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Insurers call for more tax exemptions

SUBRATA PANDA
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The insurers are asking for various tax sops from the central government in the Union Budget 2022-2023 to encourage Indians to buy more pure-risk products.

Traditionally, tax exemptions have acted as a catalyst for people to buy insurance products. But there is an organic demand for insurance products, especially pure-risk and guaranteed income products, given the uncertainty associated with the pandemic. The insurance industry, however, still wants the government to continue with tax exemptions so that enough people get insurance coverage. India continues to be a highly under-penetrated market when it comes to insurance.

Insurance penetration in India stands at 4.20 per cent as of 2020-21, with life insurance penetration at 3.20 per cent, and non-life at 1 per cent, according to the Insurance Regulatory and Development Authority of India (Irdai)'s annual report of 2020-21.

Currently, under Section 80C of the Income Tax Act, an individual can claim a deduction of the life insurance premium paid from his/her taxable income. The deduction is restricted to 10 per cent of the minimum capital sum assured or premium paid, whichever is lower. Further, under 80C, an overall deduction of ₹150,000 can be claimed.

Similarly, for premiums paid towards health insurance plans taken for self, spouse, dependent children, one can claim a deduction of ₹25,000 under Section. An additional deduction of ₹25,000 can be claimed under the same section if the individual is also paying premiums for health plans covering parents.

Also, policyholders can get a deduction from their taxable income for premiums paid towards pension policies up to ₹150,000 under Section 80CCC. Under Section 10(10D) proceeds from life insurance policies are also exempt, subject to certain conditions.

Yashish Dahiya, chief executive (CEO) and chairman of PB Fintech, said promoting pure-risk products by increasing the tax deduction limit for health insurance plans and introducing a separate deduction for term insurance could be a positive stride in this direction. "...a separate deduction of ₹50,000 from taxable income over and above the maximum limit of ₹150,000 could be introduced for pure term insurance under section 80CCE. Other pivotal areas should be around flexibility in pension products by introducing separate deductions for them and making annuity income earned from these products tax-free," he said.

According to Rushabh Gandhi, deputy CEO of



WISH LIST

- Promotion of pure-risk products by raising tax deduction limit for health plans
- Increase in insurance limits under section 80C to encourage people to opt for life insurance
- Separate tax deduction towards life insurance premiums, in addition to the current 80C limit
- Rise in tax deduction limit under Section 80D to help middle-income, lower-income groups
- Reduction in GST rates from 18% to 5% on health insurance premiums for better health coverage

IndiaFirst Life Insurance, enhancing insurance limits under section 80C will further encourage people to opt for life insurance. Alternatively, having a separate tax deduction towards life insurance premiums, in addition to the 80C limit can also be explored.

"Linking of Sec 10(10D) to the minimum number of premiums paid instead of the sum assured multiplier will ensure systematic long-term savings in addition to life cover. We recommend that Sec 10(10D) be available for policies where minimum five annual premiums have been paid," Gandhi said.

Anup Rau, MD & CEO of Future General India Insurance, is seeking an increase in the tax deduction limit under Section 80D. "This should be raised to ₹150,000. The rising medical costs and the increase in the incidence of critical illnesses make it an unmanageable expense for middle-income and lower-income groups," he said.

Another demand of the insurance industry has been a reduction in the indirect tax rate that is charged on insurance premiums. In the absence of any social security net, insurance becomes a necessity for people in India. And, while all essential commodities are out of the purview of the goods and services tax (GST), insurance premiums are taxed at 18 per cent.

"I strongly recommend the cut in GST rates from 18 per cent to 5 per cent on health insurance premiums, which will encourage people to opt for better health coverage," said Tapan Singhal, MD & CEO, Bajaj Allianz General Insurance.