



Tax Administration Jamaica

Technical Note

GCT on Health Insurance Premiums

April 3, 2017

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TECHNICAL NOTE

Abbreviations and Glossary of terms

Act	The General Consumption Tax Act
CG	Commissioner General, Tax Administration Jamaica
GCT	General Consumption Tax
Group Health Insurance	A group health insurance plan is an insurance plan that provides healthcare coverage to a group of people, a common example is an organization wide plan for employees. Group health insurance plans are one of the major benefits offered by many employers. These plans are generally uniform in nature, offering the same benefits to all employees or members of the group.
Health Insurance	This is a type of insurance coverage that pays for medical and surgical expenses incurred by the insured. Health insurance can reimburse the insured for expenses incurred from illness or injury, or pay the care provider directly. Depending on the type of health insurance coverage, either the insured pays costs out-of-pocket and is then reimbursed, or the insurer makes payments directly to the provider.
House	House of Parliament
ITA	Income Tax Act
Insurance	Insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured.
MoFP	Minister of Finance and the Public Service
Premiums	The amount the policy-holder and/or their sponsor (e.g. an employer) pays to the health plan provider to purchase health coverage.
Registered Taxpayer	A person who is registered pursuant to section 27 of the GCT Act and is liable to pay tax under this Act.
TAJ	Tax Administration Jamaica

TECHNICAL NOTE

TECHNICAL NOTE

Purpose

The purpose of this Technical Note is to provide guidance on the application of the amendment to the General Consumption Tax (GCT) Act for the imposition of GCT on group health insurance premiums as announced in the 2017-2018 Revenue Measures. In addition, it will provide guidance on the consequential income tax treatment as a result of the GCT amendment.

Objective

The 2017-2018 Revenue Measures as outlined to the House on March 9, 2017, in which the Minister of Finance asked the Honourable House to support a policy shift towards indirect taxation, by progressively widening the GCT tax base. One of two measures to achieve this objective is the imposition of GCT in respect to group health insurance. It is being proposed to impose a consumption tax on premiums in relation to the provision of health insurance.

Legislation

- The GCT Act
- The Income Tax Act

Implementation Date

The effective date for the implementation is April 3, 2017.

Amendments to the Acts

- Section 6(8) of the GCT act will be amended
- Item 13 of the Third Schedule, Part 11 of the GCT act will be amended

Background

Employers, as a part of the employment contract given to their employees, may provide as a perquisite, group health insurance coverage. A group health insurance policy is purchased by an employer and is offered to eligible employees, and their dependents. Under group health insurance, there are various policy options which covers all or a percentage of the employees and their dependents medical expenses as a result of illness or injury. Under this type of plan the risk is spread across the entire workforce within the company who is currently under the group plan.

In the new revenue measure announced for 2017 -2018 insurance premiums paid for group health will no longer be exempted from GCT.

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PRIOR TO APRIL 3, 2017

GCT Treatment

Currently, Item 13, Part 11 of the Third Schedule of the GCT Act the law provides that services rendered under a contract of life assurance and health insurance is exempted from GCT.

Income Tax Treatment

The premiums paid by the employer are treated a deductible for income tax purposes whether or not the employees contribute to the scheme if the health coverage is applicable to all employees. The premiums paid on behalf of the employees constitute a benefit to them; however, they are given an exemption and the amount is not subject to income tax. This exemption is not provided for in the ITA, it is an administrative concession granted by Tax Administration Jamaica (TAJ).

Contributory Health Insurance Schemes

Some employers require the employees to contribute to the cost of providing the health insurance coverage and they agree on the ratio to be applied. For example:

	EMPLOYER (80%) \$	EMPLOYEE (20%) \$	TOTAL (\$)
Insurance Premiums	192,000	48,000	240,000

Employee A contributes \$48,000 (20%) to the annual premium of \$240,000 paid for the group health insurance operated by his employer; the amount is deducted in arriving at his disposable income. The \$192,000 (80%) paid by his employer is an expense to him and a benefit to Employee A; however, Employee A pays no income tax on the amount as it is exempt as a result of the administrative concession in operation.

Non-Contributory Health Insurance Schemes

Some employees benefit from health insurance coverage provided by their employers but make no contributions to the cost of providing the insurance; they too benefit from the administrative concession.

	EMPLOYER (100%) \$	EMPLOYEE	TOTAL (\$)
Insurance Premiums	180,000	NIL	180,000

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Employee B is a member of a group health insurance coverage with annual premium of \$180,000 all paid by his employer (he makes no contribution). The \$180,000 paid by his employer is an expense to him and a benefit to Employee B; however, Employee B pays no income tax on the amount as it is exempt as a result of the administrative concession in operation.

Employer

On his income tax returns the employer will claim as an expense the amount paid by him to provide his employees with health insurance coverage.

EMPLOYER	CONTRIBUTORY SCHEME (\$)	NON-CONTRIBUTORY SCHEME (\$)
Employee A	192,000	
Employee B		180,000
TOTAL	192,000	180,000

AFTER APRIL 3, 2017

Operation of the Tax

In accordance with the amendment to section 6(8) of the Act, a policy of health insurance would now constitute a contract of insurance under the Act. Section 6(7) states that a supply made by an insurer pursuant to a contract of insurance, takes place for the purposes of the Act at the time when payment is made to a broker or insurer for that supply. However for the purpose of transitioning from an exempt to a taxable supply, only payments relating to services billed/invoiced on or after April 3, 2017 or services rendered on or after May 1, must attract GCT.

For the purposes of accounting for the tax on a monthly basis, the receipt for the payment of group health insurance issued by a broker or insurer, as the case may be, shall be deemed to be the tax invoice and the particulars such as:

- a. the name, address and registration number of the taxpayer issuing the payment receipt;
- b. the serialized number of the payment receipt;
- c. the date on which the payment is received;
- d. the name and address of the registered taxpayer to whom the taxable supply is made;
- e. the description of the taxable supply;
- f. the total amount of the consideration for the taxable supply;
- g. the rate of tax and the amount of tax payable;
- h. the total amount of the consideration and the tax applicable to the taxable supply.

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GCT Treatment Employer

The imposition of GCT on group health insurance will result in the following.

Employers **will not** be able to claim/recover as an input tax credit, the GCT paid on the group health insurance premium, because it was not incurred for the purposes of making a taxable supply in accordance with Regulation 14(7)(b) of the GCT Act.

Income Tax Treatment

The irrecoverable GCT will have to be expensed and treated as a deductible for income tax purposes. The employer is responsible for the GCT applicable to the portion of the premium they pay. This GCT would be a benefit to the employee who is liable for the income tax and other statutory deductions on the additional sum. However, TAJ will be extending the administrative concession applicable to the premiums to the GCT payments borne by the employer resulting in the employee having no additional income tax burden.

Contributory Health Insurance Schemes

Employee A contributes \$48,000 (20%) and his employer contributes \$192,000 (80%) to the annual premium of \$240,000, the GCT applicable will be \$39,600. The employer will not be able to claim an input tax credit for the GCT paid, the amount will instead be claimed as an expense for income tax purposes. The \$39,600 is an additional benefit to Employee A, under the extension of the administrative concession the amount is exempt from income tax.

	EMPLOYER (80%) \$	EMPLOYEE (20%) \$	TOTAL \$	GCT \$
Insurance Premiums	192,000	48,000	240,000	39,600

Non-Contributory Health Insurance Schemes

Employee B is a member of a group health insurance coverage with annual premium of \$180,000 all paid by his employer (he makes no contribution). The applicable GCT will be \$29,700. The employer will not be able to claim a credit for the GCT paid, the amount will be claimed as an expense for income tax purposes. The \$29,700 is an additional benefit to the Employee B, under the extension of the administrative concession the amount is exempt from income taxes.

	EMPLOYER (100%) \$	EMPLOYEE	TOTAL (\$)	GCT \$
Insurance Premiums	180,000	NIL	180,000	29,700

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Employer

On the income tax return the employer will claim as an expense the amount paid and ultimately borne by him to provide the employees with health insurance coverage.

EMPLOYER	CONTRIBUTORY SCHEME		NON-CONTRIBUTORY SCHEME	
	PREMIUM (\$)	GCT (\$)	PREMIUM (\$)	GCT (\$)
Employee A	192,000	39,600		
Employee B			180,000	29,700
TOTAL	231,600		209,700	

NOTE: Any portion or all of the GCT if recovered from the employee(s) will not be allowed as a deduction.

Unregistered Taxpayers

Where the employer is not a registered taxpayer for the purpose of the GCT act and has paid GCT on group health insurance premiums the amount will be expensed and treated as a deductible for income tax purposes. The employee will not be taxed on the benefit received based on the administrative concession.

Ad Hoc Schemes

Some employers do not have health insurance schemes for their employees. They operate a scheme where employees are reimbursed an agreed percentage of their medical bills (doctor visits and prescriptions). These and any other similar arrangement are not covered by TAJ's administrative concession; neither do they come within the scope of the GCT Act, any such reimbursement should be treated as emoluments to the employee and subject to income tax.

Exempt and Zero-Rated Employers

Employers who are in exempt activities or who are authorised to acquire their good and services at a zero rate of tax must be billed with the GCT added to their premiums. Generally these employers are not entitled to any zero rating or exemption in respect of GCT on group health insurance and therefore must pay the tax.

Embassies, consulates and international organizations however may qualify for the zero rating in respect of certain staff members, in particular heads of missions and international organizations and non-Jamaican citizens who are members of the staff of a mission or an international organization other than members of the service staff. Therefore embassies, consulates and international organizations must restrict their zero rating application to the members of staff outlined above.