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Research Article

A STUDY ON GST AND ITS IMPACT ON INDIAN INSURANCE SECTOR

Prabhakar Pudari*

Department of Commerce, Osmania University

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ABSTRACT

The Indian government has implemented the new indirect tax regime - GST from 01.07.17, GST is one indirect tax for the whole nation, which will make India one unified common market. The introduction of Goods & Service Tax in India is the most comprehensive indirect tax reform since independence, which seeks to integrate most of the indirect taxes under single banner. It is in total contrast to the current system where taxes are imposed separately on goods and services. In case of GST, the tax will only be paid at the final point of consumption against multi-layered indirect taxation regime in the country. Given the federal structure of India, it is expected to take the shape of a dual GST including both state and Central GST. This paper aims to address the concept of GST, architecture of GST and GST impact on the insurance Sector. This article will be your guide regarding the increase in GST and its impacts on your insurance premium. It has outlined the broad contours of GST policy in India, benefits that would accrue to the economy and the difficulties faced by the states. Finally it attempts to find the middle ground between Centre and the states, and the proper implementation of GST code in India.

INTRODUCTION

Goods and Services Tax, popularly known as GST, is a reform for our economy's indirect tax plan. On 8th August 2016, GST Bill (which was long pending) was passed in Lok Sabha. It was possible after a very long journey flooded with challenges, confrontations, and what not. At last, the GST bill has entered the phase of implementation, which will come into effect from July 1, 2017. GST would make changes in the tax structure between the center and the state. GST is a VAT, i.e. Value Added Tax that will eradicate the cascade effect/ double taxation from the price of goods and services down the value chain. It would surely affect the incidence, structure, and calculation of the indirect taxes, which will lead to a comprehensive refurbishment of the current tax system in India.

The Goods & Services Tax is considered to be a major step in the world of indirect tax reforms in India. If VAT was a major improvement over the earlier Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will be a big-bang reform – the next logical step – towards a comprehensive reform if indirect tax regime in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers, it became increasingly clear that most likely, there would be a "Dual GST" in India i.e. power to levy the taxes on the Goods and Services is shared both by the Centre and the State.

Over 150 countries have already introduced GST in some or the other form. While countries such as Singapore and New Zealand tax everything at a single rate, Indonesia has five different rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. Under the GST scheme, no distinction is made between goods and services for levying of tax.

VAT is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/ services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his output, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

*Corresponding author: **Prabhakar Pudari**
Research Scholar, Department of Commerce, Osmania University

REVIEW OF THE LITERATURE

Before embarking upon the research study the researcher made an attempt to review the literature on the subject. Since the research area chosen for the study being concept of 'GST and its impact on insurance sector', the researcher reviewed the reports of various committees appointed by the Government of India from time to time and contribution of tax experts by way of books and research articles. The important and few of them are presented here

Kelkar Committee (2002): The Direct and Indirect Tax reforms committee was set up the Government of Indian in July 2002 under the chairmanship of Dr.Vijay L.Kelkar In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle. In 2004 Vijay Kelkar, then advisor to the Finance Ministry, recommends GST to replace the existing tax regime. February 28, 2006: GST appears in the Budget speech for the first time; Finance Minister P Chidambaram sets an ambitious April 1, 2010 as deadline for GST implementation. He says the Empowered Committee of finance ministers will prepare a road map for GST.

Empowered Committee of State Finance Ministers constituted: April 30, 2008: The Empowered Committee submits a report titled 'A Model and Roadmap Goods and Services Tax (GST) in India' to the government.

Dasgupta committee 2009: Finance Minister Pranab Mukherjee announces basic structure of GST as designed by Dasgupta committee; retains 2010 deadline.

Objective of the Study

1. To state the overview and concepts of GST
2. To present the GST rules applicable to insurance services
3. To find out the up to date with the latest changes in the GST rules that may have an impact on the insurer's business transactions.

RESEARCH METHODOLOGY

The methodology used for the study is purely secondary in nature. Reports issued by the Government of India, GST Act Proceedings, Various committee reports on GST, Research articles and papers in International and National journals are being referred for the current study.

