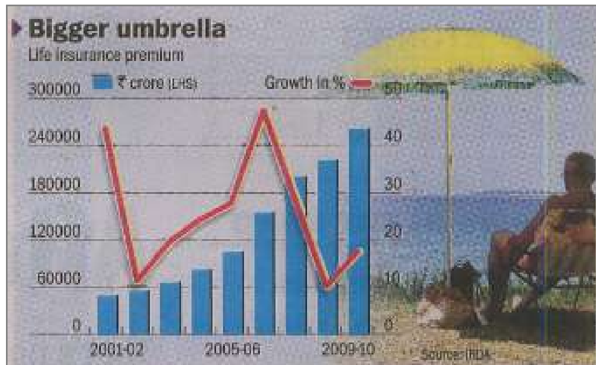

Raise tax exemption to increase insurance penetration

The increasing importance of life insurance, the ballooning Cenvat credit balance in the insurers' books and the administrative issues in understanding the "real profits" of an insurance company has caused the insurance industry to seek the following changes in the upcoming Union Budget.

Additional standalone tax exemption limit for premiums:

At present, provident fund contributions, public provident fund (PPF) contributions, purchase of national savings certificates and a host of other investments fall in the tax exempting section under the Income Tax Act, 1961 (Section 80C).

However, with life insurance turning vital due to change in the way of living, resulting in importance of future income generation, Section 80C needs to be revisited.

It is suggested that a standalone additional exemption limit of ₹50,000 (over and above the already existing limit of ₹100,000) be specified for insurance premiums alone under the Act.

The move will offer tax benefits to the individual and ensure better insurance penetration. The exempt, exempt, exempt (EEE) regime must continue for life insurance companies.

Taxation only on profit in shareholders P&L account:

Currently, there are administrative issues in understanding the "real profits" of an insurance company resulting in different tax authorities taking varied stand.

To reduce such issues, the profits determined under the shareholders profit & loss (P&L) account should only be taxed. All transfers to the policyholder P&L account to overcome any shortfall in the policyholder account to be allowable as an expense.

All premiums must be tax-exempted:

At present, under Section 80C, tax is exempted on premium paid up to 20% of the capital sum assured in any financial year. This ceiling should be removed since payments made over and above the 20% ceiling still continue to enjoy the same kind of life insurance benefits. The periodicity of premium payments is a pure commercial decision made by the tax payer. Similarly, under Section 10(D), exemption should be extended to any amount received on maturity where premium paid in any year is more than 20% of the capital sum assured.

Exempt life insurance business from service tax:

Life insurance business should be exempted from levy of service tax. Globally, life insurance is not subject to VAT.

Service tax on commission under reverse mechanism to be removed and replaced by utlisation of cenvat credit:

Under the present tax mechanism, the service tax payable on the commission paid to agents needs to be paid in cash by the life insurer.

This is then claimed as a cenvat credit by the insurer. The intent of the law is for the cenvat credit which can be adjusted against the output tax which might be payable by the insurance company. Since the output tax liability is much lower compared to the tax payable on commission, over the past few years the cenvat credit balance has been ballooning in the books of the insurers.

Hence, the service tax payable on commission to agents should be allowed to be adjusted against the available cenvat credit. In case of a shortfall, the same be paid in cash and the insurer be allowed to claim a cenvat credit.

The writer is chief financial officer and company secretary at Canara HSBC Oriental Bank of Commerce Life Insurance Company