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A STUDY ON TAXATION: A SELLING TOOL FOR LIFE INSURANCE

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ABSTRACT

Human life is a most important asset and life insurance is the most important type of insurance which provides financial protection to a person and his family at the time of uncertain risks or damage. Life insurance provides both safety and protection to individuals and also encourages savings among people. LIC of India plays a vital role in the welfare of human well-being by providing insurance to millions of people against life risks such as uncertain death or accidents. The present exploratory and descriptive based study was selected with an objective to identify those factors which influence customers policy buying decision and also analyze the preferences of customers while life policy investment decision-making. Various insurance related factors have been discussed in the paper. The data for the study has been collected from secondary sources.. LIC is the most accepted and a popular brand in life insurance, the market share of private insurers are gradually increasing with People's trust and better services offered by them are some of the main findings of the study.

Insurance companies should spread more awareness about life insurance, reduction in premium amount and giving more attention on need based innovative products are some of the suggestions provided by the researcher. The paper concludes that demographic factors of the people play a major and pivotal role in deciding the purchase of life insurance policies.

INTRODUCTION

A Life Insurance policy is one of the most preferred investment avenues in India as it helps in tax planning. However, when you advise your clients to invest in a life insurance policy, don't measure it in terms of **"tax benefits"**; measure it in terms of **"life benefits"** that it has to offer.

The life of your client is his greatest investment and his family is the biggest asset for him. And when he invests in a life insurance policy he ensures that his loved ones have a financially secured future. Hence, before you advise your clients to invest in anything, remember that we are investing in their lives.

The insurance sector in India has come a long way from being a private sector industry, then to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost 50 years. In the 1940, there were more than 220 insurance companies in India. The Government of India decided to merge all the insurance companies and thus 245 Indian and foreign insurers and provident societies were taken over by the central government and nationalized in the year 1956. The merger and nationalization of all existing life insurance industries resulted in giving birth to the life insurance corporation of India (LIC), which was formed with a capital contribution of Rs 5 Crore from the government of India.

The Government of India decided to privatize the life insurance business and hence, insurance regulatory and development authority was formed in July 2000. IRDA licensed private players into the life insurance industry, customers have been treated to surfeit of choice in insurance products, penetration of life insurance is beginning to cut across socio-economic classes and attract people who never purchase insurance before. With the heightened awareness and customer education comes willingness to view life insurance as an integral part of the financial portfolio. It's now catching on as an important element of the overall financial basket. one that is purchased to fulfil specific rational and emotional needs.

An investment policy narrates the framework for investing government funds and recognizes the financing objectives,preference or forbearance for risk, hampering the investment portfolio and therefore the method the investment programs are managed and monitored.

One of the key factors to keep in mind when buying life insurance is tax. Although insurance should not be bought to save tax, the tax savings provided under various sections of the Indian Income Tax Act, make buying insurance "cheaper" as well as an efficient investment for long term savings.

Life insurance protects you and also helps you save tax.

Before understanding how you can save tax on life insurance, let us first get to grips with how your taxable income is calculated vis-à-vis the tax saving investments you make. Suppose the taxable portion of your income amounts to Rs 5,00,000. This means that your tax liability for the year would be computed for Rs 5,00,000, based on your income bracket. Thus, if a certain investment option is said to give a tax benefit up to Rs 50,000 per year, for example, then this Rs 50,000 is deducted from your taxable income, i.e. Rs 5,00,000. Thus, your tax liability would now be calculated at Rs 4,50,000.

- The more tax saving options you invest in, the lower your taxable income becomes. It is recommended that you look up a variety of tax-saving options spanning different sections of the Income Tax Act, 1961 to reduce your taxable income component considerably.

- These options include tax saving life insurance plans, health insurance, mutual funds, PPF (Public Provident Fund), NPF (National Provident Fund), home loan, etc.

- The life insurance tax benefits are ingrained in Section 80C of the Income Tax Act, 1961. You can claim a maximum deduction of Rs 1,50,000 per year against the premiums paid for the life insurance policy.

- The tax saving life insurance plans include policies taken for yourself, or your spouse, or dependent children.

