

IMPACT OF GOODS AND SERVICE TAX ON INSURANCE SECTOR

Dr. Pandit C Bilange

Associate professor

Department of commerce & Management

Government College, Gulbarga Karnataka (India)

ABSTRACT

After the liberalisation and opening up of insurance sector to private players, the insurance business took a new turn and many private firms entered the fray with variety of products to attract different group of people. The sole intention of the government is to cover the entire population under the insurance bracket. The insurance companies are doing all out efforts to reach masses to increase their business share. It is very good and healthy sign for the Indian economy. Even after doing all these exercises the insurance business has not grown to the required extent. . In this situation the government has brought Goods and Service tax in to action raising the tax rates from 15% to 18%. It leads to increase in the premium burden on the customers. It is an accepted fact that after introduction of GST, purchasing insurance will become expensive leading to have impact on term plans, particularly medical and motor insurance plans. Though introduction of GST is a right step towards economic development, still Indian insurance business needs concessions. The life insurance coverage in India is very low and a lot of effort is required to increase the coverage of insurance to a new levels. Therefore, it is essential to exclude insurance sector from any sort of taxation, so that the premium is more affordable for all sections of the society. Urban people are having awareness and they do insure their life and health at least to a minimum extent. But the rural people and people in un-organised sector are not aware of the benefits of insurance and they are reluctant to insure their life. Health insurance is not at all considered as insurance by the rural mass. It needs to be addressed. Therefore, it is advised to reduce the cost of premium as much as possible to tap the rural mass just like government insurance schemes which are exempt from GST.

Key Words: Goods & Service Tax, Insurance, Term Plans, Endowment Plans, Premium, Risk, Investment impact Of Goods And Service Tax On Insurance Sector

I. INTRODUCTION

After the liberalisation and denationalisation of insurance sector to private players, the insurance business took a new turn and many private firms entered the fray with variety of products to attract different group of people. The sole intention of the government is to cover the entire population under the insurance bracket. Earlier state owned companies have offered limited products to the customers that too only risk oriented

policies. Now there is huge shift in the life insurance business. Majority of the firms are offering savings plans along with risk plans. Term insurance business is also gaining momentum. Health insurance is also attracting many customers with variety of facilities. Government is also offering many insurance plans to cover different sections of the society. There appears to be a stiff competition among the insurance companies. The insurance companies are doing all out efforts to reach masses to increase their business share. It is very good and healthy sign for the Indian economy. Even after doing all these exercises the insurance business has not grown to the required extent. Still miles to go to achieve the desired goals. In this situation the government has brought Goods and Service tax in to action raising the tax rates from 15% to 18%. It leads to increase in the premium burden on the customers. In this backdrop, an attempt is made in this paper to know the impact of GST on insurance sector.

II.OBJECTIVES

The following are the objectives set for the study:

- To know the brief history of GST
- To know the rates applicable for insurance sector
- To study the effect of GST on insurance sector
- To obtain reactions from the stakeholders
- To offer specific suggestions based on the findings of the study

III.REVIEW OF LITERATURE

Sunil Dhawan (2017) has made 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.

Archit Gupta (2017) in his work titled as ‘How GST will increase insurance premium and Bank charges has categorically opined that GST will increase the insurance premium.

CA Mradula Gupta (2017) in his paper titled” GST impact on Financial Services Sector” opined that the new act in the form of Goods and Services Tax should resolve the existing complications rather than compounding them further. Apart from a simple tax administration the central government has to play a vital role in framing a good pro active tax legislation.

Mariusz Robert Dabrowski and Vikas Garg (2017) in their article “Will GST actually be Good and Simple Tax for financial services companies?” advocated that GST have to stay for long run and be a good tax system which India needs and it has to address various complications existing in the present multiple tax strcture.

Shefali Dani (2016) in the article “Impact of Goods and Services Tax (GST) on Indian Economy, clarified that the proposed goods and service tax regime is an half hearted attempt by the government to rationalise the indirect taxes. Before implementation govt has to make through study on GST implemented in other

countries and remove the deficiencies existing in the structure. He also stressed on the need to protect the poor people from the ill effects of GST.

IV.METHODOLOGY

The study is based on primary as well as secondary data. Primary information is collected from customers, academicians, policyholders and insurance agents and development officers. Websites, published and unpublished reports of various authorities and books are the major sources of secondary information. Apart from this website of Central Board of Excise and Customs is the major contributory in the secondary information.

