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The upcoming GST Council meeting is expected to take a decision on removing the 18% GST levied on term life insurance premiums.

This decision, if implemented, would provide much-needed relief to insurance customers who have been burdened by the additional tax. The 18% GST levied on life and health insurance premiums has been a contentious issue for several years, with various stakeholders calling for its removal.

The upcoming meeting of the Goods and Services Tax (GST) Council is likely to discuss the removal of GST on premiums paid towards term life insurance policies, two experts told ET Wealth Online. Removal of 18% GST on insurance premiums has been a longstanding demand of the various stakeholders of the insurance industry. Insurance customers also want the government to remove GST as the additional tax increases their financial burden. The debate over the 18% GST levied on life and health insurance premiums came to the forefront last month after various political leaders, including Union Minister of Road Transport and Highways Nitin Gadkari, urged Finance Minister Nirmala Sitharaman to roll back the tax. Will the central government finally remove 18% GST and bring down your life and health insurance premium? Read on to find out what experts are saying.

Will the GST Council remove 18% GST on term insurance premiums? Harsh Bhuta, Partner, Bhuta Shah and Co. LLP says, "The GST Council is likely to address critical issues related to rate rationalisation, tax on TDR, the inverted duty structure, etc., in its upcoming meeting scheduled for September 9, 2024. One such issue expected to gain favour in the meeting is the removal of GST on premiums paid towards term life insurance."

Why GST Council is likely to remove 18% GST on term insurance premiums Term insurance policies are the most popular type of life insurance, offering only a death benefit without any maturity benefit. These are pure-risk products designed to provide substantial coverage at a relatively low cost. Adding GST to term insurance premiums ultimately leads to higher premium payments. Moreover, the insurance policyholders only get the benefit or their money back in case of unforeseen events such as deaths. Otherwise, they may not even benefit from buying term insurance plans. Shah adds, "The idea behind such policies is to provide financial support to the family of the deceased against disruptions in income due to the sudden death of a family member. Therefore, taxing instruments that are purely protective and not income-generating is not in line with the intent of GST law to be included within the ambit of supply."

Bhuta says, "The Council may therefore consider that exemptions should be granted for premiums paid for life protection or to guard against life's uncertainties, rather than for investments made for future returns."

Narendra Bharindwal, Vice President, of the Insurance Brokers Association of India (IBAI) says, "The primary purpose of term plans is to provide financial security to the beneficiaries upon the demise of the policyholder. Given its role in mitigating financial challenges for families during their most vulnerable moments, reducing or removing GST on term insurance could significantly enhance its appeal to prospective policyholders. This focus on term insurance stems from its potential to increase insurance penetration, offering crucial financial support to families in times of need."

Will the GST Council remove 18% GST on other life insurance products as well? On the removal of GST on premiums of other life insurance policies such as Unit Linked Insurance Plans (ULIPs) or investment-linked plans, Shah says that those policies will continue to be taxed. One of the main reasons is that those plans offered a return on your investments along with a life protection cover. It is unlikely that the GST Council will consider removing GST on investment-related products.

Sandeep Pareek, Partner, Indirect Tax, BDO India says, "It is likely that the GST Council may favourably consider this demand of the industry, especially if the revenue loss, due to grant of such exemption, is not major. However, to allow the full effect of exemption from GST to be passed on to the public at large, the insurance companies would also need to be allowed full input tax credit, without requiring a reversal of credit due to exemption from GST on term insurance."

Gadkari earlier urged FM to roll back GST on life, health insurance premiums Earlier in a letter dated July 28, 2024, Gadkari addressed the concerns outlined in a memorandum submitted by the Nagpur Division Life Insurance Corporation Employees Union about matters affecting the insurance industry. Referring to their memo, the minister said that "levying GST on life insurance premiums amounts to levying tax on the uncertainties of life. The Union feels that the person who covers the risk of life's uncertainties to give protection to the family should not be levied tax on the premiums to purchase cover against this risk."

"Similarly, the 18% GST on medical insurance premiums is proving to be a deterrent for the growth of this segment of business which is socially necessary," he wrote.

Will take up with GST Council: FM on 18% GST removal on insurance premiums On the withdrawal of 18% GST on life and health insurance premiums, Sitharaman said on August 7, 2024, "Several suggestions have come up and I shall take up with the GST Council."

GST on health insurance premiums should also be removed or lowered: Industry The insurance industry has been actively demanding the removal of this tax, arguing that it significantly increases the cost of insurance coverage for policyholders. Tapan Singhel, MD & CEO, of Bajaj Allianz General Insurance, says, "We have been saying for a while now that reducing the GST rates on health insurance premiums is crucial given the low insurance penetration in India and the essential financial support insurance provides against sudden financial loss. Lowering the GST on health insurance from 18% to 5% would make it more affordable, encouraging more people to purchase it. Insurance is not a luxury commodity; it's a necessity that everyone should afford. Heavy taxation makes it difficult for people to get financially protected. We need to see insurance as a fundamental need, like how developed countries make health insurance mandatory for employers, but at affordable rates like those offered by many state governments. High taxes create a barrier to entry, leaving a large portion of the population, exposed to financial vulnerability. By creating a more conducive environment through lower GST, we can empower more people to opt for insurance protection thus achieving financial security, ultimately benefiting the entire economy. Look forward to this initiative from the Government soon."

Bharindwal adds, "Insurance serves as a vital tool for risk mitigation, providing financial support to individuals and entities when insured perils strike, thereby reducing the burden on the government to offer financial assistance. While affordability is a shared responsibility between the government and insurers, tax reductions or exemptions on insurance products could play a pivotal role in making these products more accessible. However, such tax relief should be strategically targeted at personal lines of insurance, as commercial lines already benefit from input tax credits. By focusing on personal insurance, the government can help ensure that essential protection is within reach for a broader population."