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GST Council recommendations and impact on the Financial Services sector

GST exemption for individual insurance policyholders and zero rating of Intermediary services for service exporters



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The rate rationalization and trade facilitation measures recommended in the 56th GST Council meeting represent a transformative leap towards the blueprint of a 'simple' Goods & Services Tax (GST). The impact of these measures, with the overall objective of ease of doing business and benefit to consumers, is directly reflected in the exemption granted to all individual health and life insurance services, making healthcare more affordable for consumers and expanding the insurance base in the country.

Another significant measure proposed is the alignment of the place of supply for intermediary services with the recipient location, allowing Indian exporters to claim the zero-rating benefit on services that were earlier taxable at 18%. This change will help reduce future litigation, allow refunds and bring the cost of services in line with other geographies, making India a preferred global service delivery hub.

The impact of the above changes on products and business processes, along with transition cases, needs to be monitored closely before the effective date.



Impact analysis

Industry impact

- **Insurance:** The exemption applies to all individual health and life insurance services, along with reinsurance services without the claim of Input Tax Credit (ITC). The ITC pertaining to such exempt supplies may need to be evaluated and reversed in light of the clarifications stated in the FAQs.
- **Change in place of supply for intermediary services:** This change allows exporters to compete in the international markets and reduces future tax litigations. Imports for which the place of supply was outside India need to be evaluated for taxability under the reverse charge mechanism.
- **Impact on vehicle leasing companies** - Change in the rate of automobiles will directly impact vehicle leasing companies, leading to a potential delay in utilisation of tax credits as well as transition challenges, especially regarding the cost of cess accumulation on existing vehicle inventory.

Consumer impact

- The health insurance services proposed to be covered include family floater policies, senior citizen policies and reinsurance. There is a need to evaluate whether critical illness, personal accident coverage and health insurance add-on policies purchased by individuals can be considered included in the exemption.
- The exemption for life insurance services includes term life, ULIP and endowment policies.
- Third-party insurance for 'goods carriage' to be liable to GST at 5% with ITC.
- The reduction in GST costs for consumers may increase the affordability of insurance services for individuals and make medical facilities more accessible.

Way forward

- Assess the pricing strategy of products or future contracts, considering the benefits that need to be passed on to end consumers.
- Analyze the impact on transition scenarios, including the risk of ITC accumulation, long-term policies, default payments, etc.
- Explore advocacy opportunities on key issues, including:
 - The removal of the requirement to pay GST under reverse charge for individual commission agents, with the rate to be rationalized to 5% instead of 18% on all other commission payments.
 - The retrospective applicability of changes in the 'intermediary' amendment to settle all past refunds or litigations.

Highlights

Exemption for all individual health and life insurance services

18%  NIL

Before

Now

Aligning place of supply for intermediary services to the location of the recipient

18%  0%

Before

Now

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