



## CURRENT AFFAIRS



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### THE GST COUNCIL HAS FORMED A GOM TO REVIEW THE TAX RATE ON HEALTH AND LIFE INSURANCE.

#### SYLLABUS MAPPING:

GS-3– *Economic*-The GST Council has formed a GoM to review the tax rate on health and life insurance.

#### FOR PRELIMS:

*The GST Council has formed a Group of Ministers (GoM) to review the tax rates on health and life insurance. Discuss the objectives and potential implications of this review?*

#### FOR MAINS:

*The GST Council has formed a Group of Ministers (GoM) to review the tax rates on health and life insurance. Discuss the objectives of this review and analyze the potential impact of any changes in GST rates on stakeholders such as consumers, insurance companies, and the government. What factors should the GoM consider in its evaluation?*

#### RECENT CONTEXT:

On September 15, 2024, the GST Council made a pivotal decision to form a Group of Ministers (GoM) tasked with reviewing the Goods and Services Tax (GST) rates on health and life insurance. This development has sparked significant discussion among stakeholders and policymakers, highlighting the growing need to address the challenges faced by the insurance sector and its impact on consumers. This article explores the context of this decision, the objectives of the GoM review, the current GST framework for insurance, and the potential implications of changes in tax rates.

#### CONTEXT OF THE DECISION

The decision to form a GoM comes at a crucial juncture for India's insurance sector. Over the years, both health and life insurance have become essential components of financial planning and risk management for millions of Indians. However, the high GST rates on these services have been a contentious issue, with critics arguing that they contribute to the rising cost of premiums and limit access to insurance coverage.

In recent months, several reports and surveys have highlighted the growing dissatisfaction among consumers and industry players regarding the current GST structure. The insurance sector has been particularly vocal about the need for a reassessment of tax rates, citing the challenges posed by high GST on health insurance and the relatively lower rates for life insurance. This review is

expected to address these concerns and potentially lead to adjustments in tax policy that could impact both consumers and the industry.

## **OBJECTIVES OF THE GOM REVIEW**

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1. **Assessing Affordability:** One of the main goals is to evaluate the impact of GST rates on the affordability of health and life insurance. With health insurance premiums subject to an 18% GST rate and life insurance at 12%, the review aims to determine whether these rates are hindering access to insurance and whether a reduction could make coverage more affordable for consumers.
2. **Addressing Industry Concerns:** The insurance industry has expressed concerns about the high GST rates, particularly for health insurance. The GoM will consider these concerns and assess how current rates affect the financial stability and operational efficiency of insurance companies.
3. **Revenue Considerations:** Any proposed changes to GST rates must balance the need to make insurance more affordable with the need to maintain adequate revenue for the central and state governments. The GoM will need to evaluate the potential revenue implications of adjusting GST rates and explore ways to mitigate any shortfall.
4. **Consumer Protection:** Ensuring that consumers receive value for money is a key consideration. The GoM will assess how changes in GST rates could impact consumer protection and the overall affordability of insurance products.

## **CURRENT GST FRAMEWORK FOR INSURANCE**

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1. **Health Insurance:** Health insurance premiums are taxed at 18%. This rate has been criticized for being high, considering the essential nature of health coverage and the rising costs of healthcare. High GST rates contribute to increased premium costs, which can be a barrier for many individuals seeking health insurance.
  2. **Life Insurance:** Life insurance premiums are taxed at a lower rate of 12%. While this rate is lower than that for health insurance, it has also faced criticism. The life insurance sector argues that even this lower rate does not adequately support the sector's sustainability and growth.
- The GST rates were implemented as part of a broader tax reform aimed at simplifying the tax structure and increasing revenue. However, the effectiveness of these rates in achieving their intended objectives has been questioned, leading to the current review.

## **POTENTIAL IMPLICATIONS OF RATE CHANGES**

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1. **Impact on Consumers**
  - i). **Affordability:** Reducing GST rates on health and life insurance could lead to lower premiums, making insurance more affordable for a larger segment of the population. This is particularly important for health insurance, where high premiums can deter individuals from purchasing coverage.
  - ii). **Increased Coverage:** Lower premiums may encourage more people to obtain insurance coverage, potentially leading to higher penetration rates. This could have positive implications for public health and financial security.
  - iii). **Consumer Behavior:** Changes in GST rates could influence consumer behavior, with potential shifts in the types of insurance products purchased and the frequency of policy renewals.
2. **Impact on Insurance Companies**
  - i). **Financial Stability:** For insurance companies, particularly those operating in the health sector, a reduction in GST rates could improve financial stability. Lower tax rates may reduce operational costs and allow companies to offer more competitive premiums.

