

Impact of Goods and Service Tax on India's Insurance Sector

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Research Guide

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ABSTRACT

Government of India has implemented a new indirect tax system - GST from 01.07.17, GST is an indirect tax for the entire country, making India a unified common market. The goods and service tax (GST) is a ground-breaking reform for the Indian economy's indirect tax regime. GST have changed the tax architecture between the state and the centre. GST is a taxation procedure for goods and services transported from one destination to others. GST is a value added tax, which have eliminated the cascading effect or double-taxation effect on the cost of goods and services down the value chain. This paper is designed to provide an overview of the impact of GST on insurance industry as well as policyholders. This paper is prepared using exploratory research method using secondary data. The study reveals that the insurance industry has not been untouched by its influence. It is affecting the insurance industry as well as the policy holders. Finally, it tries to find a middle ground between the Center and the states and to implement the GST code properly in India.

INTRODUCTION

Ever since the Goods and Services Tax (GST) Bill was passed in Parliament, there has been widespread confusion and speculation in the market about how its introduction is affecting each of us. After the implementation of GST on July 1, 2017, there has been a major tax impact on all economic and financial sectors. But, do you know what is GST and how it affects the insurance sector?

So, what is GST?

Tax, which has replaced various types of indirect taxes in India. The Goods and Services Tax Act came into effect on 29 March 2017. The Act came into force on 1 July 2017; The GST Act in India is a comprehensive, multi-tiered, destination-based tax levied on every value addition. In other words, GST is an indirect tax levied on the supply of goods and services. This Act has replaced various indirect taxes that existed earlier in India. GST is one of the indirect taxes across the country.

In GST system, tax is levied at every stage of sale. In case of same state sale, Central GST and State GST are levied. IGST is levied on inter-state sales. Insurance and GST Insurance, being a part of the financial sector, has been affected by GST. There are four tax slabs under GST which are 5%, 12%, 18% and 28% and insurance, being a service industry, is taxed at 18%.

OBJECTIVE OF THE STUDY

The study based on the following objectives:

1. To study the impact of GST on Insurance sector.
2. To understand the concept of goods and services tax
3. To examine the impact of GST on policyholder's purchase policies.
4. To study tax structure implied before the introduction of GST on Insurance Sector.
5. To analyze the impact of GST on insurance industry.

METHODOLOGY OF THE STUDY:

Study data has been collected through secondary sources like publications and books and websites and government reports to analyze this study. Data is also taken from various journals.

REVIEW OF LITERATURE

Anitha, K. (2013). A study on measurement of service quality and its impact on customer satisfaction in banking and insurance sector. Bhagabat Barik, (2014) A general study of life insurance sector in India has been done. Life insurance is not just an investment but a protective tool. The basic idea of life insurance is to protect human against calamities and financial compensation at the time of death. Insurance is the fastest growing industry in the country. Milandeep Kour, Kajal Chaudhary, Surjan Singh, Baljinder Kaur (2016) It highlighted the impact of GST after implementation, differences between GST and current indirect taxes and what will be the challenges and benefits of GST. (Vasanthagopal, 2011) has led to Waste of GST value compared to VAT. Sunil Dhawan (2017) has done a study on “GST impact: Insurance premium, bank charges to increase”. The major finding of his study is implementation of GST would increase insurance premium, but the increase is nominal. The review by Alka Shah (2017) conducted a study on —Integrated Goods and services tax an Indian innovation. The objective of the study is to cross utilization of credit is to be done and adjustments to be made between centre and states. The paper mainly focuses on the main provisions for determining the place of supply of goods/services and nature of supply i.e. inter-state or intra-state. (Kumar, 2014) It is worth noting that GST is implemented in more than 150 countries worldwide and the value of GST is directly reflected in the economy of the countries where GST is implemented in a positive manner.

❖ IMPACT OF GST ON DIFFERENT TYPES OF INSURANCE

The introduction of GST has increased the tax component in insurance policy premiums. Earlier, 15% service tax was levied on premiums which has increased to 18% under the new GST regime. However, different types of insurance plans have been affected in different ways. Let's understand how:

➤ Life insurance

Life insurance is basically a contract between the life insurance company and the policy buyer where the insurance company agrees to pay a death benefit to the nominated beneficiaries upon the death of the insured during the term of the life insurance policy. The death benefit promised by the life insurance company is paid in exchange for the premium paid by the policy buyers.

A life insurance company in India generally establishes a specific premium payment that the policyholder must make to the company. However, the applicant is given the option to decide the term and sum assured of the life insurance policy. A life insurance company considers several factors to determine the premium amount for everyone purchasing the policy. Sum insured is one of these factors. Higher Sum Assured of Life Insurance Policy; More premium is likely to be paid by the policyholder.

