Tax relief for private medical insurance

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In 1990 the Conservative Government introduced a tax relief for private medical insurance, which could be claimed by individuals paying premiums for those aged 60 or over. This was on the grounds that the Government should help those who had had medical insurance cover during their working life provided by their employer but would often lose it on retirement, and more generally to encourage the take-up of this type of insurance to reduce pressure on the National Health Service.

Over its lifetime the costs of this tax relief grew strongly, even though relief was restricted to the basic rate of tax in 1994, and it was strongly opposed by the Labour party in Opposition. In his first Budget after the Labour Party's victory in the 1997 general election, the then Chancellor, Gordon Brown, announced that tax relief would not be given on premiums taken out, or renewed, on or after Budget day - with certain exceptions. Relief would continue to be given for existing contracts, though as relief would only be given to contracts which lasted a year or less, no contract would enjoy relief after 30 July 1998.

In his Budget speech Mr Brown gave two reasons for cancelling this tax relief. First, as the Labour Party had stated on several occasions in Opposition, abolishing the relief would meet some of the cost in cutting the rate of VAT on domestic supplies of fuel & power from 8% to 5% - which it did from 1 September 1997. Second, the relief had "failed to achieve its original purpose of substantially increasing the take-up of private medical insurance."[1] At this time about 550,000 people were covered by contracts attracting relief, at a cost to the Exchequer of £110 million.[2]

After the abolition of this relief the Labour Government showed no interest in reinstating it; for its part the Conservative Party argued it should be restored in the 2001 general election, though the policy was dropped from subsequent manifestoes.[3] However, more recently there has been some debate as to the merits of reintroducing some form of tax relief to encourage the take-up of this form of insurance.

1 HC Deb 2 July 1997 c 312
2 Inland Revenue press notice, *Tax relief for private medical insurance to be ended*, 2 July 1997. The cost was projected to rise to £120m in 1998/99, and to £140m in 1999/00.
3 Conservative party, *Time for common sense*, April 2001 pp 20-21

Contents

1 Introduction of tax relief

In January 1989 the Conservative Government published a white paper on NHS reform, and as part of this, proposed a new tax relief on medical insurance for the over-60s: as part of a statement to the House the then Secretary of State, Kenneth Clarke, argued that this relief would "reduce the pressure on the NHS from the very age group most likely to require elective surgery, freeing resources for those who need it most."[4] The white paper set out the case for tax relief at more length:

> 9.8 A key factor in the development of the private sector has been the spread of private medical insurance. The number of people insured has grown significantly in the past few years: the biggest single element has been the increase in the provision of medical insurance cover by companies for their employees. But in most cases this cover stops when an individual retires. As a result, people are faced with deciding whether to take out cover as individuals at a time when their income has fallen and when medical insurance premiums rise.
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> 9.9 To help meet this problem, and to encourage both the provision of medical insurance for older people and its take-up, the Government has decided to introduce legislation to give income tax relief from April 1990 on premiums for those aged 60 and over, whether paid by them or, for example, by their families on their behalf.[5]

In the 1989 Budget the then Chancellor, Nigel Lawson, confirmed that the new relief would come into effect from April 1990.[6] To qualify for tax relief contracts had to provide cover for medical or surgical treatment in the UK given or supervised by a qualified medical or dental practitioner. Qualifying contracts included those which offered cover for operations by GPs in their surgeries or clinics, but not those covering the costs of other GP consultations or prescriptions, cash benefits,[7] general dental treatment or eye treatments outside hospital, plastic surgery for cosmetic reasons, domestic help and alternative or complementary medicine (for example, acupuncture or osteopathy).[8] The payer of the premiums could be, but did not need to be, the person insured under the contract. Tax relief was given by making a deduction from the amount of the premiums due, benefiting any claimants who were non-taxpayers.

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4 HC Deb 31 January 1989 c169. At this time the then Chancellor, Nigel Lawson, confirmed that he would give details in the Budget later that year: HC Deb 31 January 1989 cc114-5W .

5 *Working for Patients*, Cm 555 January 1989 p69

6 HC Deb 14 March 1989 c 307. The relief was introduced under ss54- 57 of the Finance Act 1989.

7 Other than a maximum £5 a night given when undergoing treatment in a private hospital bed.

8 The Government set out the precise scope of the relief some months later (HC 19 July 1989 c181W), and this was set out in secondary legislation (SI 1989/2389).

