

CBDT introduces Rule for computing taxable income from certain life insurance policies and provides guidelines regarding exemption under Section 10(10D) of the Act

21 August 2023



The Central Board of Direct Taxes (CBDT) has introduced a new Rule 11UACA¹ of the Income-tax Rules, 1962 (the Rules), which provides the mechanism for computation of taxable income² on receipt of the sum under a life insurance policy (other than a unit-linked insurance policy), which is not exempt under Section 10(10D) of the Income-tax Act, 1961 (the Act).

Further, in order to remove difficulties in claiming exemption under Section 10(10D) of the Act, post amendment made vide Finance Act, 2023 (FA 2023), the CBDT has also issued certain guidance³, including examples.

Background

- FA 2023 amended Section 56(2) of the Act by introducing a new clause (xiii). As per Section 56(2)(xiii) of the Act, any sum received under a LIP⁴ (including the amount allocated by way of bonus) is taxable under the head 'Income from other sources,' provided such amount is not exempt under Section 10(10D) of the Act.
- The amendment does not cover the sums received under a ULIP⁵ and keyman insurance policy.
- As per Section 56(2)(xiii) of the Act, the taxable amount would be the sum received under LIP after adjusting the aggregate premium paid during the term of such LIP (which is not claimed as a deduction under any other provisions of the Act), computed in the prescribed manner.
- In this regard, the CBDT has now notified Rule 11UACA¹ under the Rules, prescribing the method of computation of

taxable income under Section 56(2)(xiii) of the Act.

- Section 10(10D) of the Act exempts the sum received under a LIP, including a bonus on such a policy, subject to the compliance of prescribed conditions.
- FA 2023 substituted the 6th proviso to Section 10(10D) of the Act. Post the amendment, exemption under Section 10(10D) of the Act will not be available with effect from 1 April 2024 for:
 - Any sum received with respect to any LIP (other than a ULIP), issued on or after 1 April 2023, if the premium payable for any PY⁶ during the term of such policy exceeds INR 5 lakhs.

However, as per the amendment, if the premium is payable by a person for more than one LIP, other than ULIP, issued on or after 1 April 2023, these provisions shall apply only with respect to those LIPs, where the aggregate amount of premium does not exceed INR 5 lakhs in

¹ Notification No. 61 of 2023 dated 16 August 2023

² under section 56(2)(xiii) of the Income-tax Act, 1961

³ Circular No. 15 of 2023 dated 16 August 2023

⁴ Life Insurance Policy

⁵ Unit Linked Insurance Policy

⁶ Previous Year (period from 1 April of the year to 31 March of the next year)

any of the PY during the term of any of those policies.

- In order to remove difficulties in implementing the aforesaid amendment and claiming exemption under Section 10(10D) of the Act, the CBDT has issued certain guidelines^{Error! Bookmark not defined.}. It also provides examples to clarify cases where such LIP proceeds would be considered taxable or exempt.

Rule 11UACA of the Rules – Computing amount taxable under Section 56(2)(xiii) of the Act

- Rule 11UACA of the Rules provides that the amount taxable under Section 56(2)(xiii) of the Act would be computed as under:

- **Sum received for the first time under the LIP:**

Taxable income shall be (A-B), where:

A = sum or aggregate sum received under the LIP during the first PY.

B = aggregate premium paid during the term of the LIP till the date of receipt of such sum in the first PY.

(Provided such premium has not been claimed as a deduction under any other provision of the Act).

- **Sum received under the LIP during the PY subsequent to the first PY ('subsequent PY')**

Taxable income shall be (C-D), where:

C = sum or aggregate sum received under the LIP during the subsequent PY.

D = aggregate of premium paid during the term of the LIP till the date of

receipt of such sum in the subsequent PY, excluding the following:

- premium for which deduction has been claimed under any other provisions of the Act; or
- premium included in amount 'B' or amount 'D' of this rule in any of the PY(s)

Guidelines in relation to Section 10(10D) of the Act

- The CBDT has clarified the manner of implementing the amendment in Section 10(10D) of the Act through various illustrations. Further, the CBDT has also clarified that:

- While computing the threshold of INR 5 lakhs in respect of the premium payable / aggregate premium payable, the GST component has to be excluded.
- The aforesaid amendment will not apply to a 'term life insurance policy', and hence, any premium paid for such policies would not be considered while computing the threshold of INR 5 lakhs.

- Various scenarios under which such LIP receipts would be considered as taxable or tax exempt are summarised as under:

Scenario 1: No consideration received on eligible LIP⁷ during any preceding PY or consideration received but not claimed as exempt under Section 10(10D) of the Act.