- **There are 3 types of life insurance:**

- **Terms Life Insurance Plans-** A term life insurance policy generally provides death cover for a specified period. God forbid, if the insured dies suddenly during his/her policy term, the life insurance company pays the pre-determined death benefit as a lump sum, or as an annual or monthly payment, or as a lump sum benefit to a nominee.

The premium component of a term plan includes risk factors to provide risk protection to the insured throughout the policy period. Before GST, 15% service tax was levied on the premium cost of term plans. After the implementation of GST, the tax on first year and renewal premiums has increased to 18% from April 2017. This means the premium has become expensive by 3% or 300 basis points.

- **Unit Linked Plans-** A unit-linked insurance plan, also known as a ULIP, is a perfect blend of insurance and various investment components. Unit link insurance plans are offered with valuable investment flexibility and long-term investment potential. ULIPs generally provide combined coverage.

Unit Linked Insurance Plans (ULIPs) also offer dual benefits of insurance and investment. Before GST, service tax was levied at 3.5% in the first year and 1.75% from the second year on the protection portion of ULIPs. After GST, it has increased to 4.5% in the first year and 2.25% in the second year. Before GST, 15% service tax was levied on health insurance premiums. After the implementation of GST, the cost of buying health insurance has become expensive as premiums have been taxed at around 18% since April 2017.

- **Endowments (including Money-Back) Plans-** An endowment policy is basically a combination of both insurance and savings. An endowment plan invests a certain amount in life cover and the rest is invested by the insurance provider. A money

back plan is a type of life insurance policy as it offers a special type of life insurance cover. Under money back life insurance plans, a predetermined percentage of the sum assured is paid back to the policyholder at predetermined intervals. This reimbursement benefit is known as survival benefit. Endowment and

money-back plans are examples of traditional life insurance policies.

Endowment plans or traditional insurance savings plans offer both death and maturity benefits, whichever comes first. Before GST, endowment schemes were subject to 3.75% service tax on premium in the first year of the policy and post GST it has increased to 4.5% in the first year under the new tax regime. Also, before GST, service tax was levied at 1.88% on the premium for the second year of the endowment plan which has increased to 2.25% from the second year after the implementation of GST.

In the case of life insurance policies, the premium is made up of two parts – i) the cost of assuring the death risk and ii) the investment made by the insurance company which pays the maturity benefit. Tax is levied on that part of the premium which represents the death cost. Therefore, different life insurance plans have different tax incidences. For example, in case of term plans where there is no maturity benefit, the entire premium represents the death cost. Thus, the entire amount of premium is taxed. Due to GST, term plan premiums have increased by 3%. In case of endowment plans, the tax increment of 3% is applicable only on the premium, which is the cost of mortality. Thus, the low mortality rate does not increase the premium much. Similarly, in ULIP plans, most of the premium is invested and only a portion of it is deducted for mortality expenses. Even for ULIPs, the premium increase is therefore marginal.

However, if you opt for government-sponsored insurance schemes like Janashree Bima Yojana (JBY), Aam Aadmi Bima Yojana (AABY) etc., there will be no impact of GST.

➤ **Non-life Insurance**

Simply put, non-life insurance is any type of insurance other than life insurance. While life insurance is divided into permanent and term life policies, term life insurance includes many other types of insurance policies. Non-life insurance covers people, property or legal liabilities.

- **Types of Non-life Insurance**
- **Health insurance**

Health insurance is a specific type of insurance policy that provides medical coverage to the insured against unexpected medical bills in case of sudden hospitalization. Medical insurance ensures protection against diseases and injuries by paying directly to the medical service provider on behalf of the policyholders.

There seems to be an increase in the premium rate of health insurance policies. Policyholders have to pay

18% on GST levied on health insurance plans, as against the 15% service tax applicable earlier.

- **Motor insurance plans**

Motor insurance is an insurance policy that insures the policyholder in the event of financial loss – due to an accident or other damage – caused by the insured vehicle. A comprehensive motor insurance policy covers third-party and third-party property damage and compensates for own damage.

Motor insurance plans have also become more expensive due to a 3% increase in tax on the total premium. Whether policyholders buy a comprehensive or third-party motor insurance policy for a bike or car, they spend time paying more.

- **Travel insurance plans**

Travel insurance is a policy plan for policyholders that protects policyholders against certain financial risks and losses incurred while traveling. These losses can be minor, such as a delayed suitcase, or significant, such as a last-minute trip cancellation or medical emergency abroad.

So, it is the same story with travel insurance plans. 18% GST is levied on premiums which increases the cost to policyholders by 3%.