V.INSURANCE

Insurance is a contract between two parties, one agreeing to compensate other in case of any loss to the life or property belonging to the others by collecting certain sum of money as premium for undertaking the task of risk bearing. In impotence of insurance is very much high in the present situation. At present uncertainties are more in walks of life. Because of uncertainties many families have over debt ridden and suffering in the vicious circle of debt. Insurance is one best tool to shift the burden on some others shoulder by paying certain amount as premium. Insurance is a cooperative arrangement to spread the loss caused by a particular risk among several members who have agreed to share the loss. The happening of an unwanted event cannot be averted but the loss arising from that event can be distributed among many.

The Indian insurance industry has undergone sea changes over the years. In the Present scenario, the insurance sector in India has completed a full circle, from being as open competitive market to complete nationalization and then back to a liberalised market. The entry of private companies in the Indian insurance market has changed the nature of competition and the vigorous campaigns of these companies. This has led to rapid increase in insurance business in India.

VI.GOODS AND SERVICE TAX

The implementation of GST is means abolition of multilayered taxes imposed by central, state and local authorities. Goods and service tax is the biggest tax reforms carried out by any government after Independence and is expected to boost the growth of Indian economy. Different state governments have levied variety of taxes with different rates in various states. Many times, person from one place is attracted to purchase the same product from other place due to tax differentials. Under the existing structure, only one rate of tax is fixed by GST council for all the states. It leads to a better understanding between the centre and states. The main purpose of GST is to eliminate variety of taxes imposed by different states for different products and fixing a common tax rate for particular product. The GST council have fixed four type of rates for different categories. They are 5%, 12%, 18 % and 28%. The major beneficiaries of GST will be manufacturers, retailers, traders. A uniform legislation in whole country is expected to make tax compliance very easy. It leads to savings in cost and

ultimately the benefits will be passed to end customers in the long run in the form of reduction in prices of goods and services.

Under the GST regime tax is levied on supply of goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services. It is based on the principle of destination based consumption taxation as against the present system of origin based taxation. Under GST two taxes are levied one called Central GST levied by Central Government and other called State GST levied by state governments. Union territories without legislature would levy Union territory GST. An Integrated GST will be levied on supply of goods and services among different states. Import of goods or service is treated as inter-state supply of goods and service and tax is levied under Integrated GST.

The GST will replace the various taxes levied by different government agencies. The following are the various taxes replaced by GST

- Excise Duty
- Service tax
- Value added Tax
- Central sales tax
- All forms of entry taxes
- Taxes on lotteries
- Taxes on advertisements
- Cess and surcharges levied on goods and services
- Entertainment taxes etc.

| Group 99713 | | INSURANCE AND PENSION SERVICES (EXCLUDING REINSURANCE SERVICES) |
|--------------------|--------|--|
| | 997131 | pension services |
| | 997132 | Life insurance services (excluding reinsurance services) |
| | 997133 | Accident and health insurance services |
| | 997134 | Motor vehicle insurance services |
| | 997135 | Marine, aviation, and other transport insurance services |
| | 997136 | Freight insurance services & Travel insurance services |
| | 997137 | Other property insurance services |
| | 997139 | Other non-life insurance services (excluding reinsurance services) |
| Group 99714 | | REINSURANCE SERVICES |
| | 997141 | Life reinsurance services |
| | 997142 | Accident and health reinsurance services |
| | 997143 | Motor vehicle reinsurance services |

| | | |
|--|--------|--|
| | 997144 | Marine, aviation and other transport reinsurance ser |
| | 997145 | services |
| | 997146 | Freight reinsurance services |
| | 997147 | Other property reinsurance services |
| | 997149 | Other non-life reinsurance services |

This article specifically covers only service sector particularly insurance. Under the existing indirect taxes, service is taxed at a flat rate of 14% on taxable value of service and increased by 1% towards Swatch Bharat cess and Krishi kalian cess. Under Goods and service tax the rate has been increased to 18% which is 3% higher than the existing rate. Under GST insurance sector falls under section 7: Financial and related services; real estate services and rental & leasing services. Further, Financial & related services are classified under the Heading 9971. Under this heading a Group is created namely 99713: Insurance & Pension Services and 99714: Reinsurance services. For charging tax different codes are given for different insurances. They are as under:¹

