

## Income Tax relief for Medical and/or Dental Insurance

### Part 15-01-14

This document should be read in conjunction with sections 112, 112A, 112AA and 470 Taxes Consolidation Act 1997

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Please consult the [COVID-19 pages on the Revenue website](#) for further information in relation to the subject matter of this manual.

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A more recent version of this manual is available.

## 1 Introduction

Section 470 Taxes Consolidation Act 1997 provides for income tax relief in respect of payments made to authorised insurers under relevant contracts in respect of medical insurance and dental insurance.

[Chapter 2](#) sets out the applicable income tax relief for policies renewed or entered into on or after 16 October 2013.

Details regarding the Tax Relief at Source system (TRS) and claims by Authorised Insurers are set out in [Chapter 3](#) and [Chapter 4](#), respectively.

The tax treatment of employer-provided medical insurance premiums is set out in [Chapter 5](#), which includes guidance and worked examples regarding the Finance Act 2017 changes contained in section 112AA.

Technical terms such as ‘[authorised insurer](#)’, ‘[relevant contract](#)’ and ‘[tied health insurance agent](#)’ are defined at [Appendix 1](#).

## 2 Income Tax Relief

Income tax relief is granted at the standard rate of tax (currently 20%) on the payment of the premium, subject to certain limitations outlined below.

For policies renewed or entered into on or after 16 October 2013 the amount qualifying for tax relief is limited to either:

- the lesser of the premium paid or **€1,000 per adult**, or
- the lesser of the premium paid or **€500 per child**.

A child for all such policies is a child under 21 years of age in respect of whom a child premium has been paid.

Where the payment covers any benefits other than the reimbursement or discharge of health expenses (including non-routine dental expenses) within the meaning of section 469 (such as where part of a payment secures a weekly sum during illness), that part of the payment does not qualify for relief under section 470.

The qualifying amount for the purpose of relief under section 470 can only be calculated by reference to the part of the premium which relates to the reimbursement or discharge of health expenses.

Where part of a payment secures a weekly sum during illness, that part may qualify for relief under section 471 - relief for contributions to permanent health benefit schemes. Further guidance on relief for contributions to permanent health benefit schemes is available in [Tax and Duty Manual 15-01-10](#).

### 3 Tax Relief at Source (TRS)

Income tax relief in respect of medical and dental insurance is generally granted at source under the Tax Relief at Source (TRS) system.

Under the TRS system, policy holders pay a reduced premium (gross premium less Income Tax relief at the standard rate of tax<sup>1</sup>) to the medical or dental insurer and the authorised insurer claims the tax relief granted at source back from Revenue.

Adjustments to the tax relief (for example, where an individual changes from a particular health insurance plan to another in the course of the tax year) are made automatically by the insurer.

#### Example 1

Kevin renews his medical insurance policy on 1 January 2020. The notice issued by the insurance provider shows both the gross and net premium due:

- Gross premium: €2,500
- Amount on which TRS is calculated: €1,000 (i.e. maximum for an adult)
- TRS: €200 (€1,000 x 20%)
- Reduced (net) premium payable to authorised insurer: €2,300 (€2,500 - €200)

A claim to Revenue is not required by Kevin as he has received tax relief via the TRS system.

#### Example 2

Alex renews her medical insurance policy covering two adults and two children on 1 January 2020. The notice issued by the insurance provider shows both the gross and net premium due:

- Gross premium: €5,500 (€2,500 per adult and €250 per child)
- Amount on which TRS is calculated: €2,500 - this is calculated as €1,000 for each adult and €250 for each child - the maximum per child is €500 but as the cost in the policy is only €250 each, the relief per child is restricted to €250
- TRS: €500 (€2,500 x 20%)
- Reduced (net) premium payable to authorised insurer: €5,000 (€5,500 - €500)

A claim to Revenue is not required by Alex as she has received tax relief via the TRS system.

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<sup>1</sup> Where the insurance covers both eligible, and non-eligible, health expenses, a rate less than the standard rate (referred to as a “blended rate”) will apply. Please contact TRS Unit, Office of the Collector-General through MyEnquiries for blended rates if required.

## 4 Claims by Authorised Insurers

Authorised insurers are generally entitled to claim back from Revenue the income tax relief granted at source by them. All such claims are dealt with by the TRS Section in the Office of the Collector-General, Sarsfield House, Limerick.

