

The Debate over GST on Health Insurance

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Why in News?

Insurance premiums for health and life policies have increased this year, and with an 18% Goods and Services Tax (GST) added, many people in India are finding insurance less affordable.

Opposition leaders protested at Parliament, demanding the removal of GST on these premiums. Recently, Union Minister Nitin Gadkari wrote to Finance Minister, arguing that **GST** on insurance premiums taxes life's uncertainties and hampers industry growth.

Life and health insurance market in India

- In fiscal 2023-24, the general insurance industry collected Rs 1,09,000 crore in health premiums, while life insurance companies collected Rs 3,77,960 crore, with LIC alone contributing Rs 2,22,522 crore.
- Five states—Maharashtra, Karnataka, Tamil Nadu, Gujarat, and Delhi—accounted for 64% of the total health insurance premium in 2022-23, with the rest of the states contributing 36%.
- A Swiss Re Sigma report noted a decrease in insurance penetration in India's life insurance sector from 3.2% in 2021-22 to 3% in 2022-23, while non-life insurance penetration remained at 1%.
- Overall, India's insurance penetration dropped to 4% in 2022-23 from 4.2% in the previous year.

GST on health and life insurance premiums

- GST, introduced on July 1, 2017, replaced all indirect taxes, including service tax and cess.
- Currently, **GST on health and life insurance policies is fixed at 18%**.
 - Prior to GST, life insurance premiums were subject to 15% service taxes, comprising Basic Service Tax, Swachh Bharat cess, and Krishi Kalyan cess.
- Since GST encapsulates service tax, which applies to the insurance industry, its introduction has resulted in an increase in premium amounts.
- This rise, combined with high medical inflation estimated at 14% last year, has made medical and term insurance less affordable for many.
- The government acknowledged in Parliament that it received requests for an exemption or reduction in GST rates on life and health insurance.

Rationale behind imposing the GST on health and life insurance premiums

- **Role of GST Council**
 - The GST rates and exemptions on services, including health insurance premiums, are set by the GST Council, which includes the Union Finance Minister and state/UT ministers.
- **Revenue earning segment for the government**
 - GST is applicable to all insurance policies since insurance is a service, and policyholders pay tax on their insurance premium.
 - This segment fetched Rs 21,256 crore in GST during the last three financial years, and another Rs 3,274 crore from the reissuance of health policies.
- **Certain deductions allowed while computing income tax**
 - Insurance premiums are eligible for tax deductions under Sections 80C and 80D of the Income Tax Act, 1961, with deductions up to Rs 1.5 lakh, including GST, and additional deductions for medical riders.

Need for withdrawing the GST on the premium

- **Large increases in premium on health insurance policies**
 - The main issue is the large increases in premium on health insurance policies this year — a leading public sector insurer has hiked the premium by 50%.
 - **GST on insurance in India is the highest in the world**
 - Many experts have pointed out that the GST on insurance in India is the highest in the world.
 - This step might create challenges for IRDAI's goal of "Insurance for All by 2047".
 - **Report by Standing Committee on Finance**
 - The Standing Committee on Finance in its 66th report, submitted to Parliament in February 2024, recommended rationalisation of the GST rate on insurance products, especially health and term insurance.
 - It said that the high rate of GST results in a high premium burden, which acts as a deterrent to getting insurance policies.
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Q.1. What is Goods and Services Tax (GST)?

The Goods and Services Tax (GST) is a comprehensive, multi-stage, destination-based tax levied on every value addition in India. It replaced multiple indirect taxes and is implemented to create a unified national market, simplifying taxation, and ensuring a seamless flow of input tax credits across the supply chain.

Q.2. What is Insurance Regulatory and Development Authority of India (IRDAI)?

The Insurance Regulatory and Development Authority of India (IRDAI) is the apex body overseeing the insurance industry in India. Established to protect policyholders' interests, promote fair practices, and ensure the orderly growth of the insurance sector, IRDAI regulates, licenses, and monitors insurance companies and intermediaries.

Source: [Explained: The debate over GST on health insurance](#)

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