Source: compiled from the website of CBEC

VII.IMPACT OF GST ON THE PREMIUM FOR DIFFERENT TYPES OF INSURANCE POLICIES

The implementation of goods and service tax will definitely have negative impact on Indian insurance sector temporarily in the short run. Normally tax is levied on the portion of premium which is collected for bearing risk. The premium collected on the portion of premium which is purely used for investment is out of the purview of service tax. The same system is continued under GST also. However, under GST tax on term policies have been enhanced by 3%, Because of this a policyholder have to pay more tax on the risk portion of his premium. However, the burden of service tax will vary depending on the risk element involved in the premium component and tax will be levied only on the risk portion of the premium and saving portion is excluded from the tax. Therefore, the immediate impact of GST would be more on term policies rather than others. Goods and service tax council fixed 18% tax rate on insurance sector. The net increase in the tax rate is 3% and it is to be ultimately borne by policyholders. It creates a direct impact on the premiums of various policies.

1. CBEC (2017) <http://www.cbec.gov.in/htdoc-cbec/gst/index>, Retrieved August 08 2017 from www.cbec.gov.in

VIII.FOR LIFE INSURANCE POLICIES

1. Term insurance plan

Under the term plans no benefit is given to policyholder in case of survival. However, it is beneficial in case of death of a policyholder to the nominee. It is purely a risk oriented policy. It protects the family in case of untimely death of a policyholder. The element of premium is totally towards risk. Therefore it attracts a tax rate of 18% on the total premium paid by the policyholder. It is 3% higher than the existing rate. These type of policies will hit hard by the implementation of GST

2. Endowment insurance plan

Endowment plans are those plans under which the benefit of the policy is available on the expiry of the period or death of insured whichever is earlier. In this type of policies the family will get the amount of sum assured on the death of the policyholder. In case of survival of insured up to the maturity period of the policy, maturity benefit will be given to the insured. The premium paid on this type policy will be allocated between savings and investment. The tax is levied only on risk portion. The tax levied on first year premium was 3.75% in the service tax regime whereas it rose to 4.5% under GST. In the same way the tax on subsequent years premium was 1.875% in the service tax regime has rose to 2.25% under GST. This shows a marginal increase in the tax rates on first year as well as subsequent premiums.

3. Unit linked insurance plan

Due to the entry of private players in the field of insurance, the economy has witnessed huge surge in the variety of products. Unit linked insurance is one such plan under which the amount collected by way of premium will be allocated between insurance and investment. These plans are market oriented and the amount is invested in various options available in the market under different fund managers. Its main intention is to generate more return on investment. The maturity amount is variable according to the market conditions.

The service tax rate on these plans was 3.5% on the first year premium and 1.75% on the subsequent years premium. However, it has increased to 4.5% on first years premium and 2.25% on the subsequent years premium under GST. Again there is slight increase in the tax rates on these type of plans leading to increase in the premium.

IX.FOR NON-LIFE INSURANCE POLICIES

Insurance policies are mainly classified in to two categories namely Life and Non life. The non life policies are those policies under which insurance company agrees to pay certain sum of money on happening of an uncertain event during a particular period. If nothing is happened during a particular period no amount is given to the insured. Normally the period is one year. After every year one needs to renew the plan to have coverage. These types of policies are called as term insurance policies. Health insurance, Motor insurance etc are the examples of term insurance policies.

Under the service tax regime, the tax rate was 15% on these policies. It has increased to 18% under GST. This is having net impact of 3% increase in the cost of premium. The detailed summary of all these policies are given below:

Summary of comparative tax rates under service tax and under GST

| Type of policy | Value for Tax ² | Rate under Service Tax | Rate under GST | Difference |
|------------------------------|----------------------------|------------------------|----------------|------------|
| LIFE POLICIES | | | | |
| Term insurance plans | On entire premium | 15% | 18% | 3% |
| Endowment insurance plans: | | | | |
| On first year premium | 25% | 3.75% | 4.5% | 0.75% |
| On subsequent year premium | 12.5% | 1.875% | 2.25% | 0.375% |
| Unit Linked insurance plans: | | | | |
| On first year premium | Risk premium | 3.50% | 4.5% | 1% |
| On subsequent year premium | Risk premium | 1.75% | 2.25% | 0.50% |
| NON-LIFE POLICIES | | | | |
| Health insurance | On entire premium | 15% | 18% | 3% |
| Motor insurance | On entire premium | 15% | 18% | 3% |

