States get 75% of GST revenue on health insurance, says FM

CLEARING THE AIR. Flexible LTCG for realty; LS passes Finance Bill with amendments

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Finance Minister Nirmala Sitharaman on Wednesday said that the States receive almost three-fourth of the revenue collected as GST on insurance. Responding to the ongoing debate on and criticism of the Centre levying GST on health insurance, Sitharaman said the Opposition should address their concerns on the issue to the finance ministers of the States they are ruling.

Speaking in Parliament, Sitharaman announced changes in provisions relating to Long Term Capital Gains (LTCG) for real estate, along with 45 amendments to the Finance Bill. Later, the Lok Sabha approved the Finance Bill with all the proposed amendments.

Realty check

Scenarios	5 years		10 years	
	Old tax	New tax	Old tax	New tax
Holding period (Number of years)	5 years	5 years	10 years	10 years
Purchasing cost	25,00,000	25,00,000	25,00,000	25,00,000
Indexed purchasing cost	31,40,138	Nil	37,81,250	Nil
Tax rate	20.0%	12.5%	20.0%	12.5%
House price increase at CAGR	10.0%		10.0%	
Current market value	40,26,275	40,26,275	64,84,356	64,84,356
Long-term capital gain	8,86,137	15,26,275	27,03,106	39,84,356
Long-term capital gain tax	1,77,227	1,90,784	5,40,621	4,98,045

Source: Vestian Research

GST ON INSURANCE

Earlier, during the debate on the Finance Bill, almost the entire Opposition raised concerns about the 18 per cent GST on premiums for life and health insurance. The Finance Minister responded by asserting that even before the GST rollout, States were levying a tax on insurance premia.

"Of the 18 per cent GST on medical insurance, nearly half goes directly to the States. Of the remaining half, 41 per cent moves into the devolution pool which also goes to States. This means more than ₹74 out of every ₹100 collected goes to the States," she said, dismissing allegations that the money collected through GST is "pocketed" by the Centre. Further, the FM said Parliament is not the right forum to decide about GST; it is the GST Council.

LTCG FOR REALTY

The issue of GST on insurance has been discussed thrice at the GST Council, and yet it keeps surfacing.

Sitharaman moved an amendment to the Long Term Capital Gains provision for the realty sector by making it flexible. In the case of transfer of a long-term capital asset, being land or building or both, by an individual or HUF, which is acquired before July 23, 2024, the taxpayer can compute tax under the new scheme (@12.5 per cent without indexation) and the old scheme (@20 per cent with indexation) and pay tax as is lower of the two.

"There was no revenue consideration for removing indexation. It was only for simplification. Still, we yielded to people's response," Sitharaman said. Also, she clarified that there is no change in the rollover provision, which means if gains up to ₹10 crore are invested in one or two properties within a stipulated period, or in a bond or Section 54EC instrument up to ₹50 lakh, then there will be no tax.

Commenting on the amendment, Shishir Baijal, CMD of Knight Frank, said, "Ideally, if a property's value has significantly outpaced inflation, the 12.5 per cent rate might be more beneficial. However, indexation could be advantageous where property appreciation is closer to the inflation rate."

Anuj Puri, Chairman of ANAROCK Group, said the revision can stimulate the residential property market because it provides clarity and implies a potential reduction in the tax burden.