

GST ON HEALTH INSURANCE

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Context:

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

Background:

Opposition leaders, including Rahul Gandhi, recently protested, demanding the withdrawal of GST on life and health insurance premiums.

What is the GST on health and life insurance premiums?

1. GST replaced all indirect taxes like service tax and cess from July 1, 2017. Currently, GST on health and life insurance policies is fixed at 18%.
2. Since GST encapsulates service tax, which applies to the insurance industry, its introduction has resulted in an increase in premium amounts.
3. Prior to GST, life insurance premiums were subject to 15% service taxes, comprising Basic Service Tax, Swachh Bharat cess, and Krishi Kalyan cess. The increase from 15% to 18% impacted the policyholders — by raising their premiums amounts.
4. This, along with medical inflation, which was estimated to be 14% towards the end of last year — has made buying medical insurance difficult for many people. Same is the case with term insurance policies.
5. The government acknowledged recently that representations had been received asking for an exemption or reduction in the rate of GST on life and health insurance.

Rationale for Imposing GST on Insurance Premiums:

1. GST applies to all insurance policies as they are considered services, and policyholders must pay tax on their premiums.
2. This tax is a significant revenue source for the government, generating Rs 21,256 crore over the last three financial years and an additional Rs 3,274 crore from health policy renewals.
3. Insurance policies allow certain tax deductions under the Income Tax Act, 1961. Sections 80C and 80D are particularly popular.
4. Section 80C: Allows deductions of up to Rs 1.5 lakh on the overall insurance premium, including GST.
5. Section 80D: Offers additional deductions if customers opt for a medical rider with their life insurance policies.
6. There is no guarantee that insurers will pass on the benefit to customers even if government reduces GST.

Argument for withdrawing the GST on the premium:

1. Main issue is the large increases in premium on health insurance policies.
2. Renewal rate of policies is alarmingly declining due to frequent premium hikes.
3. GST on insurance in India is the highest in the world – and that the situation needs to be addressed in order to attain insurance regulator IRDAI's goal of "Insurance for All by 2047"



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