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Social Media Influencers, Collaborations and Brand Partnerships

Direct Tax Perspective

- Benefit or perquisite enjoyed by Influencer
- Valuation of the benefit/perquisite
- Chargeability of income
- TDS provisions on Influencers
- Reporting obligation under section 285B
- Other compliances

GST Perspective

- Registration requirement of Influencer
- Scope of OIDAR Services
- Determination of Place of Supply
- Eligibility of Input Tax Credit
- Applicability of RCM
- Export of services
- Treatment of Products received by Influencers

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Insurance Sector Under the Scrutiny of GST

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1. Overview

The implementation of the Goods and Services Tax Act (hereinafter referred as **"GST"**) has brought about significant changes in the Tax landscape for Insurance Sector. GST is a comprehensive Indirect Tax levied on the supply of Goods and Services, which aims to replace a complex network of multiple Taxes. Whereas the Insurance Sector, being an important component of the global economy, has undergone significant changes since the implementation of GST. However, GST has streamlined the Tax structure by replacing multiple Taxes with a Unified System, simplifying compliance and reducing the administrative burden for insurers/policymakers[1].

This article will explore the key aspects such as Taxability on Insurance Companies, ITC eligibility[2], Taxation on premium[3], compliance requirements and challenges with respect to revenue leakage. By gaining insights into these areas, Insurance Industry can ensure compliance, optimize their Tax obligations, and navigate the GST landscape with confidence. This article was created utilising secondary data and the exploratory research process.

2. Taxability on Insurance sector

Under the GST regime, insurance services[4] are considered as "Financial Services", Insurance Services, including Life Insurance, General Insurance, and Reinsurance[5], these services are subject to GST and are Taxable as "Supply of Services" under section 7(1) of the CGST Act, 2017[6]. The GST rates applicable to Insurance Services may vary based on the type of insurance and the coverage provided. Currently, the standard GST rate for Insurance Services is set at 18%[7].

This means that Insurance Sector are required to register under GST and fulfil their Tax obligations accordingly. The GST framework applies a destination-based consumption tax model, where Taxes are levied at each stage of the supply chain, ultimately borne by the end consumer.

One of the essential features of GST is the availability of **Input Tax Credit (ITC)**[8]. ITC allows businesses to claim credit for the GST paid on inputs, *i.e.*, goods and services used in the furtherance of business. Insurance Company can also claim ITC[9] on their inputs, such as office supplies, infrastructure, and other services procured for their operations. Therefore, maintaining proper records[10] of input tax paid and received invoices is crucial to support ITC claims during audits.

Section 17(4) of the CGST Act, 2017 pertains to the restriction on claiming Input Tax Credit (ITC) for certain goods or services; this provision outlines situations where ITC cannot be claimed by registered persons engaged in the General Insurance Business[11].

3. Premiums and Settlements

Insurance companies typically collect premiums from policyholders. Under the GST regime, these Premiums are subject to Tax at a specific rate. [12]The rate may vary depending on the type of Insurance, such as Life Insurance, Health Insurance, or General Insurance. GST is levied on the entire premium amount received by the Insurance Company. The Tax liability arises at the time of receipt of premium or when an invoice is issued, whichever is earlier. The Insurance Sector is responsible for collecting and remitting the GST to the Government.

When it comes to claim settlements or Indemnity Payments made by Insurance Company, GST is not applicable, the reason behind this is that the Insurance Claim is Actionable Claim[13] which is outside the purview of GST as per Schedule-III[14], it is to be treated as Capital Gain if the requirements of section 45(1A)[15] are satisfied. However, any fees or charges associated with claim processing or administrative services may be subject to GST.

4. Compliances

Insurance Sector is required to comply with various GST compliance. If their annual turnover exceeds the threshold, which may vary, they are bound to register for GST[16]. Registration enables them to collect and deposit GST on premium charged from policyholders, they must maintain proper books of account, invoices[17] to support their GST filings and shall retain them until the expiry of seventy-two months from the due date of furnishing of annual return for the year pertaining to such accounts and records.[18]

The Tax liability should be accurately calculated, and the appropriate Tax should be remitted within the prescribed timelines[19]. Insurance Companies are also required to file regular GST returns[20], such as GSTR-1 (outward supplies[21])[22], and GSTR-9 (annual return)[23] etc. These returns provide a consolidated view of the company's GST transactions, including the premium received, ITC availed, and Tax paid.

5. Fake Invoices

Integrity and transparency are fundamental pillars of any Tax System, and the Insurance Industry is no exception. Under section 31 of the CGST Act[24], 2017 outlines the provisions relating to the issuance of invoices by a registered person. According to this section, every registered person is required to issue a Tax invoice for the supply of goods or services. Invoices serve as crucial documents for various purposes. They are essential for claiming input Tax Credits, maintaining accurate Financial Records, facilitating audits, and resolving disputes between parties. However, some unscrupulous Insurance companies are taking advantage of loopholes within the