Provision for the new relief was made in the Finance Bill following the 1989 Budget, and debated on the floor of the House at the Committee stage of the Bill.[9] Speaking for the Opposition, Gordon Brown argued that the new relief was unfair – as its benefits would go largely to those on higher incomes – and would be inefficient – as it would go to many people who had already taken out insurance:

> On the Treasury's admission, the proposal will cost at least £40 million this year. That money will go, mainly to top rate taxpayers … the majority will go to those who already have private medical insurance, and beyond that, the cash available is open-ended. Under the proposal, the number of pensioners eligible for relief is uncapped … The proposal does not suggest that the Health Service should buy operations or services from the private sector and the industries within it, but that a minority of people over 60 should have a minority of their operations and treatments subsidised when they are carried out in the private sector. The main effect of the proposal is that a monthly, three-monthly or yearly cheque will go to BUPA, Private Patients Plan and other private health insurance industries. That cheque will be paid right from the Government to BUPA and the other organisations.[10]

In response the then Chief Secretary to the Treasury, John Major, argued that the relief was well-targeted toward need:

> The central justification for the new relief is entirely clear … As people reach 60, the cost of their private medical insurance rises. If they retire, their income generally tends to fall. Of course, usually they lose employers' contributions to any private medical insurance scheme to which they may have belonged. Many elderly people think that it is grossly unfair, and … I agree with them without qualification …
>
> Basic rate relief will be given at source--like MIRAS … --so that only a net premium will need to be paid to the insurer. That means, even where a subscriber is not liable for tax, tax relief will still be given and only a net sum will be payable …
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> The hon. Member for Dunfermline, East repeatedly referred to the fact that tax relief benefits only the rich, and I outlined the extent to which basic rate taxpayers will benefit. His belief that only the rich benefit is wholly wrong, as it is in the case of tax relief on mortgage interest. The measure brings private health care within the reach even of non-taxpayers for the reasons we have discussed in the past few minutes …
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> I recognise that some hon. Members may be opposed to any tax relief, not on the grounds advanced by the Opposition, but on general fiscal policy grounds, because it contradicts strict tax neutrality principles. It does. I agree with that and there is no point in not recognising it and acknowledging it, and I do so. But we have never pretended that it is our policy to remove all tax relief regardless of merits. Each is considered individually. My right hon. Friend the Chancellor made clear in 1984, when he introduced his first tax reform Budget, that he had no intention of removing all tax reliefs in the tax system. That is not our aim.
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> It is true that the general presumption is in favour of fiscal neutrality, but in practice there will always be room for some carefully-considered and limited tax incentives to meet particular needs … The new relief that we are introducing for health insurance is

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[9] HC Deb 9 May 1989 cc 727-815. The debate was on the first of the four clauses introducing relief: the other provisions were debated in Standing Committee G on 25 May 1989.

[10] HC Deb 9 May 1989 c732

> fully justified on merit, as it is well directed at a particular problem, will increase take up and have wider benefits …
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> I should make it clear that there are two restrictions on the relief apart from that imposed by the age of the insured person. First, the relief will be due only to people who are resident for tax purposes in the United Kingdom. It is axiomatic that a tax relief should not be given to people who put themselves outside the scope of normal United Kingdom taxation. Furthermore, by and large, people who are not resident in the United Kingdom do not use the National Health Service on a regular basis; thus, encouraging them to take out medical insurance would do little to relieve pressure on the NHS. They will not therefore qualify for relief.
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> Secondly, the clause provides for relief to be withdrawn in certain circumstances. That is where, for example, tax relief has been given when it was not properly due, or when it was given in respect of a contract that has ceased to be eligible for relief, perhaps because its terms have varied. In those circumstances, it is right that no further relief should be given and that any excessive relief should be paid back as speedily as possible.[11]

As noted, initially relief was given at the payer's marginal rate of tax. Higher rate tax payers received relief at 40%, whereas basic rate taxpayers, and those not paying tax, received relief at 25% (then the basic rate of tax). In the November 1993 Budget it was announced that relief would be limited to the basic rate of tax with effect from 6 April 1994 – so that, in effect, the value of this relief would be the same for both higher rate and basic rate taxpayers.[12]

