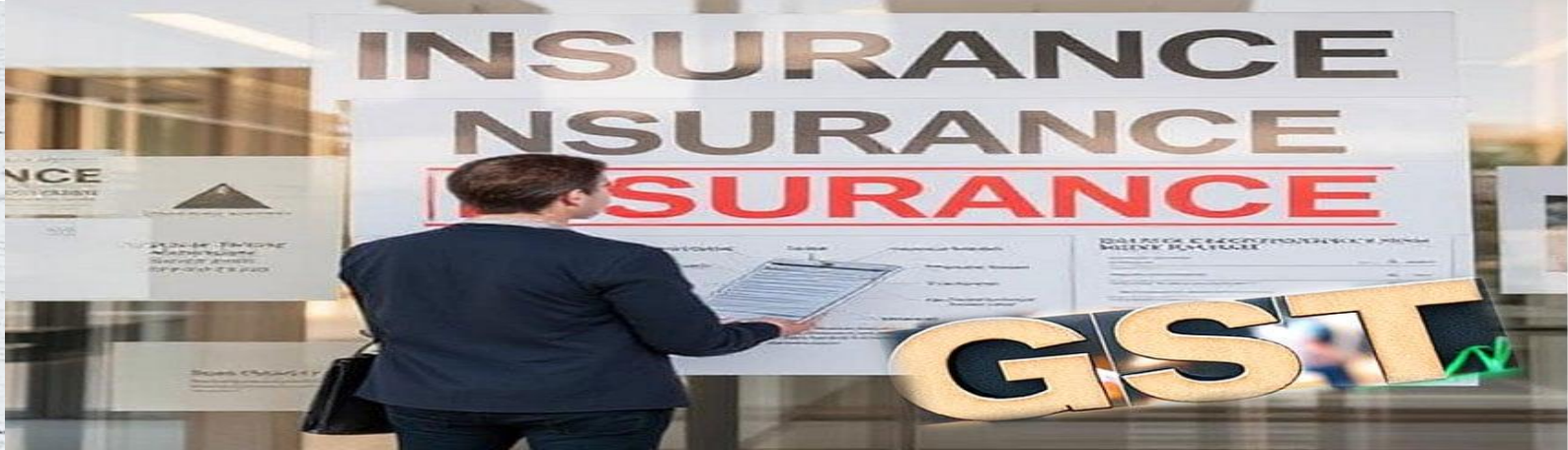


Massive GST Crackdown on Insurance Companies!



[Saurabh Giri](#)

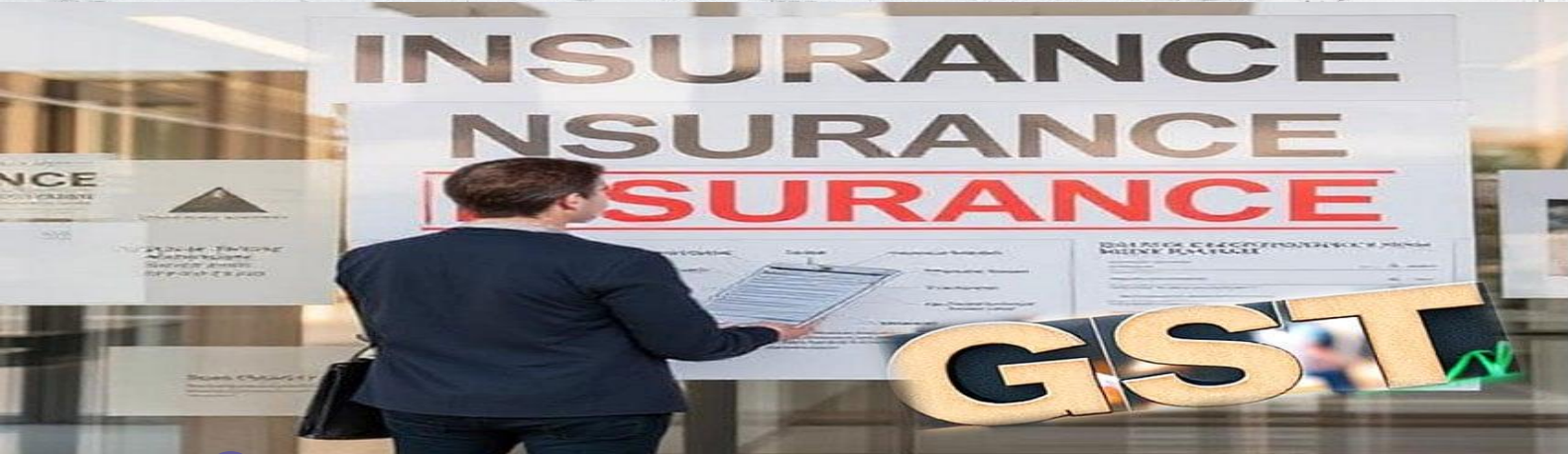




💰 ₹5,500 Cr Tax Evasion Alleged – Major Players Under Scrutiny!





