Tax sops to insurance may be in the offing

To improve insurance penetration in the country and encourage savings, the finance ministry may offer some tax breaks to the insurance industry in the coming Budget.

A higher tax deduction could be provided for investment in insurance policies. Also, separate investment limits have been proposed for life and health insurance premium. Currently, Section 80C of the Income Tax Act allows certain investments, including insurance premium, up to Rs 1,00,000 to be deducted from total income.

Officials said if a separate category was made for insurance, taxpayers would invest more in these schemes to avail of tax benefits. Currently, one can invest the entire Rs 1,00,000 in any of the saving instruments specified under Section 80C. Besides insurance, these instruments include investments in Public Provident Fund, mutual funds and small savings.

Deduction of up to Rs 35,000 is provided on health insurance premium (Rs 15,000 for self, spouse and children and Rs 20,000 for dependent parents who are senior citizens). However, there is no separate category for life insurance, which has penetration of just 4.4 per cent in India. For the non-life segment, penetration is only 0.71 per cent. At 5.1 per cent, overall insurance penetration is less than the global average of 6.9 per cent.

Pension products offered by insurance companies may also get tax relief on a par with the New Pension Scheme (NPS), over and above the limit of Rs 1,00,000 under Section 80C of the Income Tax Act. This means the amount invested in these instruments, as well as the returns, would be exempted from tax. Reduction in service tax on first-year regular premium as well as single-premium policies and exempting annuity policies, social security insurance schemes such as Janashri Bima Yojana and Aam Aadmi Bima Yojana and micro insurance policies from service tax might also be considered.

The revenue department might also explore the possibility of assessing service tax on a realisation basis. Currently, service tax is levied on premium on an accrual basis. It may examine in case changes are made to direct tax laws, these would only apply on policies issued prospectively. Deduction may be allowed on contributions made to post-retirement medical schemes offered by insurance companies.

Non-life insurance companies have asked for non-applicability of minimum alternate tax on a par with that on life insurance companies.

In 2000, up to 26 per cent foreign direct investment was allowed in the insurance sector. Today, there are 21 private companies in the general insurance space and 24 in the life insurance segment.

(Business Standard)