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IMPACT OF GST (GOODS AND SERVICES TAX) ON INSURANCE SECTOR OF INDIA

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Abstract

Banking and Insurance: *There is an increase in service tax by 3%. The service tax on banking service and insurance was pegged at 15%, which is now replaced by GST of 18%. There are three major kinds of life insurance products – Term insurance plans, Ulips and Endowments (including money back). The applicability of service tax (in the current format) on their premium is not similar in all three of them. , 25 per cent of the premium in the first year and 12.5 cent of the premium in subsequent years. So, if the premium of an endowment plan is Rs 100, the GST of 18 percent will be applicable on the 25 percent of the premium i.e. on Rs 25, so, Rs 4.5 will be GST amount. The impending implementation of GST would undoubtedly impact one's personal finances especially when it comes to financial services, albeit marginally. From the present rate of 15 percent, the GST on banking, insurance and investments such as real estate, mutual funds will see a hike of 3 percent as the GST will now be 18 percent on them.*

Key Words: *GST, Insurance Sector, Banking Services, Service Tax.*

METHODOLOGY (TOOLS AND TECHNIQUES) :

"Exploratory" Research Design is opted for the purpose.

DISCUSSION, FINDINGS & CONCLUSIONS: Primarily, there are three major kinds of life insurance products – Term insurance plans, Ulips and Endowments (including money back). The applicability of service tax (in the current format) on their premium is not similar in all three of them. The premium paid in life insurance policies represents two portions – risk coverage and savings. The service tax is only on the risk portion of the premium and not on savings portion. As per the GST rules, the value of services (on which GST is to be imposed) in relation to life insurance business shall be: (a) The gross premium reduced by the amount allocated for investment, or savings on behalf of the policy holder. (b) In case of single premium annuity policies, ten per cent of single premium charged from the policy holder. (c) In all other cases, 25 per cent of the premium in the first year and 12.5 cent of the premium in subsequent years. So, if the premium of an endowment plan is Rs 100, the GST of 18 percent will be applicable on the 25 percent of the premium i.e. on Rs 25, so, Rs 4.5 will be the GST amount. (d) If the entire premium paid by the policy holder is only towards the risk cover in life insurance such as in term insurance plans, the GST of 18 percent will be on the entire premium. Therefore, the immediate impact of GST would be the higher outgo (premium plus GST) in term and endowment plans, due to the increase in rate of tax on insurance following implementation of the GST. "In theory, this could mean an increase of 3% in premium from the existing applicable premium effectivefrom 1st July 2017, across life, health and general insurance, however, some of this should be offset if tax on services availed by the industry are allowed to be taken into account to decrease insurers' tax paid. The policyholders may stand to benefit only if the insurance companies are allowed the benefit of input tax credit. This unfortunately is not clear as of yet given the complexity of the state/centre structure of GST, this might drive some confusion as well as higher compliance and administrative costs for insurers. If these are not passed on to customers, prices might either go up, or stay low but will affect the market's solvency and financial health.

Impact : The overall impact could be nominal but once implemented, both, existing and new policyholders will have to bear the additional cost. If the current premium of a term plan is Rs 10,000, (excluding the service tax of 15 percent) the GST impact will up the premium including tax by Rs 300 i.e from Rs 11,500 to Rs 11,800. While, comparing premium especially of term plans, make sure you are looking at premiums including or excluding GST for all the insurers. Nothing changes in the selection process as the GST impact will be same across insurers. Stick to a proper selection process while getting the right insurance policy. The Indian life insurance industry has come a long way indeed, especially in the last decade. Back in the day, people viewed insurance primarily as a tax planning and investment tool, something that people thought gave better returns while saving on pesky taxes.In a country like ours, where social security doesn’t exist and one cannot boast of viable retirement schemes, seeking protection for the future becomes a compelling preoccupation. And that is where buying insurance comes into play.Post-liberalization, the insurance sector witnessed significant growth spurred by the joining of private insurers, product innovation, and induction of multiple distribution channels. This was further encouraged by the increase in the foreign direct investment (FDI) limit, from 26% to 49%. Since then, insurance companies, along with the Insurance Regulatory and Development Authority of India (Irdai), have been making concerted efforts to develop the insurance sector in India. As a result, we see a significant number of private players operating in the market today, and a lot of product innovation catering to specific consumer needs.

Insurance companies in India have strived hard to create financial awareness and increase insurance penetration in the country. As the country strides into a new economic phase, we hope that the industry gets the attention and support that it rightfully deserves.

Life Insurance & Health Insurance:

There are 3 types of life insurance:

1. Term insurance plans- basic life insurance policies
2. ULIPs- insurance and investment under a single integrated plan
3. Endowments (including money-back)- life insurance policies that pay a lump sum on maturity/death or a fixed sum every month (sort of like a pension)

Service tax applicable on each type is different –

For example, ICICI Prudential Life Insurance applies service tax at the following rates:

Category	**Service Tax With SBC And KKC**	**After GST**
Term insurance premium	15%	18%
ULIP charges	15%	18%
Health insurance premium	15%	18%

All these rates will be replaced by 18% which will result in increase in premiums. value of supply of services in relation to life insurance business shall be: a) The gross premium *minus* the amount allocated for investment, or savings on behalf of the policyholder, if such amount is informed to the policyholder.

For example,

Particulars	**Under Service Tax**	**Under GST**
Gross Premium	1000	1000
Investment Portion	600	600
Life Insurance portion	400	400
Service tax @ 15% on 400	60	—–
GST @18% on 400	—–	72

b) Single premium annuity policies- 10% of the premium

c) All other cases- 25% for 1st year and 12.5% for 2nd year onwards on the premium charged.

Gross Premium p.a.	**1000**
1st Year	
25% of value	250
GST @18% on 250	62.50
2nd year	
12.5% of value	125
GST @18% on 125	22.50

d) If the entire premium is for life insurance, GST @18% will apply on the entire premium

Impact

Both existing and new policyholders will face an increase in the premium amounts due to increase in rates. For insurers, the increase in taxes will be passed on to the consumers. The insurers expect higher compliance and administrative costs due to the increased number of GST returns and also effect of taxability of inter-branch services.

General Insurance

General insurance includes fire insurance, marine insurance, car insurance, theft insurance etc. The GST rate will also be 18% on general insurance.

Impact

For policyholders, the general insurance premium will rise as tax has increased from 15 to 18%. Corporate policyholders, who have taken general insurance, can enjoy input tax credit on the GST paid on their policies (it was available to them even under service tax).

Life and health insurees will not have input tax credit as it is not available for life and health insurances (as they are for personal purposes). Even corporate policyholders with group life and health insurance for their employees will not enjoy any input tax credit.

Conclusion

All policyholders will have to pay higher premiums on their insurance due to increase in GST rates. An average family with life, health and car insurance will find an increase of 3% on their insurance expenses. Assuming they spend a total of Rs. 30,000 per year on insurance excluding service tax their expenses will increase by 3% i.e., Rs. 900.

SUGGESTIONS

It is necessary for the government to declare the policies so that the insurance companies must practice, only GST taxation system. The insurance consumers must be protected from hidden and overlapping tax system.

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