

Impact of GST on Insurance Industry

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ABSTRACT

The goods and service tax (GST) is a ground-breaking reform for the Indian economy's indirect tax regime. GST will change 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 will eliminate 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 made using exploratory research methodology using secondary data. The study lends information that the insurance industry is also not going to remain untouched from its impact. It will certainly be going to have an impact on the insurance industry as well as policy holders.

Keywords: GST, Insurance Industry

INTRODUCTION

There are many economic variables which bring the ups and down in the growth of an economy. Now GST is considered an important instrument in the process of economic growth. GST can be defined as a tax on goods and services, which is exercised when transferred from one location to other or at each point of the sale or provision of services. GST is an indirect tax throughout India to replace taxes levied by the central and state governments. The concept of GST appeared first time in India, in 2006-2007 Union Budget Speech. GST is also known as Harmonized Sales Tax. For a layman GST is a single comprehensive tax levied on goods and services consumed in an economy. Insurance is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent uncertain loss.

REVIEW OF LITERATURE

Garg, basic concept and features of Good and Services Tax in India, 2014 Studied the basic concept and made an insight on GST significance. Further indirect tax evasion discussed by (Vasanthagopal, 2011) has led to GST value dissipation in comparison to VAT. (Adukia, 2015) Studied the impact and implementation strategy of GST in India. The review by (Morrissesy.2003) states that under, GST the taxation will be equitable divided among manufacturers and the service providers, also a low value of tax will be charged in comparison to existing tax system. It is to be noted that GST is implemented in more than 150 countries around the globe and the value of GST is directly reflecting on the economy of the countries where GST is implemented in a positive way (Kumar, 2014)

OBJECTIVES

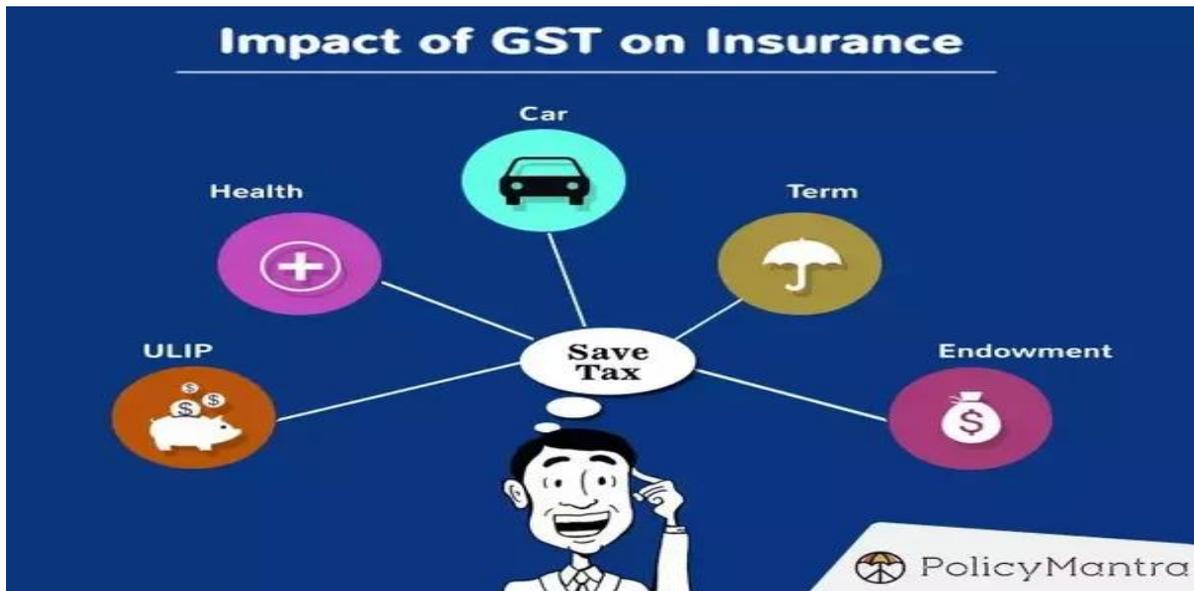
The present study is carried out with the following objectives:

1. To understand the concept of goods and services tax
2. To know the service tax on insurance status of pre and post GST.
3. To analyze the impact of GST on insurance industry.

METHODOLOGY OF THE STUDY

To analyse this study data have been collected through secondary sources like publications and books and web sites and reports of government. The data are taken from various journals also.

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 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 specifically term insurance plans are the actual life insurance plans which cover you and financially compensates your family in your absence.

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.

Table 1: Overall impact of GST on Insurance sector

Type of policy	After GST implementation	Before GST
Pure risk insurance/term insurance	18%	15%
Endowment Plan (1 st year)	4.5%	3.75%
Endowment Plan (2 nd year)	2.25%	1.88%
ULIPs	18%	15%
Health Insurance	18%	15%
Motor Insurance	18%	15%

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