------------|---|
| | <ul style="list-style-type: none"> ➤ For part-time employees, the additional monthly Medisave contribution should be computed based on at least 1% of the employee's gross rate of pay for the calendar month. |
| TMIS | <ul style="list-style-type: none"> ➤ Employer should implement TMIS for at least 50% of the local employees who are employed by him as at the first day of the financial year being assessed. |
| Provision of Shield plan | <ul style="list-style-type: none"> ➤ Employer should provide Shield plans for at least 20% of the local employees employed by him as at the first day of the financial year being assessed and all local employees who commence their employment during that financial year; and ➤ Employer should pay Shield plans premium on behalf of their employees directly to the insurance company or reimburse the premium into their employees' Medisave accounts |

19 In addition to Shield plan, my company also purchases Rider plan to help employees cover deductibles and co-payment. Can we claim tax deduction for the premium of such Rider plan?

Employers providing Shield plan to their employees can enjoy tax deduction for medical expenses up to 2% of total employees' remuneration. Although Rider premium is considered as medical expenses, employers will only be allowed to claim tax deduction for Rider premium up to 1% of total employees' remuneration. This is because the Government does not want to incentivise employers to take up such riders that can potentially result in over-consumption of healthcare services.

The table below illustrates some examples:

| (A) Rider premium | (B) Expenses on providing Shield Plan | (C) Other medical expenses | A+B+C Total tax deduction claimable |
|--|--|---|--|
| 0.5% of total employees' remuneration | 0.5% | 0.7% | 1.7% |
| 1.2% (tax deduction for rider is up to 1% only) | 0.7% | 0% | 1.7% |

| (A) Rider premium | (B) Expenses on providing Shield Plan | (C) Other medical expenses | A+B+C Total tax deduction claimable |
|------------------------------|--|---|--|
| 1% | 0.8% | 0.5% | 2% (as the overall tax deduction limit is 2%) |

20 What is defined as medical expenses for tax deduction purposes?

The definition of medical expenses is given in section 14(8) of the Income Tax Act :-

"medical expenses" means expenses incurred in or in connection with the provision of medical treatment and includes:

- (a) expenses incurred in or in connection with the provision of maternity health care, natal care, and preventive and therapeutic treatment;
- (b) expenses incurred in or in connection with the provision of a medical clinic by the employer;
- (c) cash allowance in lieu of medical expenses;
- (d) expenses incurred in or in connection with the provision of insurance against the cost of medical treatment; and
- (e) contributions which are deductible under subsection (1)(f).

[Section 14(1)(f) : any sum contributed by an employer in any calendar year to the medisave account maintained under the Central Provident Fund Act (Cap. 36) in respect of any of his employees engaged in activities relating to the production of the income of the employer and which is not deemed to be the income of the employee under section 10C (4), subject to a maximum deduction of \$1,500 for that year for each employee]

21 How does my company compute total employees' remuneration and the tax deduction for medical expenses we are entitled to?

The tax deduction limit is 2% of total employees' remuneration for employers adopting portable medical benefits arrangement and 1% for the rest. Total employees' remuneration refers to the remuneration of employees employed during the basis period of a year of assessment. For this purpose, remuneration is defined in section 14(8) of the Income tax Act as follows:

“remuneration” means any wage, salary, leave pay, fee, commission, bonus, gratuity, allowance, other emoluments paid in cash by or on behalf of an employer and contributions to any approved pension or provident

fund by any employer which are allowable as deductions under the Income Tax Act, but does not include any director's fee, medical expense, cash allowance in lieu of medical expenses and benefits-in-kind.

22 If a company has 200 local employees and intends to provide inpatient medical benefits in the form of Shield plan, how many employees must it cover to enjoy tax deduction up to 2% of total employees' remuneration?

To enjoy tax deduction up to 2% of total employees' remuneration for FY 2008, the company should provide Shield plan to at least 20% of local employees employed as at the first day of FY 2008 (i.e. $200 \times 20\% = 40$) as well as all local employees who commence their employment during FY2008.

If 40 new employees join the company in FY2008, the company will have to cover at least 48 (i.e. $240 \times 20\%$) existing employees in FY2009 and all the new local employees who join the company during FY 2009.

23 Must the expenses relating to the adoption of portable medical benefits arrangements be incurred within the financial year concerned, say 2007?

Yes, the expenses on portable medical benefits arrangements must be incurred during FY2007 to qualify for tax deduction up to 2% of total employees' remuneration in the year of assessment 2008. However, the actual payment can be made after FY2007 as long as the expenses are incurred and there is a clear liability to pay at the end of FY2007.

24 Do my employees have to pay tax if my company provides them with Shield plan?

- a) where the employer pays Shield plans premium on behalf of his employees to the insurance company directly -

As the beneficiary of the Shield plan is the employee and this constitutes a benefit-in-kind provided by the employer, the employee will be taxed on the full amount of premium paid by the employer.

- b) where the employer reimburses the premium paid by the employees, into the employees' Medisave accounts

Please refer to the reply of Q 25.

25 Do my employees have to pay tax for additional Medisave contribution made under the PMBS or ad-hoc Medisave contribution made when the company is doing well?

Your employees can enjoy tax exemption for additional Medisave contribution made by your company subject to a limit of \$1,500 per employee per year.

26 Can you give some scenarios on how companies can enjoy tax deduction on ad-hoc Medisave contribution?

The table below illustrates some possible scenarios for a company which does not adopt portable medical benefits arrangements but makes ad-hoc Medisave contribution. Assuming its total employees' remuneration is \$3 million, 1% of which will be \$30,000.

| Scenario | (A) Total medical spending before making ad-hoc Medisave contribution | (B) Tax deduction claimable on (A) | (C) amount of ad-hoc Medisave contribution | (D) Total Tax deduction claimable |
|-----------------|--|---|---|--|
| 1 | \$27,000 (0.9% of total wage bill) | 0.9% | \$10,000 (0.33%) | \$27,000 + \$10,000 = \$37,000 (1.23%) |
| 2 | \$54,000 (1.8% of total wage bill) | 1% | \$40,000 (1.33%) | \$30,000+\$30,000 = \$60,000 (2% since total tax deduction is subject to a limit of 2%) |
| 3 | \$2,000 (0.07% of total wage bill) | 0.07% | \$40,000 (1.33%) | \$2,000+\$40,000 = \$42,000 (1.4%) |
| 4 | \$40,000 (1.33% of total wage bill) | 1% | \$10,000 (0.33%) | \$30,000+\$10,000 = \$40,000 (1.33%) |

27 What are the requirements in filing tax returns if my company wants to claim higher tax deduction for medical expenses?

In filing the tax return on income, your company will be required to declare in the tax computation, whether your company has provided portable medical benefits arrangement to employees by implementing the PMBS or TMIS, or by providing Shield plan and confirm that the qualifying conditions [see Question 16] are met.

If your company has provided Shield plan to employees, the amount incurred in respect of premiums on “Riders on Shield plans” should be stated in the tax computation.

Employers who have made ad-hoc Medisave contributions to employees’ Medisave accounts should declare in their tax computations, the amount of such ad-hoc Medisave contributions made in the relevant financial year.

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