

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3868

ANSWERED ON:27.04.2012

QUESTION SERVICE TAX ON INSURANCE POLICIES

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Will the Minister of FINANCE be pleased to state:

- (a) whether service tax has been levied on insurance policies;
- (b) if so, the details thereof;
- (c) whether the amount of increased premium will have to be borne by the insured person or by the insurance companies;
- (d) if so, the details thereof;
- (e) whether the increase of service tax had led to decrease in the number of clients of the insurance companies; and
- (f) if so, the details thereof and reaction of the Government thereto?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S. S. PALANIMAMCKAM)

(a) Yes Madams and Sirs

(b) Service Tax is levied on the service provided or to be provided to a policy holder by an insurer under the taxable category `general insurance service` with effect from 01.07.1994 [Section 65 (105)(d) of the Finance Act, 1994] and on service provided or to be provided to a policy holder or any person by an insurer under the taxable category `life insurance service` since 16.08.2002 [Section 65 (105) (zx) of the Finance Act, 1994]. With effect from 01.04.2012, the rate of service tax for all taxable services has been increased from 10% to 12%, For life insurance sector the option to pay service tax on the basis of premium has been changed, for the first year life insurance premiums, Service Tax is now levied at 3% while for the subsequent years the service tax rate is 1.5%. Simultaneously full CENVAT credit of inputs or input services has been allowed which earlier was restricted to 80% of credit availed. Earlier, service tax was levied on life insurance premiums @ of 1.5% with 80% of CENVAT credit.

(c) Service tax is payable by the service provider, in this caso the insurance companies, while the premium is paid by the customer,

(d) The service tax is a consumption tax. The tax incidence is finally borne by the customer. Service Tax on insurance policies is to be borne by the policy holder i.e. insured person, who is the customer.

(e) No such data or information is available with the Government.

(f) Does not arise in view of the answer to (e) above.