

“Insurance Sector and Tax Planning- Discuss the Steps to Plan and Invest”

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Abstract

As income Tax code, 2009 will come into force from 1st April, 2012, it is a most radical fiscal roadmap for India. It is expected that it will have large impact on assesses as well as insurance companies. In present study it is proposed to know the impacts of new code. Insurance business not only is a tool for an individual for security, saving and investment but also helps to mobilize and canalize significant amounts of saving and investments in corporate and government bonds, a commercial mortgage and equity. After privatization of insurance and establishment of IRDA insurance business has opened opportunities for carrier and investment for rural individual it may be required for security and investment but for urban population it is a tax saving instrument also. In the present study authors have observed a number of implications for the insurance sector both life and non life and found that under DTC only sum paid towards a contract for an annuity plan of any insurer is eligible for a deduction. Payments received from maturity is taxable except received in case of death on the condition premium should not exceed five percent of the capital sum assured in any year during the term of the policies system of taxation will continue. More than 90% of selected assesses takes positive for saving and investment as exemption limit go higher in addition to other benefits. Earlier life insurance companies were being taxed at concessional rates but now they will be taxed at normal corporation rate i.e. 30 percent. Also they will have to pay five percent distribution tax seek for give some relaxations.

Key words: Insurance, Tax, Individual

INTRODUCTION

The insurance industry forms an essential part of a country's financial sector. The industry comprises insurance companies that have access to huge long-term funds. Many developed countries that have learnt to properly manage these long-term funds secured from the insurance companies have seen significant improvements in their economic fortunes (Boadi, Antwi, & Larney, 2013). Boadi, Antwi and Larney (2013) further note that in such countries, insurance companies are major sources for mobilizing funds that have facilitated the development of such nations. However, in Ghana, like many other developing countries, the reverse is true. The insurance industry's penetration, that is, its contribution to gross domestic product (GDP), has been found to be

very low, below 2% (National Insurance Commission (NIC), 2018), emphasizing the requirement of improved performance in the industry.

Planning and investing in the insurance sector is crucial for effective tax planning. It can help individuals safeguard their financial future while also providing tax benefits.

1. Identify your insurance needs: Start by assessing your insurance needs and goals. Consider factors such as your age, financial obligations, dependents, and future aspirations. This will help you determine the type and amount of insurance coverage required.
2. Understand different insurance options: Familiarize yourself with the various insurance products available, such as life insurance, health insurance, property insurance, and more. Each type of insurance serves a specific purpose, so it's important to choose the right ones based on your needs.
3. Research and compare insurance providers: Take the time to research and compare different insurance providers. Look into their reputation, financial stability, claim settlement ratio, customer service, and policy features. This will help you select a reliable and trustworthy insurance company.
4. Consider tax benefits: One of the key advantages of investing in insurance is the tax benefits it offers. Life insurance premiums are eligible for tax deductions under Section 80C of the Income Tax Act, 1961, up to a maximum limit. Additionally, the maturity proceeds or death benefits received from insurance policies are generally tax-free.

Why Is Insurance Important?

Insurance is essential for protecting oneself, family, and assets from unforeseen financial risks. It covers medical bills, car accidents, home damage, theft, and even provides a cash payment to survivors in the event of death. Insurance offers peace of mind and safeguards against expensive lawsuits, injuries, and total losses.

LITERATURE REVIEW

Sinha, T. (2005). The Indian insurance industry: Challenges and prospects.

This paper provides a comprehensive overview of the Indian insurance market, highlighting its recent phenomenal growth and potential for further development. It compares the Indian market with other regional counterparts, emphasizing the need for catch-up. The historical development of the sector and current regulatory issues are discussed, along with specific issues in the life and non-life insurance sectors. The paper also delves into significant developments, such as bancassurance and pricing freedom for non-life insurance companies. Finally, the potential and challenges of rural insurance in India are summarized, emphasizing the importance of expanding insurance coverage in rural areas due to the significant rural population.

Rao, M. S., & Srinivasulu, R. (2013). Contribution of insurance sector to growth and development of the Indian economy.

Insurance companies play a crucial role in mobilizing savings from middle and lower income groups for investment, promoting economic growth. Insurance serves distinct economic functions and contributes to the investment climate and efficient allocation of resources. While non-life insurance contributes to growth in

countries at various levels of development, life insurance has a larger impact in wealthier nations. Overall, insurance has a positive impact on the Indian economy's aggregate growth.

Ray, S., Thakur, V., & Bandyopadhyay, K. (2020). India's insurance sector: Challenges and opportunities.

The insurance sector in India has shown significant growth in recent years. However, despite reforms, its share in the global market remains low. In this paper, we analyze the evolution and growth of the Indian insurance sector and identify key challenges. These challenges include low penetration and density rates, insufficient investment in insurance products, the dominance of public sector insurers, and their deteriorating financial health. Addressing these challenges is crucial for developing a robust insurance sector that supports India's economic growth and resilience.

