ETRealty.com
An initiative of The Economic Times

Premium on insuring home, household property to be tax deductible

While the government will see an increase in its revenue as the policies are subject to service tax, net-to-net the loss of tax revenue will be very negligible

IANS | 22 February 2016, 7:48 AM IST

CHENNAI: Allowing deduction of premium paid by individuals on insuring their properties and clarity on legal position on non-taxability of technical reserves form part of the wishlist of the non-life insurance industry, said a top official of the industry body.

With the foreign direct investment (FDI) in insurance sector hiked to 49 percent and the sectoral regulator coming out with regulations in sync with the amended laws, the budget wishlist for the insurers has come down.

"In order to increase penetration of property insurance and to reduce the government's outgo towards compensation, the premium paid towards insuring them against natural perils should be tax deductible," R. Chandrasekaran, secretary general, General Insurance Counil of India, told IANS on Sunday.

He said very negligible percentage of the households take a policy to cover their movable and immovable properties against natural disasters.

"If the government allows deduction of insurance premium paid to by an insurance policy against natural perils, then there will be a spur in growth," Chandrasekaran said.

"While the government will see an increase in its revenue as the policies are subject to service tax, net-to-net the loss of tax revenue will be very negligible," he said.

"On the other hand, the wealth of the nation will get protected and the government can also save on compensation amount paid to victims who lose their properties to a natural disaster," he added.

The industry also expects the government to give legal clarity that technical reserves provided by the insurers as prescribed by the Insurance Regulatory and Development Authority of India (IRDAI) should be tax exempt.

"While the position is clear, in many cases due to interpretation issues the companies have to spend their time and efforts with taxmen to clarify. If a clear legal seal is given to the tax treatment of technical reserves, then it will be better," Chandrasekaran said.

On the other hand, the life insurance sector expects some enabling laws to provide impetus for growth.

According to Tarun Chugh, managing director and CEO of PNB MetLife India Insurance Company, the government should provide a separate limit for long term savings and pensions under Section 80C of the Income Tax Act.

While the government introduced an additional deduction of Rs.50,000 for contribution to National Pension Scheme in 2015-16, Chugh appeals for a separate sub-limit for insurance under Section 80C.

"The additional leeway in Section 80C will encourage people to buy additional life insurance to protect their family's financial future while getting tax benefit," he said.

Chugh also expects the government to fix the sum assured to five times of the first year premium to be eligible for tax deduction.

"Currently, to avail tax benefits for a life insurance policy under 10(10D), the Sum Assured or Life Cover has to be a minimum of 10 times of the First Year premium," he said.

He also expects better clarity on tax laws relating to computation of profits for insurers and the point of taxation for service tax.

According to Rakesh Nangia, managing partner, Nangia & Co, the tax structure of the National pension Scheme (NPS) should be reviewed.

"The current tax structure is Exempt-Exempt-Tax (on maturity the amount is taxed), which is at a sharp disadvantage to the other major retirement products such as Employees Provident Fund (EPF) and Public Provident Fund (PPF)," Nangia told IANS.

"It is high time that the government removes the anomalies and inconsistencies in the taxation of the NPS and gives it the Exempt-Exempt-Exempt status in order to encourage retirement savings," he added.