- **GST Rates Impact on Insurance Policies/Claims**

Different insurance policies attract different GST slab rates. Here are some of the examples:

1. Term policies attract GST at the rate of 18% on the insurance sector. It is the cheapest policy that insures the customer against his/her death expenses. So clearly the annual premium is Rs. 5000 paid by policy holders under term policy. are taking as GST. In case of add-ons like insurance against accidental death (additional compensation in case of accidental death) 18% GST is charged for additional premium.
2. There is 18% GST on Unit-Linked Insurance Plans (Ulip). Apart from that the policy covers additional costs like premium and fund management charges. The total amount paid under a ULIP is divided into two separate sections, one for insurance and the other for investment. No GST is charged on investment side.
3. When traditional policies are concerned, which are a mix of insurance and investment, initially there is a GST rate of 4.5% on the first year's premium and 2.25% on the remaining years' premium. For

example, Rs. 10,000 while paying an annual premium of Rs.10,000 in the first year. 450 goes towards GST and then as GST on remaining years premium Rs. 225 are charged.

4. If we talk about an insurance pension scheme or annuity, where the customer pays a lump sum and in return, he/she gets an annual income, then 1.8% GST is applicable. For example, if a customer pays Rs. 80,000 to earn an annual income of Rs. 10 lakhs paid in lump sum while the portion of GST is Rs. 18,000.

By now you must have realized that insurance policyholders of any type have loosened their purse strings a little more than ever before. Premiums have increased by 3% on the tax rate – a marginally higher premium compared to the benefits promised by various insurance schemes. For example, a health insurance policy of Rs 5 lakh for the policyholder, his spouse and children for Rs. 10,000 was available at a premium. Under the old tax system, the policyholder had to pay Rs. 10,000 was the premium cost and 15% service tax, making its total expenditure was going Rs.11,500. With 15% service tax being replaced by 18% GST, his total spend is now amount to Rs.11,800 — i.e.. an increase of Rs. 300.

GST has changed the face of Indian economy. Obviously, the insurance sector has also been affected. GST has increased the tax rate, which has made the insurance policy a bit more expensive. However, the benefits remain unchanged and justify a slight increase in premiums. For example, a policy holder, for his spouse and children Rs. 5 lakh health insurance policy. 10,000 was available at a premium. Under the old tax system, the policyholder would have to pay Rs. 10,000 was the premium cost and 15% service tax, the total amount.

It is an indisputable fact that buying insurance is more expensive due to the implementation of GST. However, the quality and importance of an insurance policy does not depend only on its premium. Conversely, consumers should take a holistic approach to gauge the true value of insurance coverage by considering all aspects including policy coverage, policy term and exclusions.

It is very important to protect the life and health of a person, especially if that person is the sole earning member of the family, against diseases and personal accidents. An insurance policy not only protects one's financial losses but also protects the families financially in the absence of the policyholders.

CONCLUSION

The GST Council has levied a tax of 18% for the financial services sector, which directly affects the premium paid by the policyholder. Before GST, insurance premium was taxed at 15%. As a result, there is an increase of 3% for all policyholders.

Although the impact of GST on insurance products, the premium increase is nominal, the increased insurance premium is too high for a large section of policyholders. If someone Rs. 50,000 on annual premium for home, motor, medical, personal accident insurance and term plans, they will have to pay 18 per cent more as against the previous tax of 15 percent. They will not get any additional benefits or coverage. Due to the increase in GST rates, all policyholders are required to pay higher premiums on their insurance policies. The average household with life, health and car insurance increased their insurance costs by 3%. Excluding service tax, it totaled Rs. Assuming 30,000 spend on insurance, their spending has increased by 3%. That means Rs. 900.

Table 1: Overall Impact of GST on Insurance Sector Type of Policy Before GST After GST

Insurance Plan	Before GST	After GST	Base Premium	Before GST	After GST	% Increase
Term Insurance plan	15%	18%	10,000	11,500	11,800	2.61%
Health/Motor/Travel Insurance	15%	18%	15,000	17,250	17,700	2.61%
Unit Linked Insurance Plan	15% on Mortality and other charges	18% on Mortality and other charges	50,000	Charges typically recovered through liquidation of units. Depends on the level of charges		
Traditional Life Insurance Plan (First year Premium)	3.75% (15% on 25% premium)	4.5% (18% on 25% premium)	100,000	103,750	104,500	0.72%
Traditional Life Insurance Plan (Renewal Premium)	1.875% (15% on 12.5% premium)	2.25% (18% on 12.5% premium)	100,000	101,875	102,250	0.37%
Single Premium Life Insurance Plan (Traditional)	1.5% (15% on 10% of premium)	1.8% (18% on 10% of premium)	1,000,000	1,015,000	1,018,000	0.30%
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