

GST IMPACT ON INSURANCE SECTOR

Dear Friends

As you are aware that Indian Insurance Market is the 10th largest in the world and is poised to become the 6th largest by 2032, ahead of Germany, Canada, Italy, and South Korea. The insurance regulator, IRDAI, has taken up the mission of universal insurance, which is expected to lead to a significant increase in insurance penetration such that, when India celebrates 100 years of its independence in 2047, every Indian has appropriate life, health, and property insurance cover and every enterprise is supported by appropriate insurance solutions. Towards this objective, the insurance regulator has taken various steps to promote healthy growth of the insurance industry, rationalise the regulatory framework, and reduce the compliance burden of regulated entities.

GST is going to impact the insurance sector through the premium adversely and the latest GST is expected to freeze at 18 percent under the GST update. This is bad news for all the policyholders, as this hike will impact adversely on the insurance sector, typically in terms of insurance premiums.

Life insurance reach in India has reduced from 4.6 percent in the year 2009 to 2.6 percent in the year 2016. It reflects a no growth at all in the last a few years. The hike in the GST from 15 percent to 18 percent would increase the premium of purchasing a new as well as renewing an existing insurance policy.

THE RELATIONSHIP BETWEEN THE GST RULE AND INSURANCE BUSINESS; *The insurance policies' premium represents two components - savings and risk coverage.*

The service tax is levied specified only on the premium component. According to the GST rules, the value of service on which the GST is levied regarding the life insurance sector shall be accordingly.

- *The gross premium would be reduced by the amount allocated for or savings or investment on policyholders' behalf.*

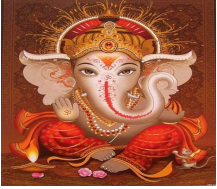
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- *When it comes to the single premium annual policies, ten percent of the single premium would be charged from the policyholder.*
- *In other cases, 25 percent of the premium for the first year and 12.5 percent of the premium in the upcoming years will be charged. For example, if an endowment plan's premium is Rs. 100, then the 18 percent GST would be levied on the 25 percent of premium (which would be Rs. 25) the GST would be Rs. 4.50.*
- *In case the total premium paid by the policyholder is towards the life insurance's risk cover, only the 18 percent GST would be levied on the total premium.*

Because of the increased GST percentage that awaits the implementation. The overall impact of the GST would be the increased expenditure (premium and the increased GST), when it comes to term insurance and endowment plans.

The policyholders stand a chance to be benefited if the insurance providers get a green signal on the input tax credit benefit. Unfortunately, as of yet, it is still unclear since the Centre/ State GST structure is very complex. It might create confusions and conformity for the insurance buyers and increase the administrative expenses for the insurance providers.

If the insurance buyers remain confused about the GST update, then irrespective of the increase or decrease in the prices, the solvency of the market along with the financial strength will be adversely affected. The general insurance sector will be equally impacted. The overall outgo for health, car, and various non-life plans would be increased by 3 percent. Post GST implementation, the existing and new insurance buyers would have to bear the updated prices.

For example, the current insurance premium of a term plan is Rs. 10,000, (without the 15 percent service tax) the updated GST will increase the premium comprising taxes by Rs. 300. It means from Rs. 11,500, it will be changed to Rs. 11,800. When you compare insurance premiums, especially for the term plans ensure that you look out for the premiums including or excluding GST by the various insurance Providers. There should be no changes in the selection process, as the GST impact is the same for all the insurance providers.

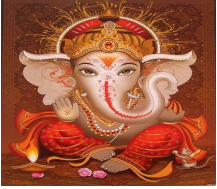
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Follow a proper selection process in order to get the right insurance plan that offers you maximum coverage and fulfills your insurance expectations.

THE PREMIUM DECIDING FACTOR:

Basically, the premium deciding factor of an insurance plan is subject to the insurance plan type you want to purchase. Based on that, we have two major categories of insurance policies.

