

RECOVERING THE TAX ON PROTECTION

GST INPUT TAX CREDIT ON GROUP HEALTH AND LIFE INSURANCE | CREATING GREATER EMPLOYEE VALUE

Regulatory Update: Input Tax Credit on Group Insurance

On October 8 2026, the 57th GST Council recommended changes to enable eligible employers to claim Input Tax Credit (ITC) on GST paid on group health and life insurance premiums, subject to prescribed conditions.

Currently, employer-sponsored group insurance policies generally attract 18% GST, with ITC unavailable in most cases, subject to applicable exceptions. The proposed change could allow eligible employers to offset the GST paid against their output tax liability, subject to the final regulatory provisions. Implementation remains contingent on formal notification, eligibility criteria and the applicable effective date.

The Turning Point | Rethinking the Cost of Protection

Group health and life insurance have generally attracted 18% GST, with ITC ordinarily blocked under Section 17(5)(b) of the Central Goods and Services Tax Act, 2017, subject to applicable exceptions.

In September 2025, individual health and life insurance policies became GST-exempt, while group policies continued to attract GST. The Council's October 2026 recommendation could help address this difference.

The potential implications differ across funding models. **Employers** could benefit from improved programme economics, **employees** could derive greater value from voluntary group cover, and organisations could reassess **insured versus self-funded** arrangements. The following sections examine these three perspectives and explore how this opportunity could enhance employee protection.

Employer-sponsored Benefits | Unlocking Financial Headroom

For employers, potential GST Input Tax Credit (ITC) could do more than reduce insurance costs. It could create financial headroom to strengthen employee protection and deliver greater value from existing benefits budgets.

The Numbers Behind the Opportunity

Consider an employer spending INR 80 lac annually on group health premiums.

THE FINANCIAL OPPORTUNITY

INR 14.4 lac Potential GST credit on INR 80 lac of eligible group insurance premiums.

CURRENT NET COST	POTENTIAL NET COST
INR 94.4 lac	**INR 80 lac**

Illustrative scenario assuming full ITC eligibility and utilisation.

Full ITC utilisation could reduce the employer's net cost by INR 14.4 lac, delivering approximately **15.3% savings on the total GST-inclusive premium,** subject to eligibility.

Key Considerations for Employers

- **Credit utilisation:** Actual savings depend on ITC eligibility, the employer's GST liability and the extent to which the available credit can be utilised
- **Employee CTC:** Where insurance forms part of employee CTC, ITC may reduce the employer's net cost but does not automatically change CTC or take-home pay. Savings may be retained or redirected towards enhanced benefits, subject to applicable rules

Key Takeaway: Eligible ITC could reduce employers' net group insurance costs.

Employee-sponsored Benefits | Putting More Value in Employees' Hands

The potential availability of ITC could strengthen the value proposition of voluntary group health and life insurance. While individual health and life policies became GST-exempt in September 2025, eligible group policies could benefit from ITC, alongside negotiated group terms.

Employee Affordability

A lower contribution. The same base premium.

CURRENT DEDUCTION	POTENTIAL DEDUCTION
INR 11,800	**INR 10,000**
INR 10,000 premium + INR 1,800 GST	Assuming full credit pass-through

INR 1,800 potential saving

Approximately 15.3% lower employee deduction, subject to final tax treatment.

Illustrative scenario assuming full ITC eligibility and utilisation.

Key Considerations for Employers

- **Affordability and Coverage:** Explore opportunities to reduce employee contributions or enhance coverage using realised tax benefits, subject to applicable rules
- **Communication and Participation:** Clearly communicate premiums, coverage and exclusions, supported by accessible enrolment guidance to encourage informed decisions
- **Measuring Value:** Track participation, employee feedback and coverage adequacy to assess whether changes improve affordability and perceived value

Key Takeaway: Improved affordability could drive higher employee participation in voluntary group insurance.

Strengthening the Case for Insured Protection

The proposed availability of Input Tax Credit (ITC) could improve the cost competitiveness of insured group health and life insurance by reducing the effective premium cost for eligible employers. This could influence how organisations evaluate insured versus self-funded benefit arrangements and allocate their employee benefits budgets.

Improved Cost Efficiency

Eligible ITC could reduce the net cost of insured group policies, narrowing the cost gap where self-funded arrangements are being considered.