**ii).Market Dynamics:** Adjustments in GST rates could affect market dynamics, including pricing strategies and competition among insurers. Companies may need to adapt their strategies to align with new tax policies.

**iii).Operational Adjustments:** Insurance companies will need to manage the operational aspects of implementing new GST rates, including updating systems and processes to reflect changes in tax rates.

### 3. **Impact on Government Revenue**

**i).Revenue Impact:** Reducing GST rates could result in decreased revenue for both central and state governments. The GoM must assess the potential revenue shortfall and explore alternative sources or compensatory measures to address the gap.

**ii).Fiscal Balance:** Maintaining fiscal balance is crucial. The government must ensure that any changes in GST rates do not adversely affect its ability to fund essential services and programs.

## **FACTORS FOR THE GOM TO CONSIDER**

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### 1. **Stakeholder Consultation**

**i). Insurance Companies:** Input from insurers will provide insights into the financial impact of GST rates and operational challenges.

**ii).Consumer Groups:** Feedback from consumer advocacy groups will help understand the implications of tax rates on affordability and access.

**iii).Industry Experts:** Experts can provide a broader perspective on the impact of GST rates on the insurance market and the economy.

### 2. **Economic Impact Analysis**

**i).Effect on Premiums:** How different GST rates would affect insurance premiums and overall affordability.

**ii).Market Reactions:** Potential changes in consumer behavior and market dynamics in response to revised GST rates.

**iii).Revenue Implications:** The financial impact on government revenue and potential compensatory measures.

### 3. **Implementation and Compliance**

**i).Administrative Changes:** Updating tax rules and ensuring compliance with new rates.

**ii).Transition Period:** A phased approach may be necessary to manage the transition and minimize disruption.

### 4. **Long-Term Sustainability**

**i).Sector Stability:** Ensuring that changes support the financial stability of the insurance sector.

**ii).Consumer Protection:** Maintaining protections for consumers while ensuring affordability.

## **CURRENT NEWS AND DEVELOPMENTS**

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### 1. **Industry Reactions**

In recent weeks, insurance companies have intensified their calls for a review of GST rates. Industry leaders have argued that the high GST on health insurance is a significant barrier to access, particularly for lower-income individuals. They have also highlighted the need for a more balanced approach to tax rates that supports both consumers and the industry.

### 2. **Government Stance**

The government's decision to form the GoM reflects its recognition of the concerns raised by the insurance sector and consumer groups. Finance Minister Nirmala Sitharaman has emphasized the need for a balanced approach that considers the interests of all stakeholders.

### 3. **Public Debate**

The issue of GST rates on insurance has been a topic of public debate, with various media outlets and policymakers weighing in on the potential benefits and drawbacks of rate changes.

Public opinion is divided, with some advocating for lower GST rates to enhance affordability, while others caution against potential revenue losses.

## CONCLUSION

The formation of the Group of Ministers (GoM) by the GST Council to review the tax rates on health and life insurance is a significant development in the ongoing discourse on tax policy and insurance affordability. The GoM's review will address key concerns related to the impact of GST rates on consumers, the insurance industry, and government revenue.

As the GoM undertakes this review, it will need to carefully balance the need to make insurance more affordable with the necessity of maintaining adequate revenue for government functions. Engaging with stakeholders, conducting thorough economic impact analyses, and considering practical implementation challenges will be crucial in shaping effective and sustainable tax policies.



## PRELIM QUESTION:

**Q.The GST Council has recently formed a Group of Ministers (GoM) to review the tax rates on health and life insurance. Which of the following statements is/are correct regarding this GoM?**

- 1.The GoM is responsible for reviewing the GST rates on both health and life insurance.
- 2.The GoM is chaired by the Union Finance Minister.
- 3.The objective of the GoM is to assess the impact of GST rates on the affordability and accessibility of insurance.