- However, you must be able to show that you are paying the premiums against these options from your income. Do bear in mind that you and your employed spouse cannot claim life insurance tax benefits on the same plans in one year.

A few pointers on tax benefits on life insurance :

* You can claim deduction under Section 80C if the premium paid is not over 10% of the sum assured in the policy, if the policy has been purchased after April 1, 2012. If the policy has been purchased before April 1, 2012, then the premium must not be over 20% of the sum assured.

* If you have purchased a life insurance policy for a disabled family member or if such a condition applies to yourself, then you can save tax on life insurance by claiming deduction under Section 80C if the premium paid does not exceed 15% of the sum assured. However, the disability must be listed under Section 80U or the terminal disease under Section 80DDB of the Income Tax (IT) Act.

* Another life insurance tax benefit is that the maturity amount received on the policy is not taxed under Section 10D if the premium does not exceed 10% of the sum assured. This exemption is not available for premiums exceeding 10% of the sum assured.

* However, TDS is deducted on policies whose maturity amount exceeds Rs 1,00,000, but this TDS can be claimed by filing the subsequent year's ITR.

Payment of premium on life insurance policy and health insurance policy not only gives insurance cover to a taxpayer but also offers certain tax benefits. In this part you can gain knowledge about deductions available to a taxpayer on account of payment of life insurance premium, payment of health insurance premium and expenditure on medical treatment.

Total income from all the heads of income is called as "Gross Total Income" (GTI). To arrive at taxable income, one has to deduct from GTI, the deductions allowable under Chapter VIA (i.e., under section 80C to 80U). In other words, we can say that Taxable Income = Gross Total Income less Deductions under section 80C to 80U.

Following general rules should be kept in mind before claiming these deductions under section 80C to 80U:

1. No deduction under Chapter VI-A (under section 80C to 80U) shall be allowed from the following income:

i) Long-Term Capital Gains.

ii) Short-Term Capital Gains covered under section 111A. iii) Winnings from lotteries, horse race, etc., referred to in section 115BB.

iv) Income covered under sections 115A, 115AB, 115AC, 115AD, 115BBA and 115D.

2. The aggregate amount of deduction under section 80C to 80U cannot exceed GTI (i.e., GTI excluding incomes referred to above).

The list of deductions under section(s) 80C to 80U is quite long, however, in this part we will gain knowledge on some major deductions covering deductions available to a taxpayer on account of payment of life insurance premium, investment in PPF/NSC, payment of health insurance premium and expenditure on medical treatment.

REVIEW OF LITERATURE

Geetha & Ramesh, 2011: A Study on people's preferences in investment behaviour the author concluded that the various age groups give importance to investment in insurance, NSC, EPFs & bank deposits. The income level of respondents is additionally important for the aim of investment.

Shetty,Gopalkrishnan, & Mane,2013 : Studied about preference towards various tax saving schemes. The tax saving schemes during which investors have invested, to identify patterns of investment in tax saving schemes. Data required to identify the historical growth of investment in several tax saving schemes.

Kanthi & Kumar, 2013 : Holding Behaviour of Individual Investors in Coimbatore District, The paper studied the personality kind of the individual investment and to research investment holding behaviour of individual investors across their personality type , study carried at on individual investors of Coimbatore dist.

Khan, 2018 : Studied about the investment and taxes are the 2 important facets of an economy on one hand the taxes constitute a very important component for the revenue Generation of the exchequer and therefore on the other hand investment in tax saving schemes reduces the tax liability of an assess, however is a very important wheel of economic development.

Yadav & Tiwari, 2012: A study on factors affecting customer's investment towards life assurance policies, International Journal of Selling, Financial Services and Management Research. The aim of the study was to seek out factors affecting investment decisions in life assurance, to judge preferences of consumers while taking

An insurance study conducted found that the age groups 30-40 yr were more curious about taking life assurance than other age groups.

Thirumaran & Ganesh, 2012 : Has found that insurance companies in India are vital for one's saving purpose. He made a study to understand the attention level of consumers about insurance products, factors influencing the choice of insurance products. The study revealed that the start of insurance was checked out as a 'Tax- Benefits' investment.