Greater Value from Insurance

Employers could leverage realised tax benefits to maintain or enhance employee coverage while optimising benefits expenditure.

Informed Funding Decisions

With the potential tax advantage, employers can reassess insured arrangements alongside self-funded options, considering overall costs, risk exposure and employee protection needs.

The proposed change could strengthen the financial case for insured group benefits, subject to the final regulatory framework, ITC eligibility and actual credit utilisation. Employers should evaluate the potential benefit alongside their broader funding strategy and risk appetite.

Key Takeaway: Eligible ITC could improve the cost competitiveness of insured group benefits, prompting employers to reassess funding strategies and balance cost efficiency with risk management and employee protection.



From Tax Savings to Greater Employee Value

ITC does not automatically improve an insurer's loss ratio or reduce claims. It changes the employer's potential net programme cost, while claims experience continues to depend on utilisation, workforce demographics, medical inflation and benefits design.

The benefit lies in improved programme economics and the flexibility to address coverage gaps. Changes in claims outcomes following benefit enhancements should be measured over time rather than assumed.

What ITC changes and what it doesn't

Can Change	No Direct Impact
Employer's net programme cost	Claims frequency or severity
Budget available for enhancements	Insurer loss ratio
Potential employee affordability	Renewal pricing

More Cover. Same Budget. Greater Value.

Potential GST recovery creates an opportunity to reassess how employee benefits budgets are allocated. Rather than treating the credit solely as a cost reduction, employers can direct available financial headroom towards existing protection gaps.

More protection within the same benefits budget

Potential reinvestment of eligible GST credit, subject to insurer pricing and policy terms.

1 | Overall health cover
Sum Insured(SI) per employee/family

CURRENT SI	ENHANCED SI
INR 5 lac	**INR 7.5 lac** 50% higher cover

2 | Maternity benefit
Higher support for growing families

CURRENT LIMIT	ENHANCED LIMIT
INR 50,000	**INR 75,000** 50% higher cover

3 | Cataract coverage
Review procedure-specific sub-limits

CURRENT LIMIT	ENHANCED LIMIT
INR 40,000	**INR 60,000** 50% higher cover

All figures are illustrative benefit-design examples, not actuarially validation enhancements. Actual changes depend on available savings, insurer quotations, claims experience and policy terms.

These examples illustrate how employers could consider both broader protection and targeted improvements. Higher overall sum insured may strengthen financial protection against major medical expenses, while reviewing maternity and cataract sub-limits can help address specific coverage gaps.

The appropriate combination will depend on workforce demographics, current coverage, employee needs and insurer pricing. Employers should compare alternative benefit designs against the same net budget rather than assume every enhancement can be funded entirely through tax recovery.

The Prudent Perspective | Converting Savings into Strategy

At Prudent Insurance Brokers, we view this recommendation as an opportunity to move employee benefits beyond a cost-led approach towards a more integrated model of protection, prevention and well-being.

Realising this opportunity requires a structured approach.

- **Assess the Financial Opportunity:** Confirm eligibility, model credit utilisation and determine the actual net savings, including the implications of timing and any implementation costs
- **Prioritise Benefit Enhancements:** Identify gaps in coverage and direct available resources towards the most meaningful employee needs, rather than applying uniform enhancements across all benefits
- **Integrate Preventive Well-being:** Complement core insurance with appropriate preventive healthcare and flexible well-being support, making services accessible and relevant to different employee groups
- **Improve Affordability:** Evaluate opportunities to reduce employee contributions in eligible payroll-funded arrangements and communicate the benefits clearly.
- **Establish Measurable Outcomes:** Track coverage adequacy, participation, preventive-service uptake, employee feedback and overall programme costs to inform future decisions.

A balanced strategy can help organisations address immediate financial protection needs while building a more proactive approach to employee well-being. The objective is not necessarily to spend more, but to extract greater value from existing benefits expenditure.

At Prudent Insurance Brokers, our role is to help organisations assess the financial opportunity, understand workforce needs and translate the resulting efficiencies into a considered, measurable benefits strategy.

The opportunity is to move from recovering the tax on protection to creating greater value from protection itself.



REFERENCE

GST Council Secretariat (2026). Recommendations of the 57th Meeting of the GST Council (press release, PDF). https://www.gstcouncil.gov.in/sites/default/files/2026-10/press_release.pdf

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