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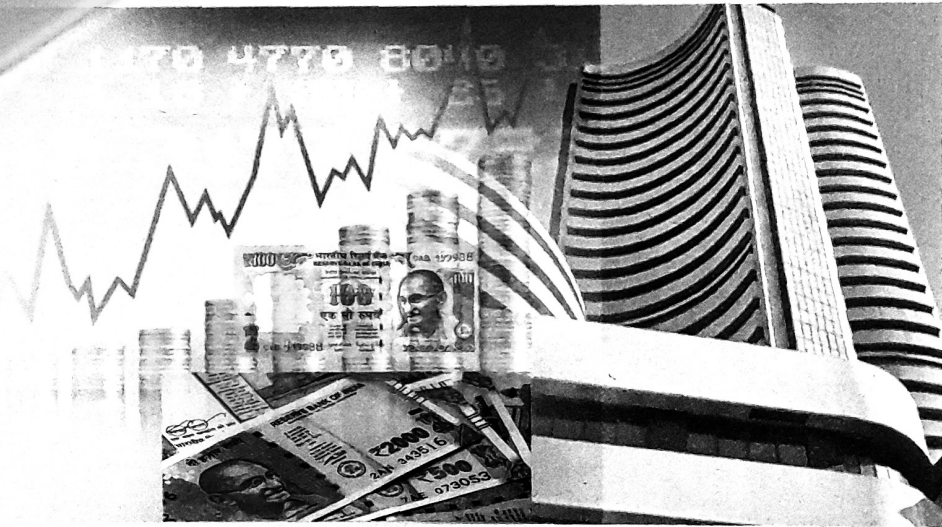
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INTERNATIONAL CONFERENCE
ON

**IMPLICATIONS OF RECENT ECONOMIC REFORMS ON INDIA
IN CHANGING GLOBAL SCENARIO**



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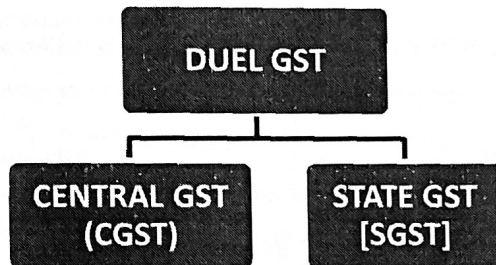


35) Impact of Gst on Insurance and Banking Industry in India

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1.1 INTRODUCTION: GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

GST MODEL



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/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.

GST – GLOBAL SCENARIO

- More than 160 countries have already introduced GST/ National Level VAT.
- Typically GST is a unified Tax System in most of the Countries.
- Canada and Brazil only have dual GST.



- Standard rate of most of the Countries ranges between 16- 20%.
- As per KPMG international indirect tax survey 2014: Out of 132 countries:
Hungary- 27% and Aruba: 1.5%

COMPARISON OF FEDERAL VAT SYSTEMS

Nature of VAT	Country Examples	Disadvantages
Independent VATs at Centre and States	Brazil, Russia, Argentina	Differences in base and rates weaken administration and compliance. Inter-state transactions difficult to manage
VAT levied and administered at Centre	Australia, Germany, Austria, Switzerland, etc.	State government relieved of responsibility of raising taxes which also takes away fiscal discretion of States
Dual VAT	Canada and India today	A combination of the above two and hence limits both their disadvantages
Clean" dual VAT	India's GST	Common base and common or similar rates facilitate administration and compliance, including for inter-state transactions, while continuing to provide some fiscal autonomy to States.

1.2 RESEARCH OBJECTIVE

1. To understand the concept of goods and services tax.
2. To know the service tax on Insurance and Banking of pre and post GST.
3. To analyze the impact of GST on Insurance and Banking industry.

1.3 LITERATURE REVIEW

Garg, basic concept and features of Good and Services Tax in India, 2014 Studied the basic concept and made an insight on GST significance. Further indirect tax evasion discussed by (Vasanthagopal, 2011) has led to GST value dissipation in comparison to VAT. (Adukia, 2015) Studied the impact and implementation strategy of GST in India. The review by (Morrissesey.2003) states that under, GST the taxation will be equitable divided among manufacturers and the service providers, also a low value of tax will be charged in comparison to existing tax system. It is to be noted economy of the countries where GST is implemented in a positive way (Kumar, 2014)

Dr.R. Vasant hagopal [2011] studied "GST in india: a big leap in the indirect taxation system"and concluded that switching to seamless GST from current complicated indirect tax system in india will be positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Ehtis ham ahmed and satya Poddar[2009] studied " Goods and service tax reforms and Intergovernmental Consideration in india" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Nitin Kumar [2014] studied "Goods and service tax-A way Forward" and Concluded that implementation of Gst in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.



Nishita Gupta Assistant Professor University of Delhi” Goods and services Tax: Its impact on Indian Economy :Concluded that tax policies play an important Role on the economy through their impact on both the efficiency and equity. A good tax system should keep in a view issues of income distribution and, at the same time, Endeavour to generate tax revenue to support government expenditure on Public services and infrastructural development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. Result in loss of income and welfare of the affected economy.

BANKING SYSTEM IN INDIA AS ON 31ST MARCH 2015

Name	National Bank	Foreign Bank	Private Bank	Co-operative Bank
Total	19	29	Old -23 And New- 10	State Level-31 District Level-267 Schedule Bank-53 Non Scheduled Bank-1807

REGISTERED INSURERS IN INDIA AS ON 31ST MARCH 2015

Types of Business	Public sector	Private sector	Total
Life insurance	1	23	24
Non-Life Insurance	*6	**22	28
Reinsurance	1	0	1
Total	8	45	53

* Includes Specialised insurance companies – ECGC and AIC

** Includes 5 Standalone Health Insurance Companies – Star Health & Allied Insurance Co., Apollo Munich Health Insurance Co., Max Bupa Health Insurance Co., Religare Health Insurance Co., and Cigna TTK Health Insurance Co.

