GST on Health Insurance

Why in News?

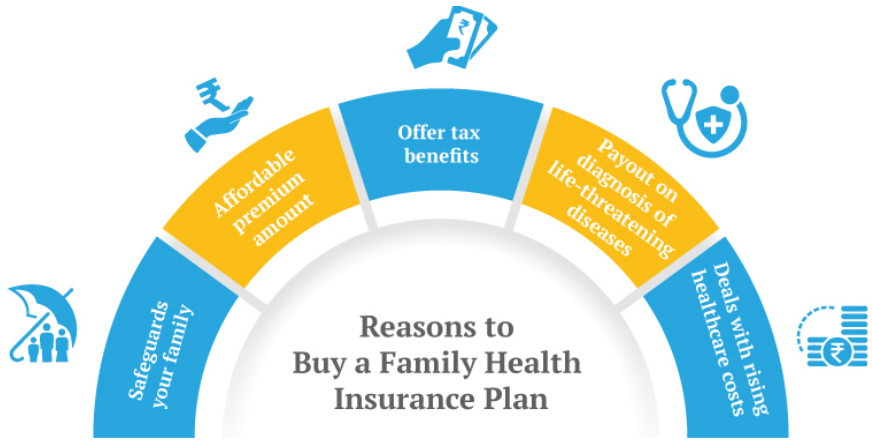
Insurance premiums for health and life policies have increased this year, and with the 18% GST, insurance has become less affordable for many people.

What are the importance of health insurance?

Insurance
• It is a legal agreement *between the insurance company (insurer)* and the *individual (insured).* • **Agreement** – The insurance company promises to *compensate for the insured's losses* upon the occurrence of a specified event (contingency). • **Contingency** – It is an *event that causes a loss*, such as the death of the policyholder or damage/destruction of property. • **Insured's Role** - The insured *pays a premium* in exchange for the insurer's promise to cover the losses.

> *India is the fifth largest life insurance market in the world's emerging insurance markets, growing at a rate of 32-34% each year. The Insurance Regulatory and Development Authority of India (IRDAI) is the regulatory body that oversees and regulates the insurance sector in India.*

- **Health insurance** - An assurance which provides immediate financial help in case when any medical emergency arises.
- **Quality health care-** Insured individuals often have access to a wide network of hospitals and healthcare providers, ensuring quality care.
- **Improved diagnosis-** Health insurance plans often cover preventive services, such as regular check-ups and screenings, leading to early detection and treatment of diseases.
- **Timely Treatment-** Health insurance ensures that individuals can access timely medical care without worrying about immediate payment, leading to better health outcomes.
- **Coverage of Medical Costs-** Health insurance helps cover the high costs of medical treatments, surgeries, and hospital stays, reducing the financial burden on individuals and families.
- **Reduces Out-of-Pocket Expenses-** With health insurance, a significant portion of medical expenses are covered by the insurer, minimizing the amount paid directly by the insured.
- **Reduction in Poverty-** By reducing out-of-pocket medical expenses, health insurance helps prevent families from falling into poverty due to medical emergencies.



What are the implication of GST on Insurance?

- **Pre-GST Taxes-** Life insurance premiums were subject to 15% service taxes (Basic Service Tax, Swachh Bharat cess, Krishi Kalyan cess).
- **Increase in Tax Rate-** Transition from 15% to 18% with the introduction of GST in 2017.
- **Current GST Rate-** 18% on health and life insurance policies.

IMPACT OF GST ON TYPES OF INSURANCE POLICIES

Life Insurance	Applicability	Before	After
Term Insurance	On entire premium	15%	18%
Endowment Insurance	On 25% of first year premium	3.75%	4.50%
	On 12.5% of renewal premium	1.875%	2.25%
ULIP Insurance	On first year premium	3.50%	4.50%
	On renewal premium	1.75%	2.25%

Health Insurance	Applicability	Before	After
Health Insurance	On entire premium	15%	18%

Motor Insurance	Applicability	Before	After
Motor Insurance	On entire premium	15%	18%

- **Impact of GST-** Increased premiums due to the inclusion of service tax.

Aspect	Argument in support	Argument against
Rationale for GST imposition	Recommended by the GST Council, a constitutional body.	High GST rate of 18% on insurance premiums is the highest in the world and increases the cost for policyholders.

Revenue generation	GST on insurance generated Rs 21,256 crore in the last three financial years and Rs 3,274 crore from the reissuance of health policies.	High GST rate leads to high premiums, which can deter people from purchasing insurance policies, thus impacting insurance penetration.
Medical and retail inflation	The rise in inflation, especially medical inflation, justifies the need for GST to cover increased costs.	High medical inflation and frequent premium hikes have led to declining policy renewal rates, especially affecting senior citizens and low-income groups.
Tax deductions	Insurance premiums are eligible for deductions under Sections 80C and 80D of the Income Tax Act, 1961, including the GST component.	The high GST rate still imposes a significant burden despite tax deductions, making insurance less accessible.
Global comparisons	Other markets like Singapore and Hong Kong have no GST or VAT on insurance, making it easier to sell insurance without additional tax burdens.	High GST rates in India need to be rationalized to make insurance more affordable and achieve goals like "Insurance for All by 2047."
Simplification and transparency	GST replaces multiple indirect taxes, simplifying the tax structure and bringing more transparency.	Initial confusion and complexity in understanding the new tax regime can burden insurance companies and policyholders.

What lies ahead?

- **Reduce GST on essential insurance products-** The government could consider reducing the GST rates on essential insurance products like health and life insurance.
- **Keep uniform GST rates-** Establishing a more uniform GST rate across different types of insurance products could simplify the tax structure and reduce administrative burdens.
- **Streamline Input tax credit (ITC) claims-** Simplifying the process for claiming input tax credits for insurance companies can help in reducing the overall tax burden.
- **Cross-Sector coordination-** Facilitate better coordination between the insurance sector and other sectors to streamline ITC claims and minimize disputes.
- **Policyholder education-** Launch awareness campaigns to educate policyholders about the importance of insurance and the impact of GST on premiums that could help in maintaining and potentially increasing insurance penetration.
- **Regulatory collaboration -** Encourage collaboration between the GST Council, insurance regulatory bodies, and industry stakeholders to address sector-specific issues and streamline GST processes.
- **Adopt advanced IT solutions-** Leverage technology to simplify GST compliance, such as automated GST filing systems and real-time tax reconciliation tools.

References

1. The Indian Express | GST on health insurance
2. The Hindu | Implications of GST on health



SHANKAR
IAS PARLIAMENT
Information is Empowering