Over the first years of its life the cost of the scheme has risen quite consistently, although the numbers of insurance contracts, and individuals covered by those contracts, had not risen accordingly. Estimates given in November 1995 put the cost of tax relief doubling from 1990/91 to 1993/94 from £40m to £80m, while the number of contracts qualifying for relief had risen from 350,000 to 375,000; the numbers of individuals covered over this period had rising from 500,000 to 550,000.[13] Although tax relief was now limited to the basic rate, the Exchequer costs continued to rise: over the next two years, the cost of relief went from £80m to 100m – although only 25,000 more contracts had been covered, extending to an extra 50,000 individuals.[14]

Some commentators suggested that the sharp rise in the cost of this scheme was an indication of its success. Prior to the July 1997 Budget, the Association of British Insurers argued that without this tax relief many would decide to stop taking out insurance - either for themselves or for their elderly relatives.[15] The Association admitted that there was no direct information on this, though they argued "medical insurance is ... generally perceived as a discretionary purchase and industry experience is that take up by individuals is highly price sensitive. It would be expected that the number of over 60s continuing to hold insurance cover would reduce markedly without the tax relief." As a consequence, the Association suggested, removing tax relief would put "increased pressure on National Health spending"

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11 HC Deb 9 May 1989 cc744-7

12 Inland Revenue Budget press notice IR7, 30 November 1993. This change was made under s83 & schedule 10 of the Finance Act 1994.

13 HC Deb 2 November 1995 c423W

14 HC Deb 13 March 1997 c322W

15 ABI, *Private medical insurance for the over 60s: the case for tax relief*, 22 April 1997

and would "send a negative message on the seriousness with which the Government treats the elderly's health concerns."

It is debatable, of course, whether this tax relief was cost effective, and that the resources used in its provision would be better targeted, say by using them to fund specific programmes for the care of the elderly within the NHS. The Association's observation that this type of insurance remains a discretionary purchase implies that for some policyholders, the primary attraction in taking out a policy is the associated relief from income tax. One may wonder if tax relief provides the best way to change these perceptions. A comparison could be made with the tax relief provided for profit related pay (PRP), the withdrawal of which was announced by Kenneth Clarke when Chancellor in his 1996 Budget. The original purpose of this relief had been to encourage the adoption of flexible pay schemes by companies, though there was considerable evidence that it was the tax relief which provided the main driving force for PRP schemes, and that attitudes to pay and its relationship to company profits remained largely unchanged.[16] Naturally it is always a danger in providing a tax relief that the change in individuals' and firms' *financial* behaviour dwarfs the desired change in other aspects of their behaviour, at considerable cost.

In Opposition the Labour Party continued to criticise the operation of this tax relief. Following the Conservative Government's replacement of the zero rate of VAT on domestic supplies of fuel and power with an 8% rate in 1993, the Party took the position that abolishing the relief would go some way to cut the VAT rate on domestic fuel and power back to 5%.[17]

For its part the Conservative party argued this tax relief should remain. During the 1997 General Election campaign the then Health Secretary, Stephen Dorrell, suggested that abolishing the relief would lengthen NHS waiting lists. Mr Dorrell quoted figures from Western Provident Association - a middle-ranking health insurer - to suggest 40% of pensioners covered by this relief would cancel their insurance policies if tax relief were abolished.[18] A few weeks after the general election, prior to the new Labour Government's first Budget, the Conservative MP Nigel Waterson made this case in an adjournment debate:

> We should remember … that elderly subscribers to PMI have supported the NHS throughout their working lives by paying tax and national insurance contributions. They have made a personal decision - a choice - to use some of their spare resources to acquire PMI cover. The Government want to abolish that choice. There is also considerable logic in providing tax relief only for the over 60s because, first, premiums naturally increase with age; and, secondly, upon retirement, people often take over the payment of premiums after leaving a corporate scheme. Tax relief therefore helps to ease the transition from the world of work to retirement … The removal of tax relief at 23% means that policyholders will in effect pay an extra 30%. According to Prime Health, its research has shown that, when an increase of 30% was mentioned, 35% of policyholders said they would cancel their policies or look for a replacement policy.[19]

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16 for details see Institute for Fiscal Studies, *Options for 1997: the Green Budget*, October 1996 pp 41-42

17 for example, *A New Economic Future for Britain*, June 1995 p70, and Alistair Darling 's contribution to the Budget debates in December 1996 (HC Deb 3 December 1996 c 892). The 5% rate is the lowest rate that could be set under EU-wide agreements on VAT rates – for more details see, *VAT on fuel & power 97/87*, Library Research paper 97/87 9 July 1997

18 "End of tax relief would 'prime NHS timebomb'," *Financial Times*, 24 April 1997. It is notable that, in this same story, the *Financial Times* reported the chief executive of Western Provident Association, Julian Stainton, had told a conference that insurers had themselves to blame for the Labour party's plans for abolition, as many had used the introduction of tax relief as a cover for a sharp increase in premiums for the elderly.

