

Life Insurance Cos and Service Tax Dept at loggerheads

by MoneyControl.com

Life insurance companies are required to pay service tax only on the risk component of the premium they charge consumers. So for instance, if a policy is sold for Rs 10,000, only a certain percentage of it, say Rs 1,000 that goes towards risk cover, would be taken into consideration for calculating service tax.

Insurance companies say while it is possible to do this segregation, it is impossible to split the expenses incurred on phone bills, marketing costs and other overheads. Therefore, insurance companies deduct their total expenses from the amount they eventually pay service tax on.

The Service Tax Department, however, disagrees and says at best life insurers can deduct 20% of their expenses. Hence, a fat bill of Rs 264 crore for 2005-06.

While LIC is required to pay Rs 233 crore, private insurers like ICICI Prudential have to cough up Rs 8 crore. The industry says it is unfair to fix a deduction of 20% and is hoping the appellate tribunal will step in.

Copyright © e-Eighteen.com Ltd.

Life Insurance Cos and Service Tax Dept at loggerheads by MoneyControl.com