Where an authorised insurer provides a relevant contract to one of its own directors or employees at a discounted value (or free of charge), the insurer's entitlement to claim back tax relief in respect of this relevant contract is limited or withdrawn - see [Chapter 5.2](#) for further information.

A more recent version of this manual is available.

## 5 Tax Treatment of Medical Insurance Premiums Paid by an Employer

Where an employer provides a medical insurance premium to an employee, the tax treatment of this payment will vary depending on whether or not the employer is an Authorised Insurer/Tied Health Insurance Agent. The applicable treatment for both scenarios is set out below.

### 5.1 Employer is NOT an Authorised Insurer or a Tied Health Insurance Agent

In this situation, where the employer pays a medical or dental insurance premium on behalf of a director or employee, the employer pays the premium to the insurer net of the tax relief due.

#### Employee's Tax Position

The director or employee is chargeable to income tax in accordance with section 112/112A at his or her marginal rate of tax on the value of the perquisite (i.e. the gross premium).

Income Tax, PRSI and USC must be applied to the value of the perquisite by the employer.

Since the employee has not benefited from the TRS on the medical insurance premium paid by his or her employer, he or she is entitled to tax relief as follows -

- PAYE taxpayers can claim their refund by [completing a Form 12 tax return](#) using PAYE Services in myAccount.
- Income tax registered taxpayers can claim the tax relief on their Form 11 annual tax return via [ROS](#).
- An employee may also claim relief during the year by contacting Revenue through [MyEnquiries](#) to have the credit included in his or her tax credits.

The tax relief due is the qualifying amount in respect of that premium (see restrictions imposed in [Chapter 2](#)) at the standard rate of tax.

#### Example 3

Brian's employer renews his policy on 1 January 2020. The gross value of the policy is €2,500 and the net of tax relief amount is €2,300. Brian is charged to Income Tax, USC and PRSI under the PAYE system on the gross premium of €2,500.

As Brian has not benefited from the TRS arising on the premium paid by his employer, he is entitled to a tax relief of €200 (€1,000 x 20%) – which can be claimed as outlined above in 5.1.

**Employer's tax position**

To recover the benefit obtained by the employer by way of the reduced premium paid to the authorised insurer, a charge to income tax, in accordance with subsection 112A(3), equal to the qualifying amount at the standard rate of tax is imposed on the employer.

The employer deducts and retains income tax at the standard rate of income tax (20%) on the qualifying portion of the premium. The employer pays this amount to the TRS section in the Office of the Collector General's, Revenue Commissioners, Sarsfield House, Limerick. This tax payment will be allowed as a deduction in taxing the employer's profits. In example 3 the employer must account for €200 to Revenue.

Section 112A(4) applies the provisions of section 238 with any necessary modifications to recover the tax deducted and retained by the employer at source.

In the case of a company, the normal rules regarding the payment of preliminary tax and corporation tax apply in relation to the payment of this amount. In the case of an individual or a partnership, Revenue accepts that the tax due may be paid up to the specified return date in relation to the year of assessment to which the charge relates.

Revenue accepts that the tax may be accounted for by the precedent acting partner, where the employer is a partnership. The tax paid is allowed as a deduction in arriving at the partnership profits.

In strictness, where the employer is an individual or partnership, the tax to be remitted by the employer is the tax computed by reference to premium payments made in the tax year rather than premium payments made in the basis period. However, employers may opt to account for the tax by reference to premium payments made in the basis period for the tax year. Where an employer opts to pay the tax on this basis, tax for future periods should be accounted for on the same basis.

**Example 4**

This follows on from Example 3. The €200 tax relief Brian's employer obtained when renewing Brian's medical insurance policy is paid over to the Collector General and is taken into account in calculating preliminary tax payable. Details are included with the employer's tax return for that tax year.

**Example 5**

Employer pays 75% of the premium of an employee with the employee paying 25%.

- Gross premium is €1,500
- Premium net of TRS is €1,300 (€1,500 less €1,000 x 20%)
- Total payment to insurer is €975 by employer and €325 by employee (€1,300)



- Tax relief related to employer share ( $€1,000 \times 75\%$ ) = €750 => €750 @ standard rate (currently 20%) = €150
- Employer pays €150 to the Collector-General
- Employee is charged to income tax, USC and PRSI on €1,125 (€975 + €150)
- Employee received TRS when premium was paid of ( $€1,000 \times 25\%$ ) = €250 => €250 @ standard rate (currently 20%) = €50

Employee claims balance of tax relief due of €150.