19 HC Deb 16 June 1997 cc 91-92

2 The Labour Government's abolition of relief

In his first Budget after the Labour Party's victory in the 1997 general election, the then Chancellor Gordon Brown announced that to help pay for a cut in VAT on fuel and power, the Government would "withdraw tax relief for private medical insurance for the over-60s", noting that the relief cost £140m a year "and it has failed to achieve its original purpose of substantially increasing the take-up of private medical insurance."[20] During its lifetime it was estimated that the relief had cost a total of £560m. As Mr Brown noted, some of the receipts from this measure went toward a cut in the rate of VAT on domestic supplies of fuel and power from 8% to 5%, which took effect from 1 September 1997.[21]

In a press notice accompanying the Budget, the department confirmed that tax relief on premiums for private medical insurance would not be given premiums taken out, or renewed, on or after Budget day, though relief would be given for existing contracts until they fell for renewal:

> Tax relief on premiums for private medical insurance for the over 60s is to be abolished. The Chancellor's proposal will end a relief for those who choose to take out private healthcare insurance. It will free up public money to finance the package of proposals in this Budget aimed at helping a much wider section of the sick and the elderly …
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> The rule that tax relief will not be given on premiums payable in respect of insurance contracts made, or renewed, on or after today is subject to certain exceptions. The exceptions apply to those people who have made arrangements, before today, to renew an existing contract or to enter into a new one but who do not yet have the contract in place. The exceptions only apply where the contract is finally made, and payment of the whole or some part of the premium due is received by the insurer, before 1 August 1997. An existing contract which currently attracts tax relief will continue to do so until it expires. As tax relief on private medical insurance premiums cannot be given on insurance contracts which last for more than a year, this means that the contracts which qualify for relief will have come to an end by 30 July 1998. Premiums due under contracts of insurance will have to be paid on or before 5 April 1999 in order to benefit from tax relief. This cut -off date for the relief will affect only payments which are paid long after they fall due for payment.[22]

When the legislation to abolish this tax relief was scrutinised by the House,[23] the then Financial Secretary, Dawn Primarolo, summarised the Government's case as follows:

> When private medical insurance relief for the over-60s was introduced by the Conservative Government in 1990, they claimed that it would encourage the growth of insurance cover for that group in society. They did not undertake any research to find out whether it would work, and it did not … When the relief was introduced, some 350,000 contracts existed, covering 500,000 individuals. Those people had already purchased medical insurance, so the tax relief was a subsidy to them. No doubt they were very grateful to receive it, but it played no part in their decision to take out

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[20] HC Deb 2 July 1997 c312. The £140m estimate given by the then Chancellor was the projected cost of the relief for 1999/2000.

[21] At the time this VAT cut was estimated to cost £485m in its first full year (1998/99): *Budget 97* HC 85 July 1997 p40

[22] Inland Revenue press notice, *Tax relief for private medical insurance to be ended*, 2 July 1997

[23] HC Deb 16 July 1997 cc 409-451. Provision to this end was made under s17 of the *Finance (No 2) Act 1997*.

> insurance ... Since 1990 and up to 1997, the number of contracts has increased only marginally, by 10 per cent.--yet the cost to the taxpayer for that 10 per cent. increase is £140 million …
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> Provision of the subsidy is truly a measure that benefits only the few--5 per cent. at most--at the expense of the majority. Why should taxpayers pay for relief that offers no clear benefits? … There is no indication that those who have private medical insurance and receive relief will change their minds because of our decision. In the name of fairness, however, the Government have made specific provisions in the clause to ensure that relief is not ended immediately, but honoured to the end of the annual contract. Such provision will give individuals who are concerned about their private medical insurance time to seek advice from their insurers and examine the options available …
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> In *The Times* of 3 July 1997, in an advertisement headed "If you think private healthcare will be too expensive without tax relief, consult a specialist", Norwich Union--one of the largest providers of such insurance packages--stated: "If you're over 60, you've probably benefited from tax relief on your healthcare premiums. That changed after yesterday's Budget and you'll soon start paying up to 30 per cent. more. But to find out how you won't have to, no matter who your policy's with, call the Norwich Union Healthcare Tax Relief Helpline now."
>
> Norwich Union will ensure that people can continue their policies without extra cost. A report in *The Independent* states that Norwich Union, one of the largest providers of this type of insurance, is confident that 98 per cent. of customers need not pay any more and could keep their private medical insurance. Those are the facts.[24]