Gupta, 2012 : Impact of taxation on Saving and Investment: the study was undertaken to go looking out the socio-economic status, knowledge about the tax saving scheme, amongst the individuals and investors. to research whether these schemes inculcate a saving habit for investors and suggest suitable measures for better tax structure. The paper concluded that if the liabilities of an investor is reduced, he would have more income which alternatively are often used for saving and investment. Invalid source specified. Studied the notice and perception regarding various tax saving instruments available many to avoid wasting lots of the tax to the teachers of upper education.

The study conducted to work out the tax saving investment options which are preferred to avoid wasting lots of tax and what the factors are considered before making investment decisions. Invalid source specified. The research found that lenders are conscious of investment avenues convenient in India but still investors are favoured to finance in bank deposits, real estate. The study reveals that 39 percent trust protection is a zone of chief concern while doing investment and the second major categories comprising of 25 percentages of the respondents are investing their funds within tax saving scheme to utilize tax benefits.

Savita & Gautam, 2013 : Taxation Planning: A Study of Tax Saving Instruments: the paper studied the alternatives for investments for tax savings, the object of the study was to go looking out the foremost popular kind of investment for tax savings. It absolutely was observed that investment by way of premium obtained insurance, followed by provident fund contribution and glued deposits savings were the foremost popular variety of investment. It also expresses that as income increases the investment for tax saving increases so it is the direct relationship between income and investment.

RATIONALE OF THE STUDY

The main purpose behind this study is to find that the implication of Taxation is used as a selling tool for Life Insurance. Life Insurance policy is one of the most preferred investment avenues in India as it helps in tax planning. However, when you advise your clients to invest in a life insurance policy, don't measure it in terms of "tax benefits"; measure it in terms of "life benefits" that it has to offer.

The reason why people buy life insurance is that it protects a few against the financial impact of anticipated bad luck by spreading the loss among the many that are exposed to risk of a similar nature. It is not possible to predict which individuals among the holders of the policy are likely to be the victims of bad luck. However, it is possible to forecast the quantum of loss for the group.

The extant literature on life insurance in India is mostly descriptive in nature, with a few empirical studies that have looked at demographic and socioeconomic drivers of insurance demand. Consumer behavior in the life insurance market has remained largely unexplored. Given the low levels of insurance penetration and its critical role in increasing financial wellbeing, it is important to understand the life insurance purchase behaviors of Indians. There are several issues that are of interest, the level of financial literacy and awareness, the level of social influence in the purchase decision, understanding the motivations behind the purchase and understanding whether the existing insurance providers are meeting the needs of the consumer. This is the primary motivation for this study.

As the financial year ends, most people in India tend to buy life insurance because it is tax-efficient. With hardly any time left for taking the decision, tax payers make the mistake of buying insurance for tax saving. In the process they end up choosing an unsuitable plan or paying a higher premium. However, when an individual is buying a life cover, the core purpose should not be limited to just tax saving. It has a more significant purpose and importance to our

lives.

An investment of around Rs 50 thousand on insurance premium will help you save approx. 15,000, if you fall under the uppermost tax bracket. Although the number is quite eye-catching and will help you save a lot of taxes on your annual income, yet life insurance should not be restricted to just saving a few bucks on tax. Instead it should offer you a long-term assurance of greater wellness for tomorrow.

The Indian insurance industry emerged rapidly after the year 2000. To survive in this highly competitive scenario, managers are being pressured to improve quality, recruit quality and skilled people and eliminate inefficiency. The collective efforts of the employer, managers and other relative people assume relevance in this context. And this is where marketing management and human resources play an important role. Recruitment is very important in today's scenario.

But still it is ignored and considered as a secondary aspect. In the case of insurance, industry recruitment only decides the success or failure of a company.

OBJECTIVES OF THE STUDY

- To study the apprehension among customers on the advantages of life insurance as a tax planning tool.
- To identify whether insurance is opted as a tool for saving tax.
- To infer the timing of tax planning among the purchasers.
- To study and rank the factors chargeable for the choice of life insurance as an investment option.
- To find out the preference level of people among the various sources of tax planning.

SCOPE OF THE STUDY

The study has been carried out to find whether taxation is the selling tool for insurance. This may help the industry to decide upon their distribution channel. It also gives information about which age group of people want which product. This may serve as a fundamental for the industry while selling the product .

