Life Insurance Tax Benefits & Implications

//

Life Insurance is the best way to enjoy **tax deductions on income tax and wealth ta**. This is available for amounts paid by way of premium for life insurance subject to income tax rates in force. Assessees can also avail of provisions in t law for tax relief. In such cases the assured effect pays a lower premium for insurance than otherwise.

Life insurance policies can be useful tax planning tools, because the policy holder is eligible for tax benefits under the **Income Tax Act 1961 (Act)**.

Though there are multiple modes for saving tax, life insurance is one of the most effective tax planning instrument. With **unit linked life insurance plans** (**ULIP**)· individuals can not only save tax b also look at achieving their long term goals

Advantages of tax planning using life insurance policies:

- **Tax Planning Advantage 1** - Premiums paid under a life insurance policy are eligible for deduction under **Section 80C*** of the Act, subject to the provisions of the said section.
- **Tax Planning Advantage 2** - Contributions to a pension plan are eligible for deduction under **Section 80CCC*** of the Act, subject to the provisions of the said section.
- **Tax Planning Advantage. 3** - The proceeds under a life insurance policy are exempt under **Section 10(10D)** of the Act, subject to the provisions of the said section.

** As per the prevailing law, the aggregate amount of deduction under section 80C and 80CCC shall not exceed one lakh rupees.*

Please Note: The above information only provides a general overview of some aspects of the tax laws applicable to life insurance/pension plans. Please consult a tax advisor before taking any action or investing in a life insurance policy for tax saving.

Tax Benefits for Life Insurance

- **On Premiums**
  Section 80C of the **Income Tax Act** is an effective way for the salaried person to reduce tax liability. Under this section, investments made in the specified instruments are subject to rebate. Currently, the amount available for rebate under section 80C is Rs. 100,000 which can be invested in life insurance premiums, pension superannuation fund, employee provident fund, equity linked mutual fund schemes (ELSS), National Savings Certificates and public provident fund (maximum Rs 70,000). The amount invested in these instruments is eligible for rebate through deduction of the amount from gross taxable income.

The benefits available on eligible categories of investments are as follows:
Life Insurance Premium paid by an individual in respect of

1. himself/herself,
2. his/her spouse, and
3. any of his/her children.

** Premium amount paid should not exceed 20% of the sum assured.*

Death Claims and Maturity Benefits
Life Insurance Policies are currently under an **EEE** regime i.e. that the Premiums Paid, Income earned by the Investments, and payment of Maturity proceeds or claim are all exempt "E" from tax. Payment by an Insurer on maturity and death claim are exempt from Tax for all eligible Life Insurance policies under section 10(10)(d) of the Income Tax Act. The only policies that are not eligible for exemption on payment on maturity or claim are Single Premium Policies or Policies where the sum assured was less than 5 times the Premium paid.

Pension Plans operate under an **EET** regime i.e. the Premiums paid for Pension Plans and the income earned by the Investment are exempt from Tax. Pension Plans have three components – a life insurance, a Pension endowment and a Pension annuity. As other Life Insurance Plans, Death benefits paid under a life insurance rider of the Pension Plan are exempt from Tax. A Pension endowment is limited to 1/3rd of the total accumulated amount, and is exempt from tax on maturity. A Pension annuity is clubbed with the individuals other income and is taxable at the normal rates of tax applicable.

However, please note that the provisions of the Income Tax Act given above are applicable for the Financial Year 2010-11; and that these tax provisions change from time to time. The proposed New Direct Tax Code applicable from Financial Year 2011-12, will make changes to tax treatment for insurance.

Service Tax
Service tax, education cess and higher secondary education cess will be additionally charged to the policyholder on the applicable charges/premium as notified by the Government of India from time to time.

Service tax, education cess and higher secondary education cess will be charged with effect from16th May 2008 on certain charges levied towards the management of unit-linked insurance plans. Therefore in addition to the service tax and education cess being currently levied on the risk cover, i.e. on the mortality charges, from the effective date service tax will also be additionally levied on charges such as premium allocation, policy administration, fund management, switching and miscellaneous charges.

This levy of service tax, education cess and higher secondary education cess is in accordance with **Section 65(105)(zx) of the Finance Act 1994**, as amended by Finance (No.2) Act 2004 and **Section 65(105)(zzzzf)** of Finance Act 2008 and which is subject to change from time to time.Tax benefits are subject to change in tax laws,. You are advised to consult your tax advisor for details.

FAQ

- Question: Is the maturity amount tax free?
  Answer: **Yes, the proceeds from a life insurance policy are tax-free on maturity.**
- Question: Is the death benefit taxable?
  Answer: **No. The death benefit is a tax-free sum of money paid to the nominee.**