**Options:**

- A. 1 only
- B. 1 and 2 only
- C. 1 and 3 only
- D. 2 and 3 only

**Answer: C**

## MAINS QUESTION:

**Q.Analyze the reasons behind this review and discuss the potential implications for various stakeholders, including consumers, insurance companies, and the government. What factors should the GoM consider to ensure that any adjustments in GST rates are balanced and effective?(150words)**

## “PRESIDENT’S RULE: A CONSTITUTIONAL SAFEGUARD OR A POLITICAL BLUDGEON?”

This article covers “Daily Current Affairs” and topic details of the emergency Provisions and their impacts on centre- states relations.

### **SYLLABUS MAPPING:**

**GS-2: Polity:** Basic provisions of the constitution.

### **FOR PRELIMS:**

What are the constitutional provisions related to the Emergency, and their impacts on centre-state relations, fundamental rights, and executive power?

### **FOR MAINS:**

How the Emergency provisions are used in the past and what are the consequences of the imposition of the emergency provisions and committee/commission recommendation on the use of the Emergency provisions?

### **WHY IN THE NEWS?**

Recently the President of India forwarded the report on the imposition of the President’s rule in Delhi to the Union Home Ministry.



### **WHAT IS THE EMERGENCY?**

#### **DEFINITION OF EMERGENCY:**

The Emergency provisions in the Indian Constitution, are designed to empower the Central government to address exceptional circumstances. These provisions ensure the protection of the country’s sovereignty, unity, integrity, and security, as well as the democratic political system and the Constitution itself.

**Constitutional Provisions:** Articles 352 to 360 of Part XVIII of the Indian Constitution cover emergency provisions.

#### **TYPES OF EMERGENCIES**

##### **1. National Emergency (Article 352).**

2. President's Rule or State Emergency (Article 356)
3. Financial Emergency (Article 360)

### ***PRESIDENT'S RULE (ARTICLE 356):***

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### ***REASONS FOR SUCH PROVISIONS IN THE CONSTITUTION:***

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**Context of Partition:** The Constitution framers, writing during the tumultuous period of Partition, were concerned about potential threats to national unity, including secession, ethnic conflict, and communist revolutions.

**Central Authority:** the constitution makers, vested the power to intervene in cases of severe law and order breakdown or constitutional governance failure with the Union government, rather than state Chief Ministers, to maintain national stability.

**As Dead Letters:** Despite anticipating possible abuse of these powers, Dr. B.R. Ambedkar acknowledged the risk of misuse and hoped such provisions would remain unused, referring to them as “dead letters.”

### ***GROUNDS AND PROCEDURES FOR IMPOSING PRESIDENT'S RULE (ARTICLE 356):***

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#### **Grounds for Imposition:**

**Article 356:** The President can issue a proclamation if satisfied that a situation has arisen where a state's government cannot be carried on according to the Constitution. This can be based on the governor's report or other information.

**Article 365:** The President may also act if a state fails to comply with or give effect to directions from the Centre, leading to the conclusion that the state government cannot function according to the Constitution.

#### ***Parliamentary Approval and Duration:***

**Initial Approval:** A proclamation of President's Rule must be approved by both Houses of Parliament within two months from its issuance. If the Lok Sabha is dissolved or dissolved within this period, the proclamation remains in force until 30 days from the first sitting of the reconstituted Lok Sabha, provided the Rajya Sabha approves it.

**Duration and Extensions:** Once approved, the President's Rule continues for six months and can be extended up to a maximum of three years, with Parliament's approval every six months. If the Lok Sabha is dissolved during this period, the proclamation remains effective until 30 days after the new Lok Sabha's first sitting, provided Rajya Sabha approval is maintained.

## 44th Amendment Act (1978):

### Extension beyond one year requires:

1. A National Emergency must be in operation across India or in the concerned state.
2. The Election Commission must certify that elections cannot be held due to difficulties.

**Revocation:** The President can revoke a proclamation of President's Rule at any time by issuing a subsequent proclamation, which does not require parliamentary approval.

### **HISTORICAL USE AND MISUSE:**

**Frequency and Controversy:** Since 1950, the President's Rule has been imposed over 125 times, averaging about twice per year. The use of Article 356 has been controversial and criticized, often being viewed as arbitrary and politically motivated.

**Historical Examples:** The first imposition of President's Rule occurred in Punjab in 1951. By now, nearly all states have experienced a President's Rule at least once.

**Political Manipulation:** After the 1977 Lok Sabha elections, the Janta Party, led by Morarji Desai, imposed President's Rule in nine states where the Congress Party was in power, claiming the assemblies no longer represented the electorate. When the Congress Party returned to power in 1980, it imposed President's Rule in nine states on similar grounds.