RESEARCH METHODOLOGY

Thestudy is basedon thesystematic method of analysis of the data collected.

The data is collected through Secondary data. This research design involves organizing, collecting and analyzing these data samples for valid research conclusions. The study is based on the purchase of Life Insurance for the purpose of tax saving . Existing data is summarized and collated to increase the overall effectiveness of research. Secondary research includes research material published in research reports and similar documents. It is a descriptive study of data collected through books, journals, articles and newspapers.

SOURCES OF DATA :

Secondary data : Secondary data are those which have already been collected by someone and have gone thought the statistical machines. They are usually refined of the raw materials when statistical methods are applied on primary their shape and become secondary data. The secondary data are those which have already been collected by someone other than the investigator himself, and as such the problems associated with the original collection of data do not arise here. The secondary data can be collected directly either form published or unpublished sources. The following are the sources of published at from which secondary data can be collected.

- Website.
- Journals.
- Articles.
- Newspapers.
- Books.
- Project report.

THEORETICAL FRAMEWORK

Life insurance can be an effective tax planning tool for individuals looking to minimize their tax liability while providing financial protection for their loved ones. Here are the key ways life insurance offers tax benefits:

Tax Deductions on Life Insurance Premiums

- The premiums paid towards a life insurance policy qualify for tax deductions under Section 80C of the Income Tax Act, up to a limit of ₹1.5 lakh per year.
- If you have opted for additional riders like critical illness or health cover, the premiums paid for those can provide additional tax deductions under Section 80D, up to ₹25,000 per year.

Tax-Exempt Death Benefits

- The lump-sum death benefit received by your beneficiaries upon your demise is completely tax-exempt under Section 10(10D) of the Income Tax Act.
- This ensures your family does not have to pay any taxes on the death benefit they receive, providing them financial security during a difficult time.

Tax-Efficient Retirement Planning

- Permanent life insurance policies with cash value can be used to supplement retirement income in a tax-efficient manner.
- The cash value grows tax-deferred and can be accessed via policy loans or withdrawals to provide supplemental retirement income, potentially resulting in a lower effective tax rate in retirement.

Tax-Efficient Wealth Transfer

- Life insurance death benefits can be used to efficiently transfer wealth to the next generation, especially when funded with qualified plan distributions.

- This essentially allows you to pre-pay the taxes on a qualified asset that will pass to your heirs.

However, it's important to note that the primary purpose of life insurance should be to provide financial protection for your loved ones. The tax benefits, while significant, should be considered secondary to the death benefit coverage.

When choosing a life insurance policy, Analyze if the coverage aligns with the available tax exemptions and deductions under the Income Tax Act. Consult with a financial advisor to determine the most suitable policy that balances your protection needs with tax-saving objectives.

ANALYSIS & INTERPRETATION OF RESULTS

Most of the people purchase life insurance policy for the tax benefit. There are purchase life Insurance policy for safety, Risk coverage, investment purpose and future perspective. But tax benefit is more important advantage of the life Insurance policy. So highest no, of population purchase life Insurance policy as a tax benefit.

Customers have their own choices so that most of the customer choose life insurance company for the investment. Because this is the very popular and well knowing company for the customer. So that highest number of population choose to have insurance policy from the life Insurance company.

Most people's monthly income is less than 2 lakhs and some of the respondents are 2 to 5 lakhs.

Most of customer said that deduction are the special benefits from Life insurance on tax relief. Special benefits include standard deduction for the tax relief and the any other purpose of that. Customer said that standard deduction is most important from the life insurance side which is called as a special benefit.

Many respondents are claimed any benefits till on tax through investment in insurance. There is a more benefit from the tax savings because of the investment purpose. so that many customer claimed that till tax benefit through investment side. So that many customers responding yes from this point of view.

The life insurance industry in India is projected to grow from INR5.7 trillion (US$81.4bn) in 2019 to INR8.0 trillion (US$98.5bn) in 2024, in terms of gross written premium (GWP), according to Global Data, a leading data, and analytics company.