INSURANCE EXEMPT FROM GST

Many insurance schemes are excluded from the purview GST. Normally these are the insurance schemes which are notified by the central or state governments for the welfare of general public particularly for the poor. The following are the Life insurance provided by Government under various schemes are exempted from GST:

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2. Sunil Dhawan (2017) GST impact: Insurance premium, bank charges to increase. Economic Times.com. Updated on June22,2017

1. Life insurance business carried out under National Pension System.
2. Life insurance service provided Under various Group insurance schemes of Army, Navy, and Airforce by central government
3. Services of general insurance business provided under various schemes of government
4. Services of life insurance business provided under following schemes³
 - Janashree Bima Yojana (JBY); or
 - Aam Aadmi Bima Yojana (AABY);
 - Life micro-insurance product as approved by the Insurance Regulatory and Development Authority, having maximum amount of cover of fifty thousand rupees;
 - Varishtha Pension Bima Yojana;
 - Pradhan Mantri Jeevan Jyoti Bima Yojana;
 - Pradhan Mantri Jan Dhan Yojana;
 - Pradhan Mantri Vaya Vandana Yojana; and
5. Any other insurance schemes notified by the state governments under the approval of GST council

X. REACTIONS FROM RESPONDENTS

It is out rightly accepted that there is a slight increase in the premium due to GST. India is having huge untapped market. On the one hand government is making all out efforts to cover majority of the population under insurance. On the other it has increased premium amount by imposing slightly higher taxes on insurance. In term insurance net increase is 3% of total premium. Here, an attempt is made to know the reactions of various sections of the society towards increase in the tax rate under GST. In order to know the reactions of the various stake holders 150 respondents from different groups have been chosen and required information is collected through interview schedules. The sample size is as under:

Sample size of respondents

| Category of Respondents | Total | Percentage |
|----------------------------------|-------|------------|
| Academicians | 35 | 23.33 |
| Chartered Accountants | 10 | 6.67 |
| Insurance agents and Development | 30 | 20.00 |

3. Archit Gupta, (2017) "How GST will increase insurance premium and Bank charges" Financial Express updated on June 5, 2017

| | | |
|---------------|-----|--------|
| officers | | |
| Businessmen | 15 | 10.00 |
| Policyholders | 60 | 40.00 |
| Total | 150 | 100.00 |

The reaction obtained from these respondents on the effect on insurance business due to implementation of GST are tabulated below

| Category of Respondents | Increase in tax leads to decrease in insurance business | Though it increase the premium does not have impact on the insurance business |
|---|---|---|
| Academicians | 10 | 25 |
| Chartered Accountants | 2 | 8 |
| Insurance agents and Development officers | 8 | 22 |
| Businessmen | 10 | 5 |
| Policyholders | 32 | 28 |
| Total | 62 | 88 |

Source: Compiled from the field survey

The above table shows that 41.33 percent respondents opined that the increase in the tax rate leads to decrease in the insurance business. Among different categories 32 respondents belongs to policy holders. The remaining 58.66 percent of respondents argued that though it increase the premium does not have any impact on the insurance business. It is quite clear that more than 50% respondents are against the opinion of decrease in the insurance business.

XI.CONCLUSION

It is an accepted fact that after introduction of GST, purchasing insurance will become expensive leading to have impact on term plans, particularly medical and motor insurance plans. Though introduction of GST is a right step towards economic development, still Indian insurance business needs concessions. The life insurance coverage in India is very low and a lot of effort is required to increase the coverage of insurance to a new levels.

Therefore, it is essential to exclude insurance sector from any sort of taxation, so that the premium is more affordable for all sections of the society. Urban people are having awareness and they do insure their life and health at least to a minimum extent. But the rural people and people in un-organised sector are not aware of the benefits of insurance and they are reluctant to insure their life. Health insurance is not at all considered as insurance by the rural mass. It needs to be addressed. Therefore, it is advised to reduce the cost of premium as much as possible to tap the rural mass just like government insurance schemes which are exempt from GST.

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