



CHALLENGE AND OPPORTUNITIES OF GST IN INSURANCE SECTOR IN INDIA

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ABSTRACT:

The India economy is witnessing streamlined and focused efforts of the kind off late for the implementation of the goods and service tax (GST) with the service sector accounting for 60% of the GDP, the impact of GST on the service sector is likely to run deep. GST is undisputedly the single largest indirect tax reform since independence. It could change India's indirect taxation landscape and resulting in a positive impact on the economy. The present study is an attempt to understand the impact of GST on insurance industry along with highlighting the basic concept of GST models of GST and its pros and cons in India context.

KEYWORDS:

GST, INSURANCE INDUSTRY, BENEFITS, CHALLENGES, ECONOMY.

INTRODUCTION:

The Goods and Services Tax (GST) is indeed an additional important perfection leading to widespread indirect tax reforms in the country. Initially, it was decided that there would be a national level goods and services tax but with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers it was made clear that there would be a "Dual GST" in India, both by them Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries introduced GST.

The introduction of GST is billed as a tectonic shift in the transaction tax regime prevalent in India. and is expected that services sector would be impacted more in comparison to the manufacturing or trading sectors on certain parameters. (GST) Not only insurance industry, but also policy holders will be affected with GST implementation. Typically, policyholder's pay service tax on the risk element of the premium component whereas the investment element of the policies is usually out of the service tax scope.

OBJECTIVES:

1. To understand the concept of GST and its implementation in India.
2. To highlight the advantages and understand the challenges of implementing GST in India.
3. To explain the GST principles applicable to the insurance industry.

CHALLENGES AND OPPORTUNITIES OF IMPLEMENTING GST IN INDIA CONTEXT:

LEGISLATIVE CHALLENGE:

The federal character of the constitution of India is essentially autonomy of the states to raise their own revenue and constitution provided the power to the union

and state government to collect tax and levy tax as per the concurrent, union and states list. It restricts the government do not any change in this structure.

NATURE OF TAXES:

The taxes are generally included in GST are excise duty, countervailing duty, cess, service tax, and state level VATs among others. there are numerous other states and union taxes that would be still out of GST.

MANAGEMENT AND INFRASTRUCTURE:

Success of any tax reform policy or managerial measures depends on the simplifications of the system, leading to high conformity with the administrative measures and policies. Simple system of the tax makes it more powerful.

OPPORTUNITIES:

REDUCING COST FOR TAXPAYERS:

Reform is likely to reduce the compliance cost for taxpayers by simplifying the tax structure and by making the administration uniform across states.

TO END CASCADING EFFECTS:

It will be the major contribution of GST for the business. Currently, there are different state level and center level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

TERMINATE MULTIPLE CHAIN OF TAXATION:

The main benefit of Goods and Services tax is to eliminate multiple chain of the taxation. The terminate in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

RELEVANCE OF GST:

Introduction of GST is likely to bring a sea change in the legal provisions for imposing duty/tax liability in stages of

manufacture, sale (inter-state/intra-state) of goods, rendering services and shall stand replaced with the place of supply, where the final consumption and use of goods/services were made. Hence, this reform is necessary to be introduced to perceive the following benefits for the intended stakeholders:

1. To Trade:

- Reduction in multiple taxes.
- Mitigation of double taxation.
- Efficient neutralization of taxes especially for exports.
- Development of Common National Market or Common Economic Market.
- Simpler tax regime with fewer rates and exemptions.
- Increase in cost competitiveness' for domestic industries. with reduction in tax cost and reduced cost of compliance.

2. To Government:

- Simplifying tax system.
- Broadening the tax base.
- Improved compliance and revenue collections
- Efficient use of resources.
- Investments out of savings by consumers - due to reduction of cascading effect, contributes to increase in availability of funds out of savings of consumer - which may be used for financing developmental activities.

3. To Consumer:

- Reduction in cost of goods and services due to elimination of cascading effect of taxes.
- Increase in purchasing power and real income.
- Increase in savings due to decrease in cost.
- Increase in investments due to increase in savings.