Source: IRDA

1.4 IMPACT OF GST ON INSURANCE AND BANKING INDUSTRY

GENERAL INSURANCE

General insurance includes fire insurance, marine insurance, car insurance, theft insurance etc. The GST rate will also be 18% on general insurance. For policyholders, the general insurance premium will rise as tax has increased from 15 to 18%. Corporate policyholders, who have taken general insurance, can enjoy input tax credit on the GST paid on their policies (it was available to them even under service tax). Life and health insurers will not have input tax credit as it is not available for life and health insurances (as they are for personal purposes). Even corporate policyholders with group life and health insurance for their employees will not enjoy any input tax credit.

LIFE INSURANCE & HEALTH INSURANCE

There are 3 types of life insurance:

1. **Term Insurance Plans**- basic life insurance policies
2. **ULIPs**- insurance and investment under a single integrated plan ULIP or Unit Linked Insurance Plans are the products which combine the insurance and investment.
3. **Endowments (including money-back)**- life insurance policies that pay a lump sum on maturity/death or a fixed sum every month (sort of like a pension),regular pension or annuity plans.



GST IMPACT ON INSURANCE

Insurance Product	Tax applicable on	Old Service Tax Rate	Effective GST Rate	Increase of
Term Plans, Health Plans, Riders	Premium amount	15%	18%	3%
Car, Bike Insurance	Premium amount	15%	18%	3%
ULIP Plans	Charges	15%	18%	3%
Endowment Plans	1st year/ Single premium	3.75%	4.50%	0.75%
Endowment Plans	Renewal premiums	1.88%	2.25%	0.38%
Single Premium Annuity Plans	Premium amount	1.50%	1.80%	0.30%

LIFE INSURANCE PROVIDED BY GOVERNMENT SCHEMES ARE EXEMPTED FROM GST:

1. Janashree Bima Yojana (JBY)
2. Aam Aadmi Bima Yojana (AABY)
3. Life micro-insurance product as approved by the Insurance Regulatory and Development Authority, having maximum cover of Rs. 50,000
4. Varishtha Pension Bima Yojana
5. Pradhan Mantri Jeevan Jyoti Bima Yojana
6. Pradhan Mantri Jan Dhan Yojana
7. Pradhan Mantri Vaya Vandana Yojana
8. Any other insurance scheme of the State Government as may be notified by Government of India on the recommendation of GSTC.
9. Life insurance provided by Central Government to members of the Army, Navy and Air Force.

10. INSURANCE PENETRATION: INDIA VIS-A-VIS OTHER COUNTRIES

Country	Non -Life Premiums in 2008			Life Premiums in 2008		
	Premiums US\$ million	Penetration % of GDP	Density, US\$ Per Capita	Premiums US\$ million	Penetration % of GDP	Density, US\$ Per Capita
Developed						
US	662,432	4.6	2,177	578,211	4.1	1,901
Germany	131,807	3.5	1,573	111,278	3.0	1,347
UK	107,393	2.9	1,276	342,759	12.8	5,582
France	91,861	3	1,339	181,146	6.2	2,792
Australia	28,254	2.9	1,349	42,697	4.4	2,038
Singapore	5,083	1.6	630	11,445	6.3	2,549
Developing						
China	44,987	1	34	95,831	2.2	72
Brazil	25,074	1.6	129	22,419	1.4	115
Mexico	10,695	1	99	8,328	0.8	77
India	7,329	0.6	6	40,860	4.0	41
Indonesia	2,199	0.4	9	4,704	0.9	20
Vietnam	629	0.7	7	660	0.7	8
Sri Lanka	374	0.9	19	249	0.6	13
Bangladesh	180	0.2	1	537	0.7	3

**BANKING INDUSTRY**

Banking services will also become more expensive to the customers due to increase in taxes. Most banks have now applied transaction charges on cash withdrawals from different bank ATMs, cash withdrawals from branch (first 5 for both are free). Banking companies will pass on the tax liability to their customers. However, their administrative and compliance work will increase tremendously. Branches give services to each other which will be taxable under GST (they can later claim input tax credit). This will increase the paperwork and therefore the operating costs. Good news for business consumers. They can now claim input tax credit on the banking services paid on their business accounts. All the services like ATM withdrawing, bank account maintenance charges, loan processing charges everything has been hiked up to 3 percent from now. It is also said that the GST Council have taken the asset management companies and the bank branches all in separate entities making extra compliance cost for each operating unit. It is also mentioned that the financial companies with both large or small status will be equally profitable to the financial technology companies providing assistance in the management of data and software tools.

1.5 CONCLUSION

All policyholders will have to pay higher premiums on their insurance due to increase in GST rates. An average family with life, health and car insurance will find an increase of 3% on their insurance expenses. Assuming they spend a total of Rs. 30,000 per year on insurance excluding service tax their expenses will increase by 3% i.e., Rs. 1000. With a hike in post-GST rates to 18% from the current 15%, both the insurance sector and banking sector are poised to get more expensive after July 1. Impact of GST on insurance and banking will increase the premiums especially for families that pay for health, life and a car insurance. Banking services charge 15% service tax currently which will increase to 18% under GST. Like insurance, banking services will also become more expensive to the customers due to increase in taxes. Most banks have now applied transaction charges on cash withdrawals from different bank ATMs, cash withdrawals from branch (first 5 for both are free). All these attract 15% service tax which will increase to 18% under GST regime.

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