### **CONSEQUENCES OF PRESIDENT'S RULE:**

**1. Assumption of Powers:** The President assumes the functions of the state government and the powers vested in the governor or any other state executive authority.

**2. Administrative Actions:** The President can take necessary steps, including suspending constitutional provisions relating to any state body or authority.

**3. State Government:** The President dismisses the state council of ministers, and the state governor, on behalf of the President, administers the state with the chief secretary or appointed advisors.

**4. Legislative Assembly:** The state legislative assembly may be suspended or dissolved. In such cases:

**Law-Making:** Parliament can delegate law-making powers to the President or another specified authority.

**Budget and Laws:** The Parliament, or delegated authority, can pass state legislative bills and the state budget.

**Expenditure and Ordinances:** The President can authorize expenditure from the state's consolidated fund and promulgate ordinances when Parliament is not in session.

### **CRITICISM OF THE ARTICLE 356:**

**Unprecedented Action:** Article 356 allows unilateral Union intervention in state governance, a provision not seen in modern federal constitutions.

**Doubt About Necessity:** The relevance of Article 356 in contemporary India, 70 years post-independence, is increasingly questioned because of its misuse by the union government.

**Contradiction to other provisions:** Uttarakhand High Court's Observation: The court viewed Article 356 as contrary to pure federalism, likening it to an intrusion into state affairs.

**Originalist vs. Transformative View:** The court's defense based on the framers' original intent is criticized for not adapting to modern contexts.

**Changing Political Landscape:** The need for Article 356 is less clear today, as the political environment has evolved since the post-partition era.

**Moral and Ethical Concerns:** Allowing the Union to intervene based on political disagreements or perceived anti-social elements challenges the principles of federalism and needs reassessment.

## **SOLUTIONS AND RECOMMENDATIONS:**

- 1. Rare Use:** The Sarkaria Commission recommends that Article 356 should only be invoked in rare and exceptional cases where no other options are viable.
- 2. Procedural Safeguards:** The Sarkaria Commission provided some safeguards before invoking article 356 these are earning to states, assessment of governor report, and, avoiding dissolution of the state legalization.
- 3. Incorporation of Supreme Court Principles:** The Puncchi Commission recommended integrating the principles from the Supreme Court's S.R. Bommai v. Union of India (1994) decision into the Constitution.
- 5. Localized Emergency:** It Puncchi Commission suggested implementing a "Localized Emergency" for troubled areas rather than imposing a blanket emergency across the entire state.
- 6. Duration of Emergency:** The Puncchi Commission recommended that any emergency declared under this framework should be limited to a maximum of three months.
- 7. Reforms Relating to Anti-Defection Laws:** This world helps to reduce the collapse of the government and the use of Article 356.
- 8. Independent role of the governor:** The Governor plays a crucial role in declaring emergencies, as their reports are essential for presidential recommendations.
- 9. Last Resort:** Article 356 should be used as a last resort, respecting B.R. Ambedkar's intent for its rare application and upholding the people's mandate.
- 10. Role of the judiciary:** Ensure that the judiciary effectively balances the protection of democratic state governments with the need to uphold national security and integrity, as established in the S.R. Bommai case.

## **CONCLUSION**

The Indian Constitution incorporates emergency provisions to address national crises, aiming to safeguard the country's security, integrity, and stability. However, these provisions have sometimes been misused, leading to political manipulation and undermining democratic principles. It is crucial to exercise emergency measures with caution, strictly adhering to legal and procedural norms, to prevent their abuse and ensure that democratic values and constitutional integrity are maintained.

## **PRELIMS QUESTION:**

**Q. With reference to Article 356 of the constitution, consider the following statements:**

1. The imposition of the president's rule under Article 356 by the president of India, requires approval of the Union cabinet.
2. The parliament does not have any role in the revocation/imposition of the president rule in the state.
3. The defense ministry of the government of India can furnish a report for the imposition of the emergency under Article 356 in international border states.

**How many of the above-given statements are correct?**

- A. Only one
- B. Only two
- C. All three
- D. None

**ANSWER: A**



**MAINS QUESTION:**

How were the centre-state relations impacted by the imposition of the president's rule in the state and what are the recommendations to make reasonable use of Article 356? Do you think that there is a need to amend Article 356 of the Constitution?

(250 words 15 marks)

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