Some in the insurance industry were strongly critical of the Chancellor's announcement, but, as the *Financial Times* reported, estimates of the impact of this measure varied considerably:

> Insurers claim that many of the 550,000 or so people who benefit from private medical insurance relief will not be able to afford the increased premiums and so will decide to rely entirely on the National Health Service. The insurers' predictions for the likely effects of the decision are, however, wildly different. Insurer PPP healthcare, for example, estimates that the abolition will increase NHS waiting lists by more than 100,000 and cost the Treasury an extra £8.5m a year. But Western Provident Association says the added cost to the NHS could be 'as much as' £300m, a year while Bupa estimates the number of NHS hospital treatments will increase by 48,000 a year.
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> PMI market analysts Laing & Buisson said it believed these estimates were all incorrect. 'To date, the market for PMI has been price inelastic; increases in price have not been met by proportionate drops in demand. Coupled with that, the amount of a typical PMI premium is far higher than the cost to the NHS of the treatment covered. Taken together, this means the tax relief was ridiculous and could not possibly be justified in terms of savings to the NHS' said director Mr William Laing …
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> 'Premiums for the elderly have gone up at three times the rate for everyone else which, in turn, has increased by three times the rate of inflation' said Mr Julian Stainton, chief executive of WPA. He argues that the relief was 'misconceived from the outset. It was a good idea, badly executed'. Certainly it found few supporters, even among the government of the time. Mr William Waldegrave argued for its abolition in 1991 when

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[24] HC Deb 16 July 1997 cc 416-418

> he was health secretary, saying it had not increased take-up of PMI policies and was expensive to administer.[25]

At the time the Labour Government anticipated that there would be "no significant cost to the National Health Service of people withdrawing from private medical insurance schemes and seeking NHS treatment through changes to tax relief."[26] In subsequent PQs on this issue, the Government stated it had not carried out any assessment of the impact of withdrawing relief, but that it remained of the opinion that it should not be restored:

> **Mr. Chope:** To ask the Chancellor of the Exchequer what assessment has been made of the impact on the NHS of the removal of tax relief on medical insurance premiums for those aged over 60 years.
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> **Dawn Primarolo***:* None. There is no reliable information available to the Government about renewals by the over-60s of their private medical insurance policies for any period since the tax relief was abolished in 1997.[27]
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> **Lady Hermon:** To ask the Chancellor of the Exchequer if he will restore tax incentives for pensioners taking out private health insurance; and if he will make a statement.
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> **Dawn Primarolo:** The Government have no plans to restore the tax relief that used to be available on private medical insurance premiums. We remain convinced that the best way to use the resources available to provide health care is by funding the NHS directly for the benefit of all British residents.[28]

In May 2001 the Institute for Fiscal Studies, in conjunction with the King's Fund, published a study which estimated that the saving to the Treasury from removing this subsidy more than outweighed any additional costs to the NHS from treating those who had decided not to take out PMI as a consequence.[29] The report's conclusions are reproduced below:

> The last 20 years have first seen a ten-year period of extremely large growth in the numbers covered by PMI (from 3.6 million in 1980 to 6.7 million in 1990), followed by ten years in which coverage has essentially remained flat. The rate of coverage is correlated with a variety of socio-economic characteristics, with those between the ages of 40 and 49 and higher-income individuals being more likely to possess insurance. For example, over 40 per cent of people in the top income decile are covered by PMI compared with under 5 per cent in the bottom four deciles. Moreover, the higher up the income distribution a person is, the more likely it is that their insurance has been provided by their employer.
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> The causes and implications of the trends in the coverage of PMI are both interesting and important from a public policy perspective. When considering why individuals might choose to buy health insurance, we obviously need to consider the link between the level and quality of NHS health care and the number of people purchasing PMI. For example, Calnan, Cant and Gabe[30] find that those with PMI are more likely to be