GST Movement and Its Basic Concepts

After 17 tumultuous years, a nationwide Goods and Services Tax (GST) will roll out from the July 1, 2017, overhauling India's convoluted indirect taxation system, unifying the $2-trillion economy with 1.3 billion people into a single market after the various Chronological events mentioned as below.. Chronological events that have led to the introduction of GST:

GST is being introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is as follows:

1. In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
2. A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.
3. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).
4. Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.
5. In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.
6. In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.
7. Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.
8. This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.
9. The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:-

Committee on Place of Supply Rules and Revenue Neutral Rates(b) Committee on dual control, threshold and exemptions (c) Committee on IGST and GST on imports.

1. The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.
2. The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013.
3. The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for

consideration of the Empowered Committee in March, 2014.

4. The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.
5. In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.
6. Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.

GST Basics and Concepts

The basics and concepts i.e. Understanding GST, reasons for GST implementation, Tax rate structure, Goods falling under various tax slab, Tax Components of GST and Goods Not Covered under GST can be understood easily through the below table formats.

Understanding GST - 5 Easy Steps

- GST (Goods & Services Tax), a single unified indirect tax system aims at uniting India's complex taxation structure to a **'One Nation- One Tax'** regime.
- **Destination based tax** on supplies of goods and services.
- It will be **levied on all supplies** with seamless flow of credit (for both goods & services) till it reaches the end consumer
- Only **value addition will be taxed** and burden of tax is to be borne by the final consumer.
- GST would **replace indirect taxes**
  - Central Excise Duty
  - CVD & SAD
  - CST & VAT
  - Entry Tax & Octroi
  - Surcharges & Cess
  - Service Tax

Why GST

Simple Tax Structure

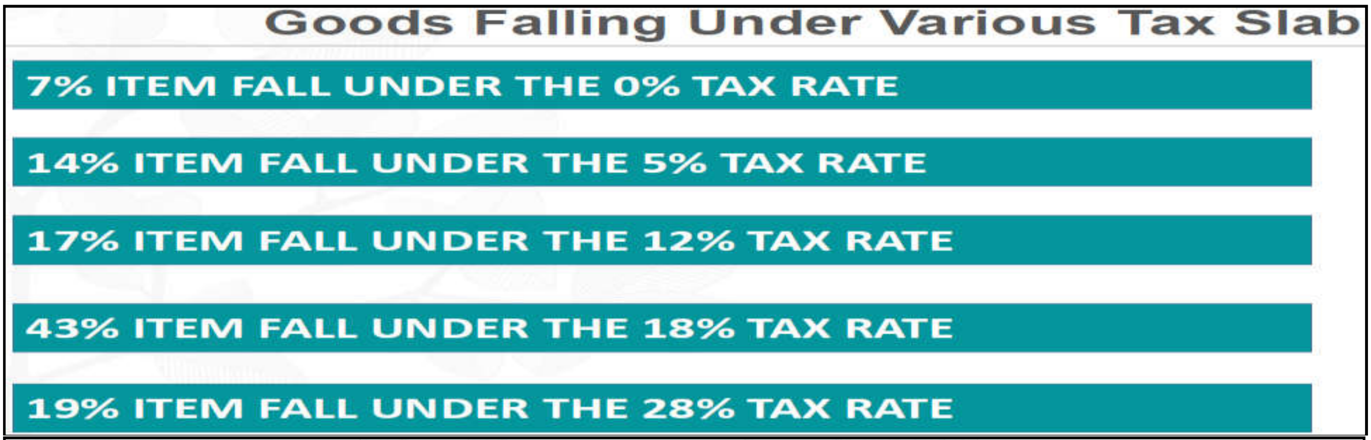
Eliminating Cascading Effects

Technology Driven System

Increase Revenue

Tax Rate structure

Type	Rate	Goods and Services*
Zero Rated	0%	Essential items including food [Export, SEZ]
Merit Rate	5%	Commonly used items **[Spices, Tea, Sugar etc.]**
Standard Rate	12%	Bulk of the goods and services. This includes fast-moving consumer goods. **[Smartphone, Soaps, etc.]**
Standard Rate	18%	
Demerit Rate	28%	**Refrigerator, AC** and aerated drinks
Additional Cess	15%	luxury cars, tobacco, and aerated drinks



Source of the Data: **www.gstindia.com**

Benefits of GST

Even though there are few challenges for GST Implementation in India i.e. with respect to Threshold Limit, Diversity of taxes, Statute, Rates of taxation, Tax management and Infrastructure among the state, centre and States' Freedom & autonomy the benefits of GST can be summarized as under three aspects

For Business and Industry

Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For central and state

Governments

Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

For The Consumer

Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

Subsumed Taxes at the Centre and State Level - Into GST

At the ***Central*** level, the following taxes are being subsumed:

1. Central Excise Duty,
2. Additional Excise Duty,
3. Service Tax,
4. Additional Customs Duty commonly known as Countervailing Duty, and
5. Special Additional Duty of Customs.