1. Life Insurance
2. General Insurance.

I. IMPACT OF GST ON LIFE INSURANCE PREMIUMS

Let us try to understand the impact of GST on life insurance premiums a little better. To delve into this discussion, it is important to understand how life insurance policies work. Primarily, there are three types of life insurance you can potentially opt for, such as:

- Term insurance plans
- Unit Linked Insurance Plans (ULIPs)
- Endowment policies, which also include the money back plans, and pay a lump sum on maturity/death or regular payouts.

PLEASE NOTE THAT: Before the GST was introduced, the premiums or the ULIP charges paid were identified as service tax, charged at 15% in each case. All these rates have now been replaced with GST. GST is calculated at 18%, which implies that the shift to GST resulted in an increase in premiums.

TYPES OF INSURANCE DESCRIBE AS UNDER.

• TERM INSURANCE PLANS

A term policy is one of the most economical and preferred types of life insurance plans. It is a pure-protection plan because it only has a death benefit and not a maturity benefit. In case of the policyholder's demise during the term of the term policy, the nominees will receive the sum assured.

For term insurance, there is a standard 18% GST applicable on the premium payments.

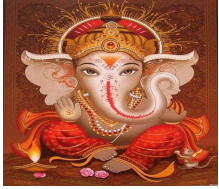
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- **ENDOWMENT PLANS**

An endowment plan is a type of life insurance where there is both a death and a maturity benefit. This means the sum assured is paid in a lump sum either on the maturity of the insurance plan or in case of the policyholder's demise.

For endowment plans, the GST applicable is slightly different.

- For the first-year premium, there is a 4.50% life insurance GST rate.*
- For the following years, there is a 2.25% GST rate applicable.*

- **UNIT-LINKED INSURANCE PLANS (ULIPS)**

ULIPs are a little different from traditional life insurance products. They offer a policyholder an opportunity to grow their money through insurance. ULIPs are part insurance and part investment products. For ULIPs, too, the GST levied on the premium is 18%. The best part is that this GST rate covers both the fund management charges and the premium payments.

CALCULATION OF GST

GST is essentially a charge for the supply of services under the life insurance policy, replacing the services tax, so the calculation goes on amounts as under:

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 single premium annuity policies:*** *GST is calculated at 10% of the premium.*
- ***For all other cases,*** *the GST is calculated at 25% for 1st year and 12.5% for 2nd year onwards on the premium charged. Therefore, as far as GST on life insurance premium is concerned, the rate stands at 25% of the premium of the first year and 12.5% of the premium in subsequent years is considered for tax calculation. So, if the premium of an endowment plan is Rs 20000, the rate of GST on life insurance premium of 18 percent will be applicable on the 25% of the premium i.e., on Rs 5000 in the first year and on Rs 2500 in the next year. This excludes single premium and term insurance policies, discussed next;*

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- **GST on Term Insurance:** If the entire premium paid by the policyholder goes towards the risk cover in life insurance such as in term insurance plans, the GST of 18% will be calculated on the entire premium

As compared to before, the impact has been a direct and simple jump from 15% to 18%. Since this has been passed on to consumers, policyholders should be careful about the premiums mentioned on the policy - whether they include the GST charges or not - and proceed to decide accordingly.

GST RATES BEFORE AND NOW

In contrast to the service taxes imposed previous to the tax regime, these are the current life insurance GST rates that are in effect:

Insurance Product	Taxes Applicable		Applicability
	Before	Now	
Term Insurance	15%	18%	On entire premium
ULIPs	15%	18%	On premium except for investment amount
Single-Premium Annuity Policies	1.50%	1.80%	On 10% of premium
Endowment Plans (First Year)	3.75%	4.50%	On 25% of premium
Endowment Plans (Renewal)	1.875%	2.25%	On 12.5% of premium
Health Insurance	15%	18%	On entire premium
Car Insurance	15%	18%	On entire premium
Riders Premium	15%	18%	On entire premium

Is it possible to claim a tax deduction against GST paid on my life insurance premium?

