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Special Issue on "Tax Reform for Developing Viable and Sustainable Tax System in India"



The impact of GST on insurance sector in India

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Abstract

Life Insurance sector after privatization is maturing from mere security as single purpose behind owning a policy to one of better investment options as well as policies is available with multiple options and riders. Now at present around 13 private co.'s are operating in life insurance sector. But real competition is coming from HDFC AND ICICI which is utilizing competitively their old database in attracting customers through cross-selling of financial products at one roof. all industries, insurance sector is also swayed by the introduction of GST including insurers and policyholders. Life, health and motor insurance policies are now costlier as taxes have risen by 3 %.The consequence of GST on different types of insurance plans is more complex than a flat 3% hike on some particular types of insurance products.

Keywords: Life Insurance company (LIC), GST, HDFC Insurance Company, Customers, etc.

Introduction

Finally, Goods and Service Tax bill has launched in India. From now on, all types of indirect taxes such as service tax, excise duty, sales tax along with other local and state taxes will merge into one single tax called GST. With the introduction of GST, taxation procedure is expected to be much simpler and easier to understand.

According to experts, GST is going to be a ground-breaking movement in Indian indirect tax structure. The existing tax mechanism between the state and the centre will go through a complete overhaul with the implementation of GST.

Being a value-added tax, GST aims to do away with the cascading effect on goods and services cost . GST has paved the way for total refurbishment of existing tax architecture in India as it is going to impact incidence, structure and computation of indirect taxes.

Currently, 15% service tax is levied on services which comprises of 14% basic service tax, 0.5% Swachh Bharat and 0.5% Krishi Kalyan Cess. With the implementation of GST, consumers have tom pay just one single tax. The GST Council is entitled to ascertain the rate of GST in various services and products.

Research Methodology:

The present study is of descriptive types. The entire study is based on secondary of data. The secondary data has been collected from publications and books and web sites and reports of government. The data are taken from various journals also.

Objectives of the Study

- To know new tax policy to insurance sector
- To know the Impact of GST on Buying Insurance



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- To know the service tax on insurance status of pre and post GST.
- To analyze the impact of GST on insurance industry.

How will GST Influence Insurance Sector?

Like all industries, insurance sector is also swayed by the introduction of GST including insurers and policyholders. Life, health and motor insurance policies are now costlier as taxes have risen by 3%. The consequence of GST on different types of insurance plans is more complex than a flat 3% hike on some particular types of insurance products.

Life Insurance Sector

- With GST coming into effect, premium of life insurance plans will be in the range of .3% to 3%.
- The tax rates for Term and unit-linked plans' tax rate will see a 3% rise and will go to 18% from existing 15%. The first-year premium of annuity products will also rise to 4.5% from 3.75%.
- Renewal premium of annuity products will rise to 2.25% from 1.88% and single premium of annuity products will be revised to 1.80% from 1.50%.
- GST is charged on interest applicable on premium received after a delay. The rate will depend on premium type.
- Policyholders who need to pay alteration fee or fees for preparation of duplicate policy also have to pay these charges with GST.

According to experts, increasing cost will affect life insurance sector adversely. GST will discourage common people from availing life insurance covers for themselves and their family members.

Non-life Insurance Sector

- Just like life insurance sector, GST has impacted the general insurance sector as well. Car, health and travel insurance policyholders now have to pay 18% GST instead of the existing 15% service tax.
- GST rate will be 18% on fire insurance, marine insurance plans as well.
- Corporate policyholders, who availed general insurance policies will have to pay GST on their policies. However, they get input tax credit on GST. Before the advent of GST, the input tax credit was available to them even under service tax

Following table shows the revised tax rates of several different types of insurance products available in India after the introduction of GST.