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25 "Over 60s 'will switch to NHS'," *Financial Times*, 3 July 1997
26 HC Deb 25 May 1999 c112W
27 HC Deb 20 July 2001 c561W
28 HC Deb 4 November 2003 c630W
29 IFS press notice, *Did subsidising Private Medical Insurance help the NHS?*, 9 May 2001
30 M Calnan, S Cant & J Gabe, *Going Private: Why People Pay for their Health Car*e, OUP 1996

dissatisfied with the NHS than those without it. Whether this is purely a cause or also partly an effect of those individuals being in possession of PMI is unclear. While it seems obvious that those who are dissatisfied with the quality of NHS provision will be more likely to purchase PMI, it is also highly plausible that some individuals may change their valuation of NHS provision after using private care paid for through employer-provided PMI.

One measure of the quality of NHS provision that does seem to be positively correlated with the greater purchasing of private health insurance is the length of waiting lists for NHS treatment. This could be an indication that waiting lists are a particular concern or, alternatively, that they are used as a barometer for NHS performance.[31] The fact that there is a link between waiting lists and the purchase of PMI is perhaps not surprising, given the degree to which the media and political parties have focused on them.

Despite the increase in use of the private sector, private spending on health care makes up only 16.3 per cent of total health spending in the UK, which is lower than in any other G7 country. In 1998, UK health spending was 6.7 per cent of GDP, which is some 2.4 percentage points lower than the average of the other 14 EU countries. The Government is eager to redress this balance and large increases in NHS spending have been planned until March 2004. The result will be that NHS spending will increase by 1.0 percentage point of GDP between 1998–99 and 2003–04. While substantial, these increases alone will be insufficient to fully close the gap between the UK and the rest of the EU by March 2004. Another way of increasing total spending on health would be to encourage people to take out PMI. This would have the added effect of reducing the demands on the NHS. Some individuals with PMI would in effect 'opt out' of the NHS for the treatments they were covered for.

One possibility would be for the Government to encourage individuals to take out PMI by offering a subsidy. We have considered whether the introduction of such a rebate could actually be self-financing, in other words, whether the saving to the NHS could be greater than the level of subsidies paid by the Treasury. Our analysis shows that this is unlikely to be the case, largely because a subsidy would benefit current holders of PMI while the saving to the NHS would only stem from the additional policies that would be sold due to the subsidy. It is also the case that the purchase of PMI will lead to a decrease in demands on the NHS by less than the policy cost, as private health care is more costly due to the higher quality of care provided, for example through less waiting and greater provision of private rooms, and the higher costs faced by the private sector.

Prior to 1997, such a subsidy existed for the over-60s – individuals with PMI received a subsidy equal to the basic rate of income tax on the cost of their insurance. We analyse the effect of the abolition of this subsidy on the demand for PMI and find that, on our best estimate, there was a 0.7 percentage point decrease in the number of people covered by such insurance. This is equivalent to nearly 4,000 individuals. While this would clearly have led to increased demands on the NHS, the cost of treating these individuals is likely to have been substantially lower than the £135 million annual cost of the subsidy.[32]

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[31] T Besley, J Hall & I Preston, *Private Health Insurance and the State of the NHS*, Commentary no.52. London IFS 1996; T Besley, J Hall & I Preston, "The demand for private health insurance: do waiting lists matter?", *Journal of Public Economics*, no.72 1999 pp 155-181

[32] Carl Emmerson, Christine Frayne & Alissa Goodman, "Should private medical insurance be subsidised?", *Health Care UK Spring 2001*, King's Fund May 2001

In its 2001 General Election manifesto the Conservative Party made the case for restoring tax relief for PMI:

> Choice for patients extends to private healthcare. Because of the problems in the health service many people with modest incomes spend their hard-earned savings on paying privately for operations or for medical insurance for themselves and their families. In doing so, they free resources in the NHS and help reduce waiting times, but often at considerable personal cost.
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> The Conservative party is committed to a comprehensive NHS to all its users. There is not question of anyone being forced to take out private insurance. But if people do choose to insure themselves privately they should not be penalised for making this choice. Labour imposes a tax penalty on employers who offer their employees private medical insurance, but then taxes again any employee who has this benefit. It doesn't make sense and, when affordable, we will abolish both taxes. [33]

In its commentary on the Conservative manifesto, the Institute for Fiscal Studies noted the severe deadweight cost to this tax relief:

> The Conservatives plan tax reductions and cuts in National Insurance contributions for individuals who take out private medical insurance (PMI). One argument for this reform is that it may reduce pressure on NHS resources by increasing the incentives for people to use alternative private sector care. However, as shown in a recent IFS study,[34] the current distributional incidence of PMI is strongly skewed towards the top of the income distribution. Whilst this does not rule out the possibility that a tax break might encourage PMI further down the income distribution, it should be borne in mind that the Conservative proposal has a large dead-weight cost attached to it because the tax break subsidises PMI for individuals who *already* hold it as well as encouraging new take-up of PMI. In addition, it is likely that increased coverage of PMI would reduce the overall level of support for increased spending on the health service, as suggested by existing research[35] into support for the NHS among people with private health insurance.[36]

Following the 2001 election the idea appears to have been dropped by the Conservative Party, and has not featured in the manifestoes of any of the major parties.

3 Recent debate

Recently there has been some debate about the merits of reintroducing some form of tax relief to encourage the take-up of private medical insurance. In March this year Sir Paul Beresford introduced a Private Member's Bill under the Ten Minute Rule procedure, to call for tax relief, restricted to the basic rate, on medical insurance premiums for those aged 65 and over. In his speech to the House Sir Paul acknowledged the costs of the relief introduced in 1990, but argued that restricting relief to the basic rate of tax, and typing

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[33] Conservative party, *Time for common sense*, April 2001 pp 20-21 see also "Tories would scrap tax on company healthcare schemes", *Financial Times*, 21 February 2001

[34] See Figure 5.5 in C Emmerson, C Frayne & A Goodman, *Pressures in UK Healthcare: Challenges for the NHS*, Commentary no.81, IFS, London, 2000

[35] T Besley, J Hall and I Preston, *Private Health Insurance and the State of the NHS*, Commentary no.52, IFS London 1996

[36] T Clark, H Reed, *IFS Election briefing notes no.7: the Conservatives' proposals*, May 2001 p13

eligibility to the state pension age, would limit the cost while providing a method of taking "some of the load, in numbers and cost, off our tax-paid national health service"; an extract from Sir Paul's speech is given below:

> Approximately 12.5% of the UK population are covered by private health insurance. Approximately 70% of that cover is corporate, leaving about 30% of it individual. At retirement, many people may wish to take over their corporate private health insurance, but the personal cost of course becomes a factor. Additionally, many who have personally funded their health insurance might not feel able to do so when a regular personal income is merely pension or savings. This means that, as the over-65s' need for health care increases, individuals will increasingly turn to the NHS and absorb the facilities they would not have taken if they had been covered by their health insurance at a private hospital.
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> Before March 1997 when tax relief was available to the over-60s, it was estimated that tax relief was paid in respect of 400,000 contracts to cover 600,000 individuals. Over a seven-year period from 1990, tax relief for the over-60s cost £560 million. However, that included a period when the relief applied across all taxpayer rates. In 1994, this was reduced to apply to the basic rate tax only. Unlike my proposal, the relief started at 60, not 65, which affected the call on the taxpayer. The Western Provident Association estimated that 40% of pensioners would discontinue their private health insurance when the cut came into force in 1997. Which? reported in 2002 that private health insurance coverage was lowest for the high-demand 65-plus age group.
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> Those who choose to have personally funded private health insurance pay twice for their health-in premiums and tax. As I have already stated, this applies to 30% of those insured, as corporate payments cover 70%. However, it would be safe to assume that nigh on 100% of those aged 65 or more are personally funding their health insurance. It is their choice and, for many, it might mean sacrificing other things that affect their lifestyle.
>
> My Bill would allow basic rate tax relief for pensioners at 65 and above, with the age rising as and when the pensionable age increases. It would encourage people either to keep their health insurance or to take out health insurance just as they reach the period in their life when demand can be expected to increase. If they did not have or ceased their insurance, they would add to the call on the national health service. The Bill in no way degrades my or their respect for the NHS, but is intended to take some of the load, in numbers and cost, off our tax-paid national health service. As the UK population's life expectancy increases and as the wonders of medical research improve our pensioners' life expectancy and well-being, this would provide an incentive for more people to choose not only to pay their taxes to support the NHS, but to use health insurance to take an increasing load off our NHS to the benefit of others.[37]

More recently the case for encouraging private medical insurance through tax relief was the subject of a short debate in the Lords on 2 June; speaking for the Government Lord Sassoon stated that the Government had not plans to pursue this policy, in light of the fact that any relief would immediately cost the Exchequer a great deal "because of the dead-weight effect of offering that relief to people who already have medical insurance." An extract from the debate is reproduced below:

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[37] HC Deb 2 March 2011 cc311-2. In addition Peter Bone MP has also put forward a Private Member's Bill (Bill 50 of 2010-12) to provide for tax relief on medical insurance premiums (HC Deb 5 July 2010 c84); to date the Bill has not received a second reading.