ADVANTAGES OF GST:

Apart from full allowance of credit, there are several other benefits of introducing a GST in India:

REDUCTION IN PRICES:

Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, that is also a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be reduced.

Increase in Government Revenues: At the time of introduction of VAT, the public revenues went up instead of falling because many people resorted to paying taxes rather than evading the same.

LESS COMPLIANCE AND PROCEDURAL COST:

Instead of maintaining big records, returns and reporting

under different statutes, all assesses will find it convenient under GST as the compliance cost will be reduced. However, it should be noted that the assesses are, nevertheless, required to keep record of CGST, SGST and IGST separately

GST MODELS- INTERNATIONALLY:

Goods & Services Tax (GST) is implemented by about 160 countries in the world. France being the first country to implement GST in 1960.

GST AND INSURANCE:

With the new service tax rate, expected to be fixed at 18 % under the GST regime, it is believed that higher tax rate will have a negative impact on the life insurance industry and the cost of insurance products on a larger picture. With the expected increase in the service tax rate from 15% to 18 %, the cost of buying the insurance policy and keeping the policy active will increase marginally.

Basically, premium of an insurance policy depends on the type of an insurance policy being purchased. Life insurance plans can be broadly categorized as term plans, endowment plans, ULIPs and pension plans.

TERM PLAN:

The premium component of a term plan consists of majority of risk element for providing insured a risk cover throughout the tenure of the policy. At present, service tax of 15 % is imposed on the premium cost of the plan. With GST, the tax is expected to rise to 18 % in the first year also on renewal premium from April 2017. This means the premium will get costlier by 3 %.

ENDOWMENT PLANS:

Currently, endowment plans attract a service tax of 3.75 % on the premium in the first year of the policy and are expected to increase to 4.5 % in the first year under GST. As of now, 1.88 % of the service tax is levied on endowment plan's premium for the second year which is expected to rise to 2.25 % from the second year onwards after the implementation of GST.

ULIP:

Unit Linked Insurance Plans (ULIPs) also offer dual advantage of insurance and investment. At present, service tax of 3.5 % is levied on protection part of ULIPs in the first year and 1.75 % from second year onwards. This would go up to 4.5 % in the first year and 2.25 % from second year onwards after implementation of GST.

HEALTH INSURANCE PLAN:

Currently, health plan premium attracts a service tax of 15 % on its premium cost. With the implementation of GST, the cost of acquiring the health insurance will become expensive as it will attract tax of about 18 % on premium.

MOTOR INSURANCE:

Motor insurance premium also attracts the service tax of 15 % which will rise to 18 %, if the rate is fixed up to this specified percentage mark.

FINDING AND SUGGESTIONS:

Inherent nature of insurance business. Currently, the location of a policyholder, be it a corporate or an individual, does not affect insurers, considering that any insurance transaction in the country is subject to central service tax (unless specifically exempted).

CUSTOMERS' RESIDENT LOCATION:

As SGST gets implemented insurers will need to improve their processes, architecture and controls to capture this information to ensure compliance.

LOCATION OF THE ACQUIRING DISTRIBUTION CHANNEL:

Given the various operating models across distribution channels, it will be of importance to critically evaluate the current distribution structure, where customers could be acquired across the country with distributors being located centrally or regionally in a separate state.

POLICY ISSUANCE AND SERVICING FRAMEWORK:

To assess the location or office from which insurance is being sold for tax purposes, it will be important to evaluate the operating framework in a centralized versus decentralized manner as the taxes could accordingly differ. The draft law, for example, does not clearly specify how to determine which office of the insurer is providing the insurance service; it is vaguely defined as the registered office providing the service.

CONCLUSIONS:

Tax policies play an important role on the economy because of their impact on efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time also endeavour to generate tax revenues for supporting government expenditure on public services and infrastructure development. Due to unstable environment of Indian economy, it is demand of time to implement GST. GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. Introduction of GST is likely to bring a sea change in the legal provisions for imposing duty/tax liability in stages of manufacture, sale (inter-state/intra-state) of goods, rendering services and shall stand replaced with the place of supply, where the final consumption and use of goods/services were made.

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