Type of insurance policy	Tax(%) Before	GST(%) After
ULIP	15	18
Term Insurance	15	18
Periodicity – Single Premium	1.5	1.8
Endowment Plan Premium (First Year)	3.75	4.5
Endowment Plan Premium (Renewal)	1.88	2.25
Health Insurance	15	18
Add-on Riders	15	18
Car Insurance	15	18
Travel Insurance	15	18
Fire Insurance	15	18
Marine Insurance	15	18

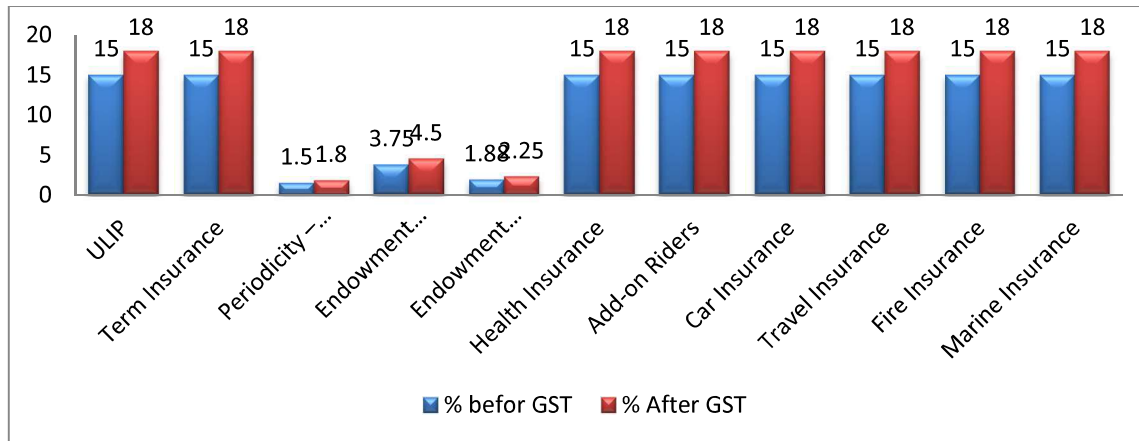


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The GST council has suggested an 18% tax rate for the financial services sector, which would mean a direct impact on premium paid by policyholder. Before GST tax rate on insurance premium is 15%. Consequentially there would be an increase of 3% for all policyholders.

Impact of GST on different types of insurance

Term Plan

Term plans purely offer death benefit and are termed as pure risk protection plans. In such plans sum assured is paid to the nominee, if insured dies during the Term of the policy. And if policyholder survives the policy term, he has to forgo the entire premium as no maturity value is paid in term plans, apart from the term plans with a return of premium (TROP) option. The premium component of a term plan comprises the majority of the risk element to provide insured a risk cover throughout the tenure of the policy. At present, service tax of 15 % is imposed on the premium cost of the term plans. With the implementation of GST, the tax is expected to rise to 18 % in the first year and also on renewal premium from April 2017. This means the premium will get costlier by 3 % or 300 basis points.

Endowment Plans

Endowment plans or traditional insurance savings plans offers both death and maturity benefit, whichever occurs first. Currently, endowment plans attract a service tax of 3.75 % on the premium in the first year of the policy and are expected to rise to 4.5 % in the first year under the new tax regime. As of now, 1.88 % of the service tax is levied on endowment plan's premium for the second year which is expected to rise to 2.25 % from the second year onwards after the implementation of GST.

ULIP

Unit Linked Insurance Plans (ULIPs) also offer dual benefit of insurance and investment. At present, service tax of 3.5 % is levied on protection part of ULIPs in the first year and 1.75 % from second year



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onwards. This would go up to 4.5 % in the first year and 2.25 % from second year onwards. Health Insurance Plan Currently, health plan premium attracts a service tax of 15 % on its premium cost. With the introduction and implementation of the GST, the cost of purchasing the health insurance will become expensive as it will attract a tax of about 18 % on premium from April 2017.

Motor Insurance

Motor insurance premium also attracts the service tax of 15 % which will rise to 18 % from April 2017, if the rate is fixed up to this specified percentage mark. But here the question arises that hike in tax should impact your decision of buying insurance or not. It is true that GST will make buying insurance little expensive but it is very important for an individual to secure his life, especially when the individual is the sole bread-earner of the family. Life insurance plans

Impact of GST on Buying Insurance

It is an undeniable fact that purchase of insurance will be more expensive as GST comes into effect. However, the merit and importance of an insurance policy doesn't solely depend on its premium. On the contrary, consumers should come up with a holistic approach to gauge the true value of insurance covers by considering all its aspects including policy coverage, policy term and exclusions.

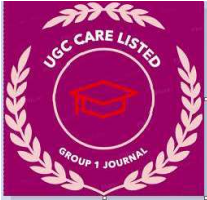
It is of utmost importance that an individual, especially if the individual is the only earning member of the family to secure his or her life and health from ailments and personal accidents. Insurance policies not only shield one's financial losses but also keep the families financially protected in the absence of the policyholders.

specifically term insurance plans are the actual life insurance plans which cover you and financially compensates your family in your absence. International Journal of Enhanced Research in Management & Computer Applications

All Types of Insurance Schemes Coming under GST

Life insurance provided by Government schemes are excused from GST. Here is a list of schemes in which GST is not applicable.

- Janashree Bima Yojana (JBY)
- Varishtha Pension Bima Yojana
- Aam Aadmi Bima Yojana (AABY)
- Pradhan Mantri Jan Dhan Yojana
- Pradhan Mantri Vaya Vandana Yojana
- Pradhan Mantri Jeevan Jyoti Bima Yojana
- Life insurance provided by Central Government to members of the Army, Navy and Air Force.
- Life micro-insurance product with maximum cover of Rs. 50,000 approved by the Insurance Regulatory and Development Authority
- Any other State Government insurance scheme notified by Government of India on the recommendation of GSTC.



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Is General Insurance Sector being Denied?

Input tax credit is not available in the service tax structure designed for insurance business. Policyholders can't avail input tax credit as these policies are devised for personal purpose. Even corporate policyholders who avail group health and life insurance for their employees don't get input tax credit. In the newly introduced GST regime also insurance is exempted from the benefits of input tax credit. However, the industry is hopeful that the government will remove the exemption and insurance will not feature in the revised exemption list.

How Much Extra You have to Pay on Your Insurance Premium?

As far as the consumers are concerned, the increasing premium outgo is the most significant impact of GST on insurance. A middle class family that spends around Rs. 30,000 in car, health and term insurance will have to shell out around Rs. 1000 more every year from now on. According to experts, insurance companies in India will assess impacts of GST and in course of time if they find any positive impact that will reflect on the premium without changing the GST rate.

Further Consequences of GST Implementation

Apart from the premium hike, application of GST will bring some deeper and far-reaching implications in India's insurance market. Let's take a look at some of them.

Severe Rivalry Among Insurers will be Fruitful for Consumers

As GST triggers a hike in insurance premium, insurance companies in India will compete with one another to gain maximum number of clients. All insurers will come up with lucrative deals to entice consumers and customers will reap the benefits of increasing rivalry among insurance providers in India. In coming days, insurers might minimize expenses for issuing policy and intermediary commission in order to lower insurance premium as an effort to recompense for the increased tax that comes with the implementation of GST.

Conclusion

The GST council has suggested an 18% tax rate for the financial services sector, which would mean a direct impact on premium paid by policyholder. Before GST tax rate on insurance premium is 15%. Consequentially there would be an increase of 3% for all policyholders.

Broadly speaking, insurance premiums have risen as GST has come into force. The hike might appear negligible for a single insurance policy, however, collectively a family's yearly insurance premium expense might reach a substantial figure. If you have term insurance, health insurance, car insurance and personal accident insurance plans in place and you pay around Rs. 50,000 each year, you might have to shell out another Rs. 1500 without getting any additional benefit. The real impact of GST on insurance still remains to be seen. As of now, GST has only increased insurance premium, its other consequences will be observed in coming days.

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