At the ***State*** level, the following taxes are being subsumed:

1. Subsuming of State Value Added Tax or Sales Tax,
2. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
3. Octroi and Entry tax,
4. Purchase Tax,
5. Luxury tax, and
6. Taxes on lottery, betting and gambling.

Analysis of GST Impact over Insurance Sector

GST is going to impact the insurance sector through the premium adversely and the latest GST is expected to freeze at 18 percent under the GST update. This is a bad news for all the policyholders, as this hike will impact adversely on the insurance sector, typically in terms of insurance premiums. Life insurance reach in India has reduced from 4.6 percent in the year 2009 to 2.6 percent in the year 2016. It reflects a no growth at all in the last a few years. The hike in the GST from 15 percent to 18 percent would increase the premium of purchasing a new as well as renewing an existing insurance policy.

The Premium Deciding Factor

Basically, the premium deciding factor of an insurance plan is subject to the insurance plan type you want to purchase. Based on that, we have two major categories of insurance policies.

1. Life Insurance
2. General Insurance

Life Insurance

A Contract between and individual and an insurer, a life insurance policy provides an assured sum of money to a designated nominee upon the death of the policyholder, which is in exchange for a premium.

Life insurance policies are sub-divided into four categories, i.e. Term plans, Pension plans, ULIPs, and Endowment plans. The service tax levied on these different insurance instruments is also different.

A Term plan offers death benefit and is defined as a risk-free plan. The nominee gets the sum assured if the insured person dies during the policy term. The policyholder doesn't get any maturity benefit in a basic term plan. There are some term plans that offer the return of premium (TROP) benefit. The premium element of a term plan mainly includes the risk component in order to provide an insured person with a risk cover as long as the policy is active.

ULIPs and endowment plans provide coverage benefit and death maturity whatever instance occurs first. These plans compute investment and risk in the premium element and it makes these plans expensive in the comparison with a term plan.

The Impact of GST on Life Insurance-Premium

A policyholder pays service tax only on the risk factor of the premium element, whereas the investment component of the insurance plans usually isn't included in the service tax umbrella. After the GST is implemented, insurance plans, including life, motor, and health would become more expensive, as taxes would be hiked.

Term Plans

Earlier, 15 percent service tax was levied on the premium of term plans. After the updated is implemented, the tax would be hiked by 3 percent and it will be 18 percent. The individuals buying insurance plans for the first time or renewing their existing insurance policies would have to pay 18 percent GST. It means that that for the payment of every 100 rupees (towards the premium), a service tax of Rs. 15 was levied, which now it is going to be Rs. 18 as per the updated tax plan. To be precise, the premium will be increased by 3 percent.

Endowment Plans

Endowment plans are considered as one of the traditional insurance saving plans. Previously, these plans used to attract a service tax of 3.75 percent on the insurance premium while buying an insurance plan. Now, it would be increased to 4.5 percent as per the updated tax regime. Now, the policyholders are supposed to pay 1.88 percent service tax on the premium payment of their endowment plan(s) if they are renewing it for the second time.

General Insurance

A General Insurance policy also refers to a contract between and insurer and an individual, which provides an assured sum of money as compensation for loss caused by a natural or manmade scenario. The policy could be issued for healthcare, home, travel, automobile etc.

Health Plans

As of now, the health insurance policies (standalone as well as a family health plan) charge 15 percent as the service tax on the premium. After the updated GST is implemented, the medical insurance plans would be costlier such as mediclaim policy for senior citizens. It would attract an increase of 3 percent in its tax regime, making it 18 percent that will be charged on the premium from 1st July 2017.

