

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% |
| ULIP Insurance | | On 12.5% of renewal premium | 1.875% | 2.25% |
| | | 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