> **Asked By Lord Flight:** To ask Her Majesty's Government whether they will exclude the provision of healthcare insurance by an employer for an employee as a taxable benefit in kind.
>
> **The Commercial Secretary to the Treasury (Lord Sassoon):** My Lords, the Government have no plans to introduce a new tax exemption for private healthcare insurance where it is provided as a benefit in kind …
>
> **Baroness Farrington of Ribbleton:** My Lords, will the noble Lord the Minister, if his noble friend provides the additional information, have regard to the fact that, to my knowledge, no private healthcare system provides totally comprehensive cover? Will he bear in mind the anger that a consultant in an intensive care unit expressed to me at the fact that people coming in from the private sector for intensive care were blocking his beds? He accepted their right to do that, but people cannot opt out of the National Health Service, so the proposed measure would not necessarily save the money to which the Minister's noble friend referred.
>
> **Lord Sassoon:** My Lords, I am happy to confirm the position, which is quite clear and obviously will not change. As I say, we are not looking at this, but I never say no to ideas that would save considerable sums of money, however remote the possibility that the scheme would work. However, individual choice is the issue around private medical insurance. There is no plan to alter the role of private medical insurance in healthcare provision and there is no loss of entitlement to NHS care for those who take out private medical insurance …
>
> **Lord Hamilton of Epsom:** Can my noble friend clear my mind on this? If someone privately insures, whether they get tax relief or not, surely they remove a burden off the National Health Service.
>
> **Lord Sassoon:** My Lords, they may to some extent at the margin remove a burden off the National Health Service, but, equally, under the previous arrangements where partial tax relief was given, there was considerable additional cost to the taxpayer. It is estimated that putting in place some new allowance would immediately cost the Exchequer at least £700 million-probably considerably more-because of the dead-weight effect of offering that relief to people who already have medical insurance.[38]

At the report stage of the Finance Bill Sir Paul Beresford put down a new clause to allow for basic rate tax relief on private medical insurance. Sir Paul suggested that relief would cover those now aged 65 or over, but this would rise "as the pensionable age increased":

> It would encourage people either to keep or take out health insurance just as they reached the period of life in which demand can be expected to increase. If they do not have or cease to have insurance, they will add to the call on the NHS. This approach in no way degrades my or, indeed, their respect for the NHS, but it is intended to take some of the load of numbers and cost off our tax-paid national health service.[39]

Speaking for the Opposition Kerry McCarthy MP argued that the new clause would "reinstate a benefit that was withdrawn by the Labour Government in 1997 because, quite simply, it had failed."[40] The Financial Secretary to the Treasury, Mark Hoban, made a similar point in also opposing the new clause:

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[38] HL Deb 9 June 2011 cc 365-7
[39] HC Deb 28 June 2011 c819
[40] HC Deb 28 June 2011 c819

> The Government introduce new tax reliefs only when there is a compelling case that to do so would represent a good use of public money. Turning first to cost, we estimate that this relief would have a direct and immediate cost to the Exchequer of at least £135 million pounds a year—a significant amount, especially given the fiscal climate in which we are now operating. That would reflect the cost of restricting relief to the basic rate of tax … The vast majority of the cost of providing the proposed tax relief would go to those who already have private medical insurance, and there is therefore no obvious need for a new incentive.
>
> The case for introducing tax relief rests on the proposition that it would encourage significant new take-up of private medical insurance and ultimately be self-financing. However, at this stage we do not have any strong evidence to show how much additional take-up of private medical insurance a tax relief would generate, or how much pressure on NHS resources would be relieved as a result … When a similar relief existed in the 1990s, it had little apparent effect, and the IFS report from 2001 concluded that it was unlikely that such a subsidy for private medical insurance would ever be self-financing.[41]

In response Sir Paul acknowledged that he was "putting my toe in the water this evening, trying to get some thinking going on the proposal" and withdrew the clause.[42]

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41 HC Deb 28 June 2011 cc823-5

42 HC Deb 28 June 2011 c826