A more recent version of this manual is available.

## 5.2 Employer is an Authorised Insurer or a Tied Health Insurance Agent

Section 8 of Finance Act 2017 introduced section 112AA of the Taxes Consolidation Act 1997. Section 112AA provides that where an employee or director of either:

- an authorised insurer,
- a tied health insurance agent, or
- a person connected to either an authorised insurer or a tied health insurance agent (such as a parent or subsidiary company of an authorised insurer)

receives a medical insurance policy in the course of his or her employment, any discount received on the price of the policy will be treated as a taxable emolument for that employee or director.

The charge also extends to free or discounted premiums on policies taken out by family members of directors or employees where the discount is arising as a result of his or her connection to the employee or director.

Family members to whom this charge may be extended include spouses, civil partners, siblings, ancestors and lineal descendants of an employee or director as well as the relatives of his or her spouse or civil partner.

### **Employee's Tax Position**

The director or employee is chargeable to income tax in accordance with section 112AA, at his or her marginal rate of tax on the value of the benefit received.

The value of the benefit is calculated by reference to the gross market value of the insurance policy (i.e. the value inclusive of any relief that is generally available) less any amount paid by the director, employee or relative towards the cost of the insurance premium.

Income Tax, PRSI and USC must be applied to the value of the benefit provided by the employer.

### **Example 6**

Anna is an employee with a medical insurance company. Her employer last renewed her policy on 1 May 2020. The gross value of the policy is €2,300.

Anna will be charged to income tax, USC and PRSI under the PAYE system for 2020 on €2,300 – being the gross value of policy.

### Availability of Tax Relief

Where section 112AA applies, the income tax relief provisions for insurance premiums (section 470) will apply in a modified manner. This modification ensures the director or employee affected will receive the same amount of relief as he or she would have done if employed in another sector/industry.

The application of these provisions has been modified because, typically, where an employer pays for a medical insurance policy, the employer is obliged to pay the value of any medical insurance relief to Revenue. Tax relief is granted to the director or employee for the amount he or she was unable to deduct and retain through tax relief at source (TRS) either by way of adjustments to his/her credits or via filing a Form 11/12 return. This is not a practical treatment where the employer is the authorised insurer who provided the relevant contract, as the employer would be paying an amount over to Revenue only to then to be subsequently refunded the same amount by Revenue.

#### **A: Insurance Policy is Provided Free of Charge**

Where a director, employee or connected individual receives an insurance policy free, section 112AA(4) disapplies the tax relief at source provisions - section 470(3).

These provisions are disapplied as:

- no payment is actually made by the employer or the employee for the insurance,
- as a result, no party is able to deduct and retain the relievable amount for TRS purposes

Instead, section 112AA(4) deems any emoluments arising to be a payment made by the director or employee to the authorised insurer/tied health insurance agent of the gross premium.

The director or employee is then entitled to tax relief equal to the relievable amount generally available on his or her insurance policy at the standard rate of tax.

- PAYE taxpayers can claim their refund by [completing a Form 12 tax return](#) using PAYE Services in myAccount.
- Income tax registered taxpayers can claim the tax relief on their Form 11 annual tax return via [ROS](#).
- An employee may also claim relief during the year by contacting Revenue through [MyEnquiries](#) to have the credit included in his or her tax credits.

**Example 7**

Andrea is an employee with a medical insurance company. Her employer renews her policy on 1 January 2020 and does not charge her any amount in relation to the provision of the policy. The gross value of the policy is €2,500. Andrea is charged to income tax, USC and PRSI under the PAYE system on the gross premium of €2,500.

Andrea is entitled to a tax relief of €200 under section 470(2) – (i.e. policy capped at €1,000 \* 20%).

**B: Insurance Policy is Discounted**

Where a director, employee or family member makes a payment towards the cost of his or her insurance, section 112AA(5) operates to ensure the manner in which medical insurance relief is paid is apportioned based on the amount actually paid by the employee.

This is in keeping with the treatment of employees in other sectors/industries.

**Example 8**

A medical insurer offers a 75% discount on the relevant contract price to an employee. The employee pays the remaining 25%. The gross premium is €1,500. The policy is for the period 1 January 2020 to 31 December 2020.