Mannar, B. R. (2015). The Indian market scenario of insurance sector.

India's insurance sector has undergone significant changes due to globalization, with private and foreign insurers entering the market and increasing competition. Companies must focus on customer satisfaction and retention, as well as prepare for foreign competition. Since deregulation in 1999, the industry has seen international players, innovative products, and better supervisory standards. Untapped markets include natural catastrophe, pension, and health insurance. The future of these segments depends on economic policies and insurance regulation changes. This study provides an overview of the challenges and opportunities in the Indian insurance market.

KUMAR, A. (2014). The insurance sector reforms in India. The Journal of Rural and Agricultural Research, 14(1).

The insurance sector in India plays a crucial role in the country's economic development, serving as a mobilizer of savings and a financial intermediary. After undergoing various phases, including nationalization and liberalization, the sector implemented reforms with the establishment of the Insurance Regulatory and Development Authority (IRDA) in 2000. The IRDA aims to promote competition, enhance customer satisfaction, and ensure the sector's financial security. As of September 2013, there were 52 insurance companies operating in India, with the life insurance industry experiencing a slight growth in premium income and net profit.

Insurance contract has been classified into two categories traditionally.

These classifications are based on insurance principles:

Life Insurance	General Insurance
Term Life Insurance	Health Insurance (Mediclaime) plans
Endowment Life Insurance	Vehicle Insurance
Moneyback Plans	Home/Property Insurance

Pension Plans	Fire & Hazards Insurance
Child Education Plans	Travel Insurance
Unit Linked Insurance Plans (ULIPs)	Liability Insurance

Types of Life Insurance

1. Term Life Insurance

Term insurance is a cost-effective and straightforward life insurance plan that provides risk coverage. By paying a low premium, policyholders can secure a large sum assured, ensuring adequate protection for their family's financial needs in the event of any unfortunate circumstances. It allows families to maintain their lifestyle and achieve life goals.

2. Endowment Plans

Endowment plans provide a safe and profitable long-term investment solution. They offer tax benefits on investments and maturity values, shielding them from inflation. Additionally, endowment plans provide risk coverage, offering a lump sum amount upon policy maturity or the sum assured to your nominee in case of your demise during the policy term.

3. Whole Life Insurance

Whole life insurance offers lifelong coverage and ensures that your beneficiaries receive a benefit amount even upon your natural demise. It also includes a savings component to help you build wealth over the policy term. This type of insurance is a valuable tool for leaving a legacy for future generations.

4. Unit Linked Insurance Plan (ULIP)

Unit Linked Insurance Plans (ULIPs) provide a combination of both investment and insurance benefits. By investing in ULIPs, you can allocate units to different debt and equity funds while enjoying tax benefits. A portion of your premium is allocated to market-linked instruments, while the remaining amount provides life cover throughout the policy tenure.

5. Pension or Annuity Plans

Pension or annuity plans are vital for ensuring financial stability after retirement by providing a regular income from a retirement corpus. These plans offer a safety net and can be invested in individually or jointly with a spouse. Joint pension plans ensure continued pension payments for a spouse even after the policyholder's death.

6. Child Insurance Plans

child insurance plans are a type of life insurance or investment plan designed to support a child's future. These plans offer benefits that can be used to achieve important life goals such as education and marriage. If the parent dies, the insurance benefits will provide for the child's goals, while the savings in the plan will continue to grow.

Types of Non-Life/General Insurance Policies

Non-life insurance plans are those which cover any event except the loss of life. These insurance policies are useful for safeguarding your financial interests in an asset, your health, and even business inventory.

1. Health insurance

Health insurance plans provide coverage for emergency medical expenses, whether through reimbursement or direct payment. There are different types of health insurance plans, including individual, group, family floater, critical illness, senior citizen, personal accident, and maternity insurance. Each type offers specific coverage based on the individual's needs and circumstances.

2. Motor Insurance

Motor insurance offers your financial assistance in case your vehicle is involved in an accident. It is mandatory to have motor insurance in India for your bike, car, and commercial vehicle.

Two Wheeler Insurance provides coverage for damages to both the policyholder's vehicle and third-party vehicles. Car Insurance covers passenger cars used for private or commercial purposes, including coverage for the driver, passengers, and third parties. Commercial Insurance applies to vehicles involved in cargo operations or carrying a high number of passengers. Fleet Insurance covers multiple vehicles under a single insurance scheme.

3. Home Insurance

Home insurance offers protection against the unexpected loss or damage to the building and its contents caused by human or natural disasters, such as fire, earthquake, robbery, and burglaries. Various types of home insurance policies are available to cater to unique needs such as home structure/building insurance, public liability coverage, standard fire and special perils policy, personal accident, burglary and theft insurance, contents insurance, tenants', and landlords' insurance.

4. Fire Insurance

Fire insurance provides coverage for losses caused by accidental fires. This insurance compensates individuals or companies for damages to their property. In India, there are various fire insurance policies available, including valued fire insurance, specified fire insurance, floating policy, consequential fire policy, replacement policy, and comprehensive fire insurance policy.

