

Here's a simplified explanation of **GST Circular No. 244/01/2025-GST**, issued on **28th January 2025**, which clarifies the GST treatment for specific insurance-related transactions:

□ **Background** The Central Board of Indirect Taxes and Customs (CBIC) issued this circular following the recommendations of the 53rd GST Council meeting held on 22nd June 2024. The aim is to clarify the GST implications on certain transactions in the insurance sector, specifically related to co-insurance and reinsurance arrangements

□ **Key Clarifications**

1. **Apportionment of Co-Insurance Premiums**

- **What is it?** In co-insurance arrangements, multiple insurers jointly cover a risk. The lead insurer collects the full premium from the insured and distributes the appropriate shares to the co-insurers

2. **GST Treatment:** The activity of distributing the premium by the lead insurer to co-insurers is **not considered a supply of goods or services** under GST, provided that the lead insurer pays the applicable GST on the entire premium received from the insured.

3. **Ceding/Reinsurance Commissions**

- **What is it?** Insurers often transfer a portion of their risk to reinsurers by paying a reinsurance premium. The reinsurer may deduct a ceding commission from this premium as compensation to the insurer
- **GST Treatment:** The deduction of ceding or reinsurance commissions by the reinsurer is **not considered a supply of goods or services** under GST, provided that the reinsurer pays GST on the **gross reinsurance premium**, including the commission amount

□ **Effective Date-**These provisions have been incorporated into Schedule III of the CGST Act, 2017, through the Finance (No. 2) Act, 2024, and are **effective from 1st November 2024**.

□ **Regularization for Past Period**

To address past uncertainties, the GST Council recommended that the GST treatment clarified above be **regularized for the period from 1st July 2017 to 31st October 2024** on an "as is where is" basis. This means that any GST paid or not paid on these transactions during this period will not be subject to dispute or adjustment.

□ **Implications for Stakeholders**

- **Insurance Companies:** Should ensure that GST is paid on the full premium collected from the insured in co-insurance arrangements. **Reinsurers:** Must pay GST on the total reinsurance premium, including any ceding or reinsurance commissions deducted. **Accounting Practices:** Entities should review and, if necessary, update their accounting and GST compliance practices to align with these clarifications.