Travel Insurance

Those who are looking forward to traveling abroad anytime soon will also have to pay an additional tax of 3% as the new GST will be in effect from July 1. The customer will now have to pay 18% GST instead of 15% service tax earlier in effect. So, if you don't want to pay more money than buy or renew travel insurance before 1st July 2017.

Automobile Insurance

Automobile insurance premium includes 15 percent as the service tax. It will be hiked to 18 percent when the tax rate is frozen up to this particular percentage. If you are die heart fan / lover of your car & two wheeler then it's best time to renew your policy with insurance companies so that you can save your money & plan to travel somewhere with your family.

The Relationship between the GST Rule and Insurance Business

The insurance policies' premium represents two components- savings and risk coverage. The service tax is levied specified only on the premium component.

According to the GST rules, the value of service on which the GST is levied regarding the life insurance sector shall be accordingly.

- The gross premium would be reduced by the amount allocated for or savings or investment on policyholders' behalf.
- When it comes to the single premium annual policies, ten percent of the single premium would be charged from the policyholder.
- In other cases, 25 percent of the premium for the first year and 12.5 percent of the premium in the upcoming years will be charged. For example, if an endowment plan's premium is Rs. 100, then the 18 percent GST would be levied on the 25 percent of premium (which would be Rs. 25) the GST would be Rs. 4.50.
- In case the total premium paid by the policyholder is towards the life insurance's risk cover, only the 18 percent GST would be levied on the total premium.

Because of the increased GST percentage that awaits the implementation. The overall impact of the GST would be the increased expenditure (premium and the increased GST), when it comes to term insurance and endowment plans.

The policyholders stand a chance to be benefited if the insurance providers get a green signal on the input tax credit benefit. Unfortunately, as of yet, it is still unclear since the center/state GST structure is very complex. It might create confusions and conformity for the insurance buyers and increase the administrative expenses for the insurance providers. If the insurance buyers remain confused about the GST update, then irrespective of the increase or decrease in the prices, the solvency of the market along with the financial strength will be adversely affected.

The general insurance sector will be equally impacted. The overall outgo for health, car, and various non-life plans would be increased by 3 percent.

Post GST implementation, the existing and new insurance buyers would have to bear the updated prices. For example, the current insurance premium of a term plan is Rs. 10,000, (without the 15 percent service tax) the updated GST will increase the premium comprising taxes by Rs. 300. It means from Rs. 11,500, it will be changed to Rs. 11,800.

When you compare insurance premiums, especially for the term plans ensure that you look out for the premiums including or excluding GST by the various insurance

Providers. There should be no changes in the selection process, as the GST impact is the same for all the insurance providers. Follow a proper selection process in order to get the right insurance plan that offers you maximum coverage and fulfills your insurance expectations.

The following table will help us to get a better understanding of how the updated GST impacts the various insurance products and to which extent.

GST Rates: Before and After and New Insurance Rates after GST
(Service tax showed in terms of Percentage)

Insurance Product	Before	After	Applicability
Term Insurance Premium	15	18	On the entire premium amount
ULIP	15	18	On the premium amount minus the investment amount
Health Insurance Premium	15	18	On the entire premium amount
Add-on Riders Premium	15	18	On the entire premium amount
Periodicity - Single Premium	15	18	On 10 percent of the total premium. It means that the previous 1.5 percent of the total premium would be hiked to 1.8 percent of the total premium as per the updated GST rates.
Endowment Plan Premium (First Year)	15	18	On 3.75 percent of the total premium
Endowment Plan Premium (Renewal)	15	18	On 1.875 percent of the total premium
Car Insurance	15	18	On the entire premium amount

CONCLUSION

Though the impact of GST on insurance products, premium hike is nominal, the increased insurance premiums seem too much for a major section of policyholders. If someone is spending Rs. 50,000 on the annual premium for home, motor, medical, personal accident insurance, and term plan, they will have to pay 18 percent more with compare to 15 percent of previous. They won't get any additional benefits or coverage. All policy holders will have to pay higher premiums on their insurance policies due to increase in GST rates. An average family with life, health and car insurance will find an increase of 3% in their insurance expenses. Assuming they spend a total of Rs 30,000 a year on insurance, excluding service tax, their expenses will increase by 3% i.e., Rs. 900.

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