Tax Benefits of Insurance

Income Tax Section	Benefits
Section 80C	You can claim a deduction of the life insurance premium you pay from your taxable income under Section 80C, and the overall limit of deduction available is Rs 1.5 lakh.

Section 80D	You Section 80D - You can get a deduction of premium towards health insurance policies. Rs 25,000 deduction is allowed for self, spouse, and dependent children, and you can claim an additional deduction of Rs 25000 towards the premium paid for covering parents.
Section 80DD	The premium paid for a disabled dependent is eligible for deduction up to Rs 75,000 every year. In case of severe disability, a higher deduction of Rs 1 lakh is allowed
Section 10(10D)	Under this section, the life insurance benefits the nominee receives from the insurance company are tax-exempted.

Why is Tax Planning Important?

Tax planning involves analyzing your financial situation to find legal methods of reducing your taxable income and overall tax payments. It requires disclosing all income and utilizing deductions and expenses allowed by tax laws. Besides reducing taxes, effective tax planning helps in achieving savings goals and staying financially on track. Proper tax planning not only reduces your tax burden but also helps in increasing savings to meet short and long term financial goals. It is crucial to remember that tax planning is an ongoing process as long as you earn a taxable income.

The Objectives of Tax Planning

The main objective of tax planning is to minimize tax payments by utilizing the rules and regulations stated in the Income Tax Act, 1961. Taxpayers aim to achieve a lower tax outgo through strategic financial planning and taking advantage of available deductions and exemptions.

1. Reduction of Net Taxable Income

The main objective of tax planning is to decrease tax liability by lowering the net taxable income. This can be done through tax-saving investments and deductions for specific expenses, such as Section 80D deductions, according to income tax laws. Government-backed schemes and other investments are available to help effectively plan taxes.

2. Reduce Tax-Related Litigation

In addition to reducing tax liability, another objective of tax planning is to minimize the risk of facing litigation from tax authorities. By ensuring compliance with tax laws through legal tax planning strategies, individuals can reduce the likelihood of receiving notices for tax evasion and avoid hefty fines or legal consequences.

Types of Tax Planning Strategies in India

Tax planning strategies in India focus on reducing tax liability by minimizing net taxable income. One effective approach is investing in avenues that enable deductions under different sections of the Income Tax Act, 1961. These strategies help individuals optimize their tax obligations and maximize savings.

1. Long-term Tax Planning

Implementing a long-term tax planning strategy involves starting at the beginning of the financial year and following it consistently throughout. This approach includes making tax-saving investments such as SIP in ELSS mutual funds, monthly deposits into a PPF account, and systematic investments in the National Pension System. This strategy allows for smaller investments that have minimal impact on monthly budgets while achieving tax-saving goals for the year.

2. Short-term Tax Planning

Short-term tax planning involves making a few large investments or expenditures to achieve tax planning goals, usually at the end of the fiscal year. However, this strategy's limitation is the need for a significant investment to meet the objectives of tax planning.

3. Purposive Tax Planning

Purposive planning in tax management involves selecting tax-saving investment schemes that align with specific investment goals and help maximize benefits. This strategy allows investors to achieve their objectives while diversifying their assets based on existing investments.

4. Permissive Tax Planning

Permissive planning in tax management aims to maximize deductions within the permissible limits of the Income Tax Act, 1961. This strategy focuses primarily on saving taxes rather than considering the suitability of tax-saving options for a taxpayer's financial goals.

Tax Planning in India

Instrument Name	Relevant Income Tax Act Section	Permissible Tax Saving Limit (Annual)
Life Insurance Premium	Section 80C	Up to annual 80C limit of Rs. 1.5 lakh
Health Insurance / Mediciclaim Premium	Section 80D	Up to Rs. 1 lakh for senior citizen self, family and parents
Medical expenses for specified diseases	Section 80DDB	Up to Rs. 40,000
Children's Tuition Fees	Section 80C	Up to annual 80C limit of Rs. 1.5 lakh
Donations to specified institutions and trusts	Section 80G	No limit (as per actual)
Home loan principal repayment	Section 80C	Up to annual 80C limit of Rs. 1.5 lakh
Home loan interest repayments	Section 24	Up to Rs. 2 lakh annually
Education Loan interest repayment	Section 80E	As per actual (no limit) upto 8 years.

CONCLUSION

In conclusion, the insurance sector is an essential part of a tax planning strategy and needs to be considered by every individual. Investments in insurance policies can provide a significant tax benefit while safeguarding individual financial situations. The maximum annual limit for the above investment options is up to cumulative limit of Rs. 1.5 lakh allowed under Section 80C. However, NPS tax benefits additional benefit of Rs. 50,000 u/s 80 CCD (1B) which is over and above the Rs. 1.5 lakh 80C limit. Therefore, the total tax deduction benefit when planning taxes with these investments can reach Rs. 2 lakh annually.

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