The GST authorities are tightening their grip on **30 insurance companies**, accusing them of **fraudulent ITC claims, excessive commissions, and tax evasion**. The case gained momentum after **HDFC Life** was hit with a **₹2,400 Cr tax demand**, raising concerns across the industry.



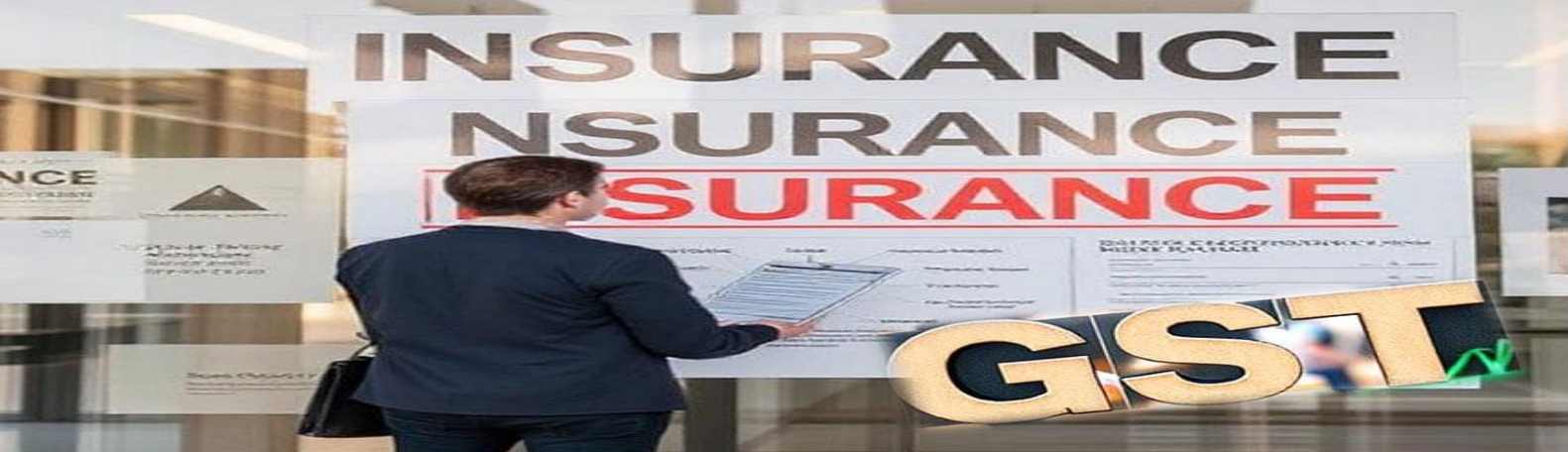


Why Are Insurers Under Investigation?

The **Directorate General of GST Intelligence (DGGI)** alleges that insurers violated GST norms through:

-  **Fake ITC Claims** – Availing input tax credit on non-existent services.
-  **Excess Commission Payments** – Using intermediaries to bypass IRDAI limits.
-  **Bogus Marketing Invoices** – Raising bills for campaigns that never happened.
-  **Tax Evasion on Co-insurance & Reinsurance** – Misreporting transactions to reduce tax liability.