Global Data has revised India's insurance forecast in the aftermath of the COVID-19 outbreak. An analysis of Global Data's Global Insurance Database reveals that Indian life insurance industry is expected to grow at a compound annual growth rate (CAGR) of 7.0% over FY2019-2024, driven by favourable demographic factors, and economic recovery expected over the second half of 2021.

Manisha Varma, Insurance Analyst at Global Data, comments: "High number of COVID-19 related deaths in the last one year has increased awareness for life insurance in India. Easing of lockdown restrictions and increased adoption of digital distribution will further support the growth.

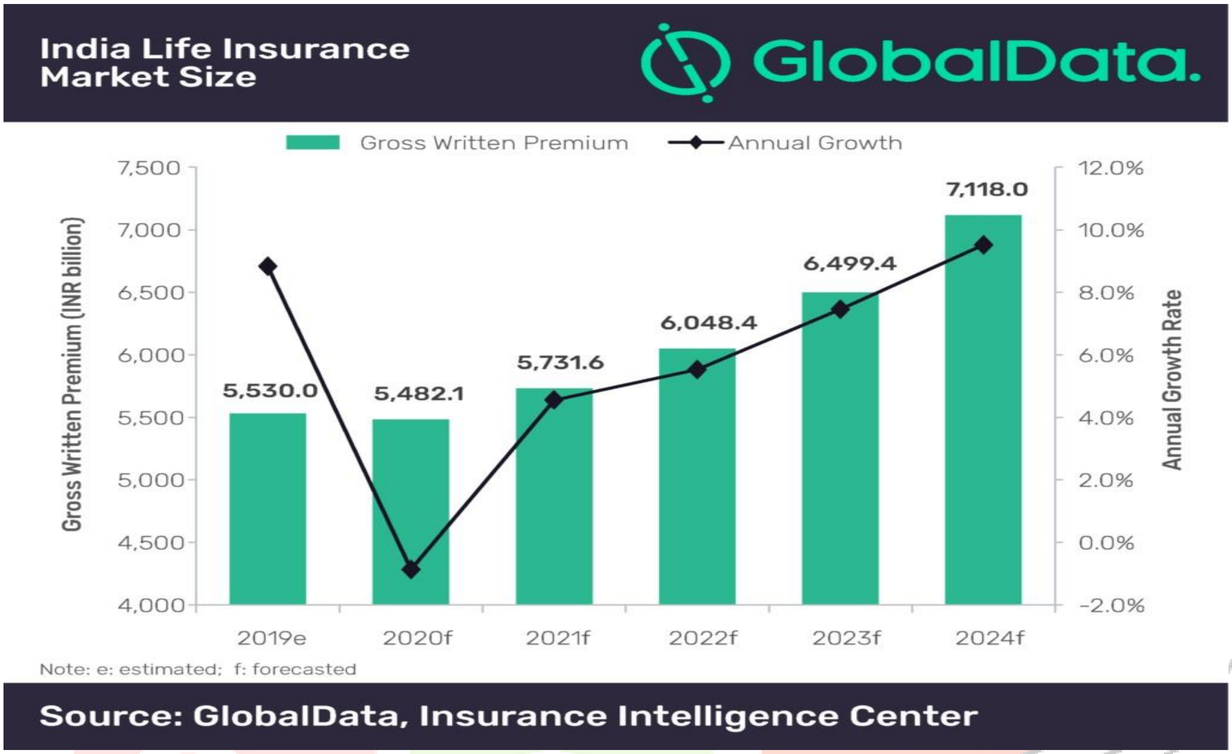
"Digital distribution got much-needed push as insurers are focusing on ensuring uninterrupted sales support and customer service. Insurers are also offering new products with COVID-19 specific benefits to push sales. In January 2021, new business premiums grew by year-on-year

3.7% to INR213.9bn (US$2.98bn)."

Positive regulatory developments seen in the last six months are expected to support life insurance growth. For instance, increasing FDI limit in insurance from 49% to 74% will encourage foreign insurers to enter the market and bring additional capital.

Additionally, in April 2021, the regulator permitted insurers to invest up to 10% of the outstanding debt instruments in a single Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) issue. The additional investment options will strengthen the financial position of insurers and encourage them to expand their product offerings.

Ms Varma concludes: "With vaccination drive picking-up pace, the Indian economy is expected to recover over the second half of the year. Increasing consumer awareness along with favorable demographics and regulatory environment will support the demand for life insurance policies."



SUGGESTIONS

1. The industry is targeting the taxation to sell the insurance policies but the insurance policy is sold for many other purposes and taxation plays a major role in selling the policies. Hence the industry could take appropriate measures to these segments.

2. There is a general feeling of insecurity among the people regarding the job of an agent with a private life insurance industry. Hence the industry must take measures to instil a sense of security among the people about the job because most of the people suggest the advisor for saving tax.

3. Awareness is needed to create the importance of life insurance not only for high class people but also for others.

4. A large number of private employees choose insurance for saving tax, the industry could benefit by coming up with appropriate measures to influence those people.

5. Most of the people plan for tax in the months of January, February, March and in this period the industry could benefit by coming up with appropriate measures to influence those people.

6. Private insurers should emphasis more on advertising and building brand awareness through different modes of communication. This will help in spreading insurance awareness among the common man.

7. To achieve greater insurance penetration, the healthier competition has to be intensified by both the sectors and they should come up with new innovative products to offer greater variety or choice to the

customers and also make improvement in the quality of services and sell products through appropriate distribution channel to win-win situation for both the parties.

8. Insurance companies should devise policies which provide effective risk coverage rather than focusing on the tax benefits and also encourages them for long term investment in Insurance.

9. Life insurance companies should come up with innovative tailor-made products with high risk cover, more return and low insurance premium to attract more number of customers.

FINDINGS

1. 7.33% treat tax as personal burden and they are the potential customers for the insurance sector and the remaining 92.67% treat tax as government regulation.

2. Awareness among the tax exemption for the maturity has been agreed by most of the population .

3. Among the population 72.67% choose insurance for tax planning.

4. Among the various sources of selling insurance tax planning is one of the main tools.

5. Everyone who preferred insurance for saving tax has chosen insurance only for big return and tax savings at the time maturity.

6. Everyone in the population agrees that there is a big returns and tax savings at the time of maturity.

7. Most of the clients want to invest in the short term duration. Nowadays insurance has become investment than savings.

8. Taxation plays the major role in selling insurance because insurance is changing to be an investment more than savings.

9. Most of the people wants to save themselves from paying heavy tax so it becomes the major element.

10. The schemes in insurance industry is appreciated by most of the tax payers.

CONCLUSION

Life insurance is an important form of insurance and essential for every individual. Life

Insurance penetration in India is very low as compared to developed nations where almost all lives are covered and the stage of saturation has been reached. Customers are the real pillar of the success of life insurance business and thus it's important for insurers to keep their policyholders satisfied and retained as long as possible and also get new business out of it by offering need based innovative products. There are many factors which affect customers' investment decisions in life insurance and from the study it has been concluded that demographic factors play a major and pivotal role in deciding the purchase of life insurance policies.

Life insurance is sold with many aspects in mind and one of the major promoting aspects is taxation. In this regard, the study conducted has proven that taxation plays a vital role in the promotion of various life insurance plans. The taxpayers plan their tax only at the last quarter (Jan-Feb-Mar) of the financial year thus the industry is required to start its advertising campaigns and product promotion well ahead. The demographic profile of the clients is also taken into consideration during product sales thus targeting more on the private industry employees and higher cadre employees. People who consider taxation to be a personal burden are prospective clients to the insurance industry. They are the customers who have to be focused. This study would give ideas to the industry on the area of concentration of insurance selling with regard to taxation.

Customers are the real factors of the success of life insurance and thus it is important for insurers to keep their policyholders well satisfied and assured about insurance. After the analysis we have found that customers are buying LIC not for tax saving but on the other hand it can be seen the customers are opting for insurance as their source to save tax among the other sources (FDs, PPF, NSC, NPS, ULIP). The peoples are preferring APRIL, MAY, JUNE as their tax planning period other than JAN, FEB, MARCH; JULY, AUG, SEP and OCT, NOV, DEC. Last but not the least, the factors which the peoples are choosing for LIC are brand name as they LIC being the oldest company, risk covered as if any uncertain accident occurs then the individual will be provided financial protection.

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