- Gross premium is €1,500
- Value of discount = €1,125 (€1,500 \* 75%)
- Employee is charged to income tax, USC and PRSI on the value of the discount i.e. €1,125
- Employee's contribution €375 (€1,500 \* 25%)
- Employee receives TRS proportionate to the premium actually paid by him or her [section 112AA(5)(b)] (€1000 x 25%) = €250 => €250 @ standard rate (currently 20%) = €50 – This amount is relieved at source when the employee makes the payment

The director or employee is entitled to tax relief equal to the relievable amount generally available on his or her insurance policy at the standard rate of tax. The balance of relief due can be claimed as a credit (s112AA(5)(a)).

- Employee claims balance of tax relief due (€1,000 x 75%) = €750 => €750 @ standard rate (currently 20%) = €150.

The employee may claim the repayment of €150 either by filing a Form 11/12 or being coded into his or her credits.

The remaining €50 (€200 - €150) was relieved at source when the employee made the contribution to his or her health insurance.

**Employer's Tax Position**

Where the employer is an authorised insurer or tied health insurance agent, the following applies where a discounted (or free) policy has been made available to directors, employees or relatives:

**A: Case I Deduction**

The employer cannot claim a Case I deduction equal to the value of the taxable benefit received by the employer. This is because the employer has not paid a premium on behalf of the employee.

Some deductions may be available for administrative costs incurred in providing additional contracts, but these are expected to be minimal.

**B: Claims for Tax Relief at Source from the Office of the Collector General (Authorised Insurers/Tied Agents)**

Where a policy has been provided free of charge by the employer, the employer (or connected authorised insurer) cannot claim any tax relief from the Office of the Collector General as no amount was paid to the Office in respect of that policy in the first instance.

Where the employee pays a reduced premium, the employer (or connected authorised insurer) may claim any medical relief that would have been available in respect of the proportion actually paid by the employee.

**C: Application of PAYE to Benefits Paid**

The employer must operate income tax (PAYE), Pay Related Social Insurance (PRSI) and Universal Social Charge (USC) on the benefit under section 985A.

## Appendix 1 - Definitions

### Authorised Insurer – Medical Insurers

An authorised insurer, with regard to medical insurance, means any undertaking entered in the Register of Health Benefits Undertakings that lawfully carries on the business of medical insurance which provides for the reimbursement or discharge, in whole or in part, of health expenses within the meaning of section 469.

A list of medical insurers currently entered in the Register of Health Benefits Undertakings is available [here](#).

In relation to medical insurance policies effected while an individual was resident in another Member State of the European Union, an authorised insurer also includes any undertaking authorised pursuant to the following EU Directives:

- Council Directive No. 73/239/EEC of 24 July 1973,
- Council Directive No. 88/357/EEC of 22 June 1988, and
- Council Directive No. 92/49/EEC of 18 June 1992.

### Authorised Insurer - Dental Insurers

In the case of dental-only insurance contracts, an authorised insurer means any undertaking, authorised under any one of three EU (Non-Life Insurance) Regulations which is lawfully carrying on the business of providing dental insurance in respect of dental expenses (other than expenses in respect of routine dental treatment). The three Regulations are:

- The European Communities (Non-Life Insurance) Regulations 1976;
- The European Communities (Non-Life Insurance) (Amendment) Regulations 1991; and
- The European Communities (Non-Life Insurance) Framework Regulations 1994.

An authorised insurer also includes any undertaking, authorised by an insurance supervisory authority of an EU Member State in accordance with Article 6 of EU Directive No 73/239/EEC of 24 July 1973, which is lawfully carrying on the business of providing dental insurance in respect of dental expenses (other than expenses in respect of routine dental treatment).

The question of establishing whether or not an insurance undertaking is duly authorised by the insurance supervisory authority of an EU Member State is a matter for the taxpayer.

Authorised Dental Insurers in Ireland are -

- DeCare Dental Insurance Ireland
- Laya Insurance Ltd (Dental)
- Great Lakes Dental

### **Relevant Contract**

A relevant contract is one which provides for the reimbursement or discharge, in whole or in part, of health expenses (including non-routine dental expenses) within the meaning of section 469.

For relevant contracts entered into or renewed before 16 October 2013, the reimbursement or discharge of actual health expenses was limited to those of an individual, his or her spouse/civil partner and children or other dependants of the individual or of his or her spouse/civil partner. This requirement was removed for contracts entered into or renewed on or after that date.

### **Tied Health Insurance Agent**

A tied health insurance agent is any agent who enters into an agreement with an authorised insurer to:

- provide policies from that insurer exclusively, or
- restrict the ability of that agent to offer relevant contracts of insurance from other companies.