The Legal Basis of the Tax Demand

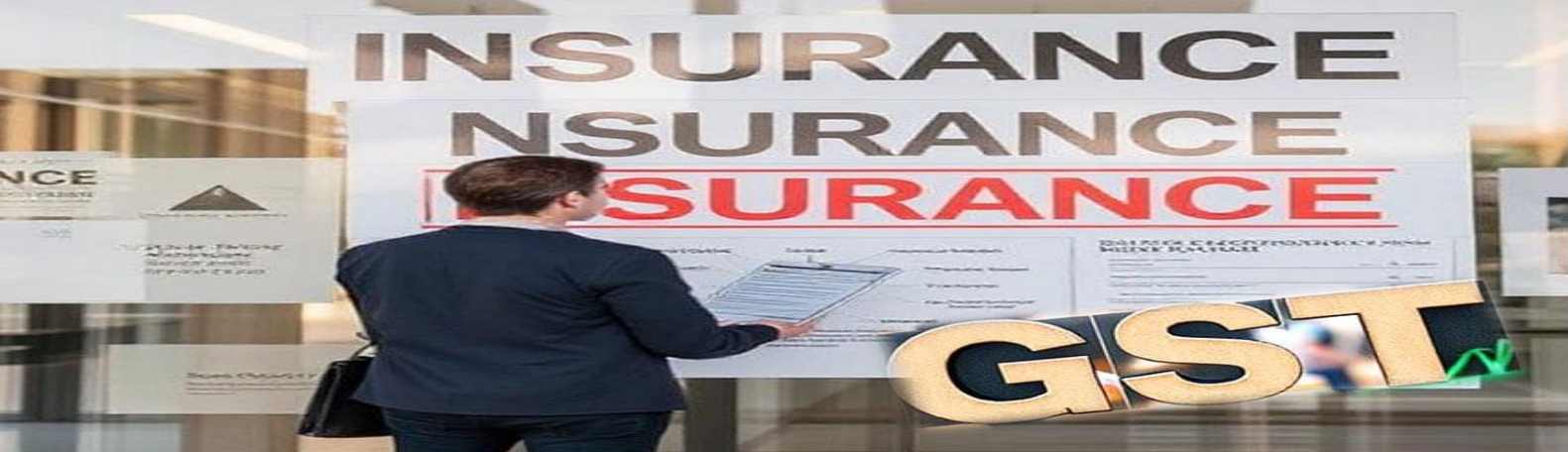
(i) Input Tax Credit (ITC) and Section 16 of CGST Act, 2017

Under **Section 16(1) of the CGST Act**, input tax credit can be availed only if the following conditions are met:

- ✓ The recipient has received the goods/services.
- ✓ A valid tax invoice is issued by a registered supplier.
- ✓ The supplier has paid the tax to the government.
- ✓ The recipient has filed the GST return properly.

◆ **GST authorities' claim:** Insurance companies availed **ITC on fake invoices** raised by marketing vendors, but **no actual services were rendered**. This violates **Section 16**, making ITC ineligible.





(ii) Excessive Commission Payments & IRDAI Regulations

The Insurance Regulatory and Development Authority of India (IRDAI) has set limits on the commission that insurers can pay to agents and intermediaries.

❖ **IRDAI Regulations prohibit insurers from paying commissions beyond prescribed limits.**

◆ **GST authorities' claim:** Insurance companies bypassed these limits by:

- **Routing extra commissions through bogus marketing expenses.**
- **Using corporate agents as intermediaries to mask excessive payouts.**
- **Raising fake invoices for advertising and promotional activities that were never conducted.**





Modus Operandi: How Did the Alleged GST Evasion Happen?



Key Tactics Used by Insurance Companies:-





1. Employee Deployment Scheme 🏢

How it works:

- Insurance companies hire agents to sell policies. However, instead of employing them directly, they **route their salaries through third-party staffing firms** to avoid regulatory restrictions on commission payments.
- These agents work for the insurer but are shown as employees of a different company, allowing the insurer to bypass IRDAI's commission limits.

Example:

- ◆ **XYZ Insurance Co.** cannot pay an agent more than **15% commission** under IRDAI rules.
- ◆ To bypass this, the insurer **hires the agent through ABC Staffing Ltd.**, a third-party agency.
- ◆ Instead of paying a commission, XYZ Insurance **pays ABC Staffing a "salary reimbursement"**, which is later transferred to the agent.
- ◆ This way, the payment is disguised as **staffing costs** rather than an **agent commission**, **avoiding GST and IRDAI restrictions**





2. Fake Marketing Expenses

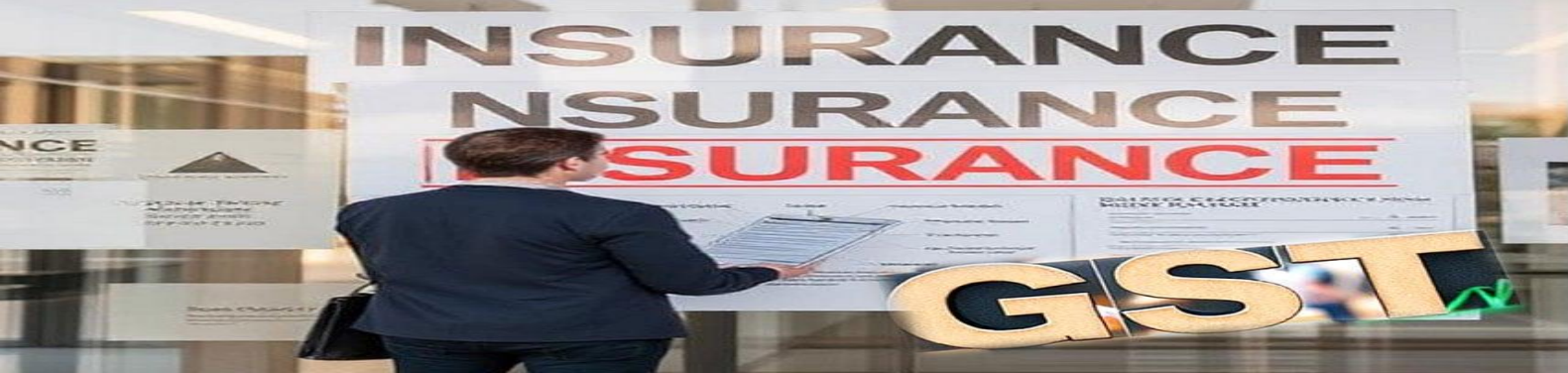
How it works:

- Insurance companies book large marketing expenses through third-party vendors. However, these campaigns **never actually take place**.
- The vendors issue invoices, and the insurance companies claim **input tax credit (ITC) on these fake expenses**, reducing their GST liability.

Example:

- ◆ **ABC Insurance hires PQR Marketing Agency for a ₹10 crore advertising campaign.**
- ◆ **PQR issues an invoice for marketing services like social media ads, banners, email campaigns, etc.**
- ◆ **In reality, no such campaign is conducted.**
- ◆ **ABC Insurance claims ITC of ₹1.8 crore (18% GST on ₹10 crore) without actually spending on marketing.**
- ◆ **Later, PQR refunds part of the ₹10 crore to ABC Insurance through shell companies, allowing tax evasion.**





3. Layered Transactions via Vendors 🏢

How it works:

- Instead of paying high commissions directly to agents or corporate brokers (which is restricted), insurers route payments through **multiple vendors**.
- This creates multiple layers, making it difficult for authorities to track the **actual flow of money**.

Example:

- ◆ **DEF Insurance** wants to pay an agent **30% commission**, but IRDAI allows only **15%**.
- ◆ Instead of direct payment, DEF Insurance:
 1. Pays **₹5 crore** to **XYZ Consulting** for a "market research report" 📊
 2. XYZ Consulting then pays **₹4.8 crore** to **LMN Digital Ads** for "advertising services" 📺
 3. LMN Digital Ads finally transfers **₹4.7 crore** to the agent as "consultancy fees" 💰
- ◆ Effectively, the agent gets an **extra ₹4.7 crore**, but on paper, it appears as **business expenses** rather than an excessive commission.





4. Co-insurance & Reinsurance Misreporting

✦ **Tactic:** Misreporting GST on **co-insurance premiums & reinsurance commissions** to reduce tax liability.

◆ **Example:** GHI Insurance, as the lead insurer, collects **₹100 Cr** in premium and distributes:

- **₹40 Cr** to co-insurer A
- **₹30 Cr** to co-insurer B
- **₹20 Cr** to co-insurer C
- **Keeps ₹10 Cr** for itself

◆ **Issue:** GHI Insurance **underreports** the **₹90 Cr** premium share, reducing GST liability.

◆ **Reinsurance Tactic:** GHI receives a commission from a reinsurer but **doesn't pay GST**, wrongly treating it as **exempt income**.





Top Companies Under the GST Scanner

Company	Tax Demand (₹ Cr.)	Key Allegation
HDFC Life	2,422	Fake invoices, excess commissions
Bajaj Allianz	1,010.05	Non-payment of GST on co-insurance premiums
Reliance General	922.58	Reinsurance commission tax evasion
ICICI Lombard	150	ITC claim discrepancies
Aviva Life	Under Investigation	Fake invoices, tax evasion





Court Relief: ICICI Lombard Case

In December 2024, the Delhi High Court quashed a ₹150 crore GST demand against ICICI Lombard, instructing tax authorities to re-evaluate the case based on the insurer's response to the show cause notice.

◆ **Implication:**

This case may set a precedent for other insurers, as courts could scrutinize tax department orders carefully before allowing large recoveries.





Industry's Stand: Why Are Insurers Contesting the Tax Demand?

- **Legal Interpretation Issue:** Insurers argue that **taxation of commissions and marketing expenses** under GST is a **matter of interpretation** and not outright fraud.
- **Operational Practices:** Many insurers claim they **follow industry norms** and that the **GST authorities are being too aggressive** in their assessments.
- **Financial Burden:** If upheld, these tax demands could severely impact the **profitability and solvency of insurance companies**.





What Next? Potential Outcomes

- ◆ **Court Battles** – Insurers expected to challenge demands in **High Courts & Supreme Court.**

- ◆ **Stricter Compliance** – Companies will need **stronger records** to claim ITC.

- ◆ **Govt Policy Reforms** – IRDAI & Finance Ministry may clarify **commission taxation rules.**




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