CBDT Guidelines on Income Tax Exemption for ULIP Receipts u/s 10(10D)

As we know, various benefits are attached to the life insurance policy, and tax benefits is one such key benefit. The tax benefit is available in terms of income tax deduction and income tax exemption. Provisions of section 80c offer the income tax deduction, whereas, provisions of section 10(10D) provide the income tax exemption. Under the current article, we would evaluate the income tax exemption available under provisions of **section 10(10D)** of the income tax act.

Finance Act 2021 has inserted fourth and fifth provision under section 10(10D) of the act which are reproduced as under:

Besides restricting the exemption under section 10(10D) for payment of excess premium (10% of actual capital sum assured), the Finance Act, 2021 has inserted the Fourth and Fifth Provisions to section 10(10D). These provisos provide that no exemption shall be available for the ULIPs issued on or after 01-02-2021 if the amount of premium payable for any of the PY during the policy term exceeds Rs.2,50,000 ('high premium ULIPs').

The Fourth Provision provides that no exemption shall be available for a policy acquired on or after 01-02-2021 if the premium paid in any year during the tenure of the ULIP exceeds Rs.2,50,000. The fourth provision talks about a single policy only. So, where the premium payable for a single policy exceeds Rs. 2.5 lakhs in any year during its tenure, no exemption under section 10(10D) will be allowed for such policy.

The Fifth Provision deals with the situation where in an assesses holds multiple policies at a given time. The said provision allows the exemption for all those policies whose aggregate premium in any year during the tenure of such multiple policies is less than Rs. 2,50,000. It implies that if the person has acquired more than one policy on or after 01-02-2021, and the premium payable for each of such policies during any year does not exceed Rs. 2.5 lakhs but the aggregate of premium payable for all such policies exceeds Rs. 2.5 lakhs in a year, the exemption under this section would be allowed only in respect of those policies whose aggregate premium is within such prescribed limit, i.e., Rs. 2.5 lakhs. In other words, the exemption shall be allowed only with respect to low premium ULIPs the aggregate of which is under Rs. 2.5 lakh.

Trigger points of Fourth and Fifth proviso

Fourth Proviso

The fourth proviso shall be triggered if the following conditