STATES OF JERSEY

DRAFT BUDGET STATEMENT 2015 (P.129/2014): AMENDMENT

Lodged au Greffe on 5th September 2014
by Deputy J.H. Young of St. Brelade

STATES GREFFE

DRAFT BUDGET STATEMENT 2015 (P.129/2014): AMENDMENT

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PAGE 2, PARAGRAPH (a) –

After the words “as set out in the Budget Statement” insert the words –

> “except that health insurance premiums paid by taxpayers over the age of 55 shall qualify for relief from income tax with effect from the year of assessment 2015;”.

DEPUTY J.H. YOUNG OF ST. BRELADE

REPORT

Tax Relief for private health insurance premiums

The Health and Social Services Strategic Policy report includes a commitment from the Council of Ministers that: "***By the end of 2014, proposals for sustainable funding for health and social services will have been produced.***" It is hardly surprising that this commitment has not been fulfilled. Jersey would be unique in so doing. The cost of secondary health care increases exponentially, in response to increasing longevity of our population, public expectations, new drugs and clinical interventions made possible by science and technological developments and pressures from the medical profession, and the only limit to this growth is society's ability to meet the cost.

I believe the contribution which is already made by private health insurance which moderates part of the ever-increasing demand for publicly-funded hospital treatment in Jersey should be recognised and a tax incentive be put in place to discourage its decline. This is not new. The United Kingdom introduced this tax allowance in 1989 for the over-60s. It was successfully argued that relief for premiums would encourage people to continue to pay premiums after they lose the benefits of employer-funded health insurance, and at an age when their premiums increased considerably. It was abolished in 1997 following a change of government; however, the House of Lords debated this subject again in 2011. Other governments give this tax allowance – e.g. Ireland and the Isle of Man currently.

The Health and Social Services White Paper in 2012 reported that almost 50% of the population in Jersey has private health insurance; and during its consultation, members of the public thought tax relief should continue to be available for those with private health insurance, yet the White Paper reached no conclusions on the restoration of tax incentives for private health insurance.

KPMG in 2011 estimated that expenditure on private health care in Jersey amounted to £66 million (1.8% of GDP), which is much greater proportionately than the UK. Medical insurance premiums paid by Islanders amounted to £16 million annually, and by employers (in employee benefits) amounted to another £16 million. Reflecting Jersey's higher GDP, this compares favourably with the Isle of Man (£20 million) and Guernsey (£33 million). In comparison, States' expenditure amounted to £159 million (4.4% of GDP). Private health insurance is an integral part of Jersey's health economy.

The merits of incentives to health insurance arguments are obvious: policyholders and their families (who are already paying for the public health system through their taxes) reduce pressure on a public health system that has a limited capacity to deliver the health services required. The arguments against tax relief seem to be that people still take out health insurance, and private insurance drives up the cost of health care because people expect higher standards of care. I find these arguments against tax relief wholly unsatisfactory.

If private health services are also provided within our own hospital, the public costs can be significantly reduced by a direct recovery of direct costs and a share of overheads costs.

The States' 2013 accounts show private patients' income of approximately £10 million out of a total hospital spend of £114 million in Jersey. This is a much lower proportion than KPMG estimates, suggesting there is scope for growth in income from these services. Last year's accounts report a growth in private patients' income of nearly £1 million.

It cannot be fair to have withdrawn tax relief from those people paying their own premiums, whilst health insurance provided to employees as part of a remuneration package continues to be tax-free under 'Benefits in Kind' rules. It makes no financial sense, as over the medium to longer term, benefits for our health service of encouraging private health services will likely exceed the cost of the tax relief.

Financial and manpower implications

Last year my amendment proposing that this relief be restored for tax relief for all taxpayers was estimated to cost £2.2 million. This amendment seeks to restore the tax relief on private health insurance premiums only for those over the age of 55, who make up 25% of our population. The Income Tax Department estimates the cost of my amendment to be £1.76 million. This is based on information from 2006 tax returns and takes no account of policy-holders over the age of 55 who have terminated their policies and transferred their health costs to the taxpayer. I would expect this factor to reduce the actual cost to around £1 million per annum.

I believe the effect of restoring this tax relief for over-55s should at least be cost-neutral in the short term, and should result in net savings for the taxpayer in the medium to long term.