Cases	Received consideration under one eligible LIP or multiple eligible LIP(s)	Aggregate premium payable on all LIP(s) for any of the PYs	Eligible for exemption under Section 10(10D) of the Act
Case 1	One LIP	< INR 5 lakhs	Yes; subject to fulfilment of other conditions
Case 2	One LIP	> INR 5 lakhs	No
Case 3	Multiple LIP(s)	< INR 5 lakhs	Yes; subject to fulfilment of other conditions
Case 4	Multiple LIP(s)	> INR 5 lakhs	Only consideration received under such LIP where the aggregate amount of premium is less than INR 5,00,000 for any PY, subject to fulfilment of other conditions – <i>Refer illustration 1 below</i>

Scenario 2: Consideration received under eligible LIP(s) during any preceding PY and claimed as exempt under Section 10(10D) of the Act – referred to as ‘old eligible LIP’

Cases	Received consideration under one eligible LIP or multiple eligible LIP(s)	Aggregate premium payable on all LIP(s) (eligible LIP + old eligible LIP) for any of the PY	Eligible for exemption under Section 10(10D) of the Act
Case 1	One LIP	< INR 5 lakhs	Yes, provided it is not excluded under Section 10(10D) of the Act
Case 2	One LIP	> INR 5 lakhs	No
Case 3	Multiple LIP(s)	< INR 5 lakhs	Yes, provided it is not excluded under Section 10(10D) of the Act

⁷ Eligible LIP means LIP (other than ULIP) issued on or after 1 April 2023

Case 4	Multiple LIP(s)	> INR 5 lakhs	Only consideration received under such LIP where the aggregate amount of premium is less than INR 5,00,000 for any PY, provided it will be exempt under Section 10(10D) of the Act – Refer illustration 2 below
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- The illustrations for Case 4 under both the above scenarios are provided below:

Illustration 1

The assessee holds LIPs, namely 'A' and 'B,' which satisfy conditions laid down in Section 10(10D) of the Act. During the preceding PY (i.e., PY earlier than PY 2033-34), assessee did not receive any consideration under any other eligible LIP.

Life insurance policy	A	B
Date of issue	1 April 2023	1 April 2023
Annual premium (INR)	4.5 lakhs	5.5 lakhs
Sum assured (INR)	45 lakhs	55 lakhs
Consideration received as on 1 November 2033 on maturity (INR)	52 lakhs	60 lakhs

Taxability of consideration received as per seventh proviso to Section 10(10D) of the Act:

- Under LIP 'B'** – Not exempt under Section 10(10D) of the Act since the aggregate annual premium payable for LIP 'A' and LIP 'B' exceeds INR 5 lakhs during the term of these policies.
- Under LIP 'A'** – Exempt under Section 10(10D) of the Act since its annual premium does not exceed INR 5 lakhs in any of the PYs during the term of the policy.

Illustration 2

The assessee holds LIPs, namely 'A' and 'B,' which satisfy conditions laid down in Section 10(10D) of the Act. During the preceding PY (i.e., PY earlier than PY 2033-34), assessee did not receive any consideration under any other eligible LIP.

Life insurance policy	X	A	B	C
Date of issue	1 April 2023	1 April 2024	1 April 2024	1 April 2024
Annual premium (INR)	2.5 lakhs	2 lakhs	2.5 lakhs	6 lakhs
Sum assured (INR)	25 lakhs	20 lakhs	25 lakhs	60 lakhs
Consideration received on maturity as on 1 November 2033 (INR)	30 lakhs	-	-	-
Consideration received on maturity as on 1 November 2034 (INR)	-	24 lakhs	38 lakhs	70 lakhs

Taxability of consideration received as per seventh proviso to Section 10(10D) of the Act:

- **Under LIP 'X'** - Exempt under Section 10(10D) of the Act for PY 2033-34 since the annual premium does not exceed INR 5 lakhs.
- **Under LIP 'B'** - Exempt under Section 10(10D) of the Act during PY 2034-35.
- **Under LIP(s) 'A' and 'C'** - Not exempt under Section 10(10D) of the Act.

The exemption is restricted to consideration under LIP 'B' since aggregate annual premium payable for LIP(s) 'X' and 'B' together does not exceed INR 5 lakhs for any of the PYs during the term of life insurance policies 'X' and 'B.'

In this case, instead of LIP 'B,' LIP 'A' could have been taken as the aggregate annual premium payable for LIP(s) 'X' and 'A' is also less than INR 5 lakhs during the term of these LIP(s). However, since consideration received in LIP 'B' is higher than the sum received from LIP 'A,' LIP 'B' has been included and considered for exemption.

Our comments

Issuance of this guidance is a welcome move. This would reduce any potential litigation relating to interpretational issues on the taxability of sum received from such LIPs or while claiming exemption under Section 10(10D) of the Act.

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