Yes, you are eligible to claim a tax deduction for the GST you paid on the premium of the life insurance policy. The provision under Section 80C and 80D of the Income-tax Act is that specified taxpayers could claim for deductions to the Insurance company on the total amount paid to them for specified insurance schemes. Subject to the maximum limit specified in these sections

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You Can Save Taxes on Life Insurance Premiums Paid

Even though the GST may have increased premium costs for life insurance policies, there are still a number of tax deductions available in India that can help you reduce your income tax. You can receive a tax benefit with these deductions on both the premiums paid for your life insurance policy and the GST incurred as a result of those premiums.

Sections 80C and 80D of the Income Tax Act, 1961 are the two most widely used tax deductions that allow you to reduce your income tax in India, especially on your life insurance premiums paid. Your total insurance premiums, including the GST that applies to them, are eligible for deductions under Section 80C up to a maximum of Rs. 1.50 lakhs. And in the meantime, Section 80D gives you additional premium deductions if you chose a health rider along with your life insurance policy.

FOR EXAMPLE - If one purchases a health insurance policy at the age of 30 years and the insured amount being Rs 10 lakh from any insurance company, which is supposed to be paid in this case would be Rs 7,843 and GST of Rs 1,412 (18 per cent GST is applied on basic premium) where the overall premium will add up to Rs 9,255. In the other case, if the same policy is purchased by a person having attained an age of 50, then he is supposed to pay a basic premium of Rs 17,782 and GST of Rs 3,200. The overall premium payable amounts to Rs 20,983.

PLEASE NOTE: in both the above cases, the amount which has been charged as GST applicable to the basic premiums, could be claimed for availing tax saving deduction benefit under section 80D. Thus, in both the cases mentioned above we could claim a total premium of Rs 9,255 or Rs 20,983 as per section 80D. The tax saving deduction amount depends on the investment limit mentioned under a particular section in 80D.

II. IMPACT OF GST ON GENERAL INSURANCE BUSINESS

A General Insurance policy also refers to a contract between and insurer and an individual, which provides an assured sum of money as compensation for loss caused by a natural or manmade scenario. The policy could be issued for healthcare, home, travel, automobile etc.

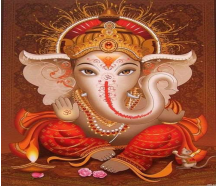
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1. **Health Plans** GST will be charged @18% on whole premium received.
2. **Travel Insurance** GST will be charged @18% on whole premium received.
3. **Automobile Insurance** GST will be charged @18% on whole premium received.

As per Sec 12(13) of the IGST ACT 2017 - Place of supply for Insurance services, if provided to
- A). a registered person – then location of the recipient i.e. location of such person
-B). a person other than a registered person - then location of the recipient of service on the records of the supplier of services.

GENERAL INSURANCE POLICIES EXEMPTED UNDER GST

- Services of general insurance business provided under following schemes is exempted under GST –

- 1). Janashree Bima Yojana
- 2). Aam Aadmi Bima Yojana
- 3). Life micro-insurance product as approved by the Insurance Regulatory and Development Authority, having maximum amount of cover of two lakh rupees.
- 4). Varishtha Pension Bima Yojana
- 5). Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)
- 6). Pradhan Mantri Jan Dhan Yojana (PMJDY)
- 7). Pradhan Mantri Vaya Vandan Yojana (PMVVY)
- 8). Hut Insurance Scheme
- 9). Cattle Insurance under Swarnajayanti Gram SwarozgarYojna (earlier known as Integrated Rural Development Programme)
- 10). Scheme for Insurance of Tribals
- 11). Janata Personal Accident Policy and Gramin Accident Policy
- 12). Group Personal Accident Policy for Self-Employed Women
- 13). Agricultural Pumpset and Failed Well Insurance
- 14). premia collected on export credit insurance.
- 15). Restructured Weather Based Crop Insurance Scheme (RWCIS), approved by the Government of India and implemented by the Ministry of Agriculture
- 16). Jan Arogya Bima Policy
- 17). Pradhan Mantri Fasal Bima Yojana (PMFBY)
- 18). Pilot Scheme on Seed Crop Insurance
- 19). Central Sector Scheme on Cattle Insurance

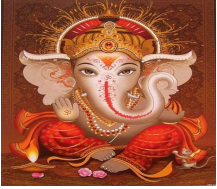
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20). Universal Health Insurance Scheme

21). Rashtriya Swasthya Bima Yojana

22). Coconut Palm Insurance Scheme

23). Pradhan Mantri Suraksha Bima Yojana

24). Niramaya Health Insurance Scheme implemented by the Trust constituted under the provisions of the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999).

25). Bangla Shasya Bima (BSB) crop insurance scheme of West Bengal Government.

26). Life insurance business provided or agreed to be provided by the Central Armed Paramilitary Forces (under Ministry of Home Affairs) Group Insurance Funds to their members.

GST ON NO CLAIM BONUS

After a decision was reached in the 48th GST Council meeting, the CBIC clarified the applicability of GST on 'No Claim Bonuses' via Circular No. 186/18/2022-GST.

Insurance companies typically offer their customers a 'No Claim Bonus' in cases where there have been no insurance claims made during the period of insurance. The amount is offered at the time of renewal of the insurance policy as a form of reward or discount and is deducted from the premium to be paid.

As per the Circular, the customer or insured person procures an insurance policy to indemnify themselves from any loss or injury as per the terms of the policy and are not under any contractual obligation to not claim insurance during the insurance period. There is no supply provided by the insured person to the insurance company by not lodging insurance claims during the insurance period.

As per clause Section 15(3)(a) of the CGST Act, the value of supply shall not include any discount given before or at the time of supply if the same has been recorded on the invoice. Hence, the 'No Claim Bonus' cannot be considered as a consideration for any supply provided and is treated as a discount and deducted, and there will be no GST applicable on the same.

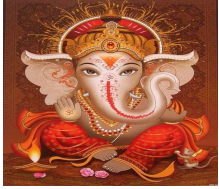
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LET'S CONSIDER A CASE

Forum Name – Authority for Advance Ruling – Maharashtra Citation: GST-ARA-77/2020-21/B-73 Mumbai Dated 31.05.2022

Name of the Applicant: M/s. Executive Council of Insurers

Query – 1. Whether services provided by ECOI, and 17 ombudsman officers are exempt from GST?

2. Whether GST is applicable to Executive Council of Insurers (ECOI) and 17 Offices of Insurance Ombudsmen which are governed by the ECOI?

3. Whether payment received by the Life Insurance Council and General Insurance Council on behalf of Executive Council are exempt from GST?

4. The above amount received by Executive Council of Insurers from the Life Insurance Council and General Insurance Council are also exempt from GST

Held by the Authority –

Question 1: – Whether services provided by ECOI, and 17 ombudsman officers are exempt from GST?

Answer: - The services provided by ECOI, and 17 ombudsman officers are not exempt from GST.

Question 2: – Whether GST is applicable to Executive Council of Insurers (ECOI) and 17 Offices of Insurance Ombudsmen which are governed by the ECOI?

Answer: - Answered in the affirmative.

Question 3: – Whether payment received by the Life Insurance Council and General Insurance Council on behalf of Executive Council are exempt from GST?

Answer: - Not answered in view of the discussions made above.

Question 4: - The above amount received by Executive Council of Insurers from the Life Insurance Council and General Insurance Council are also exempt from GST?

Answer: - Answered in the negative.

DISCLAIMER: the article presented here is only for sharing information with readers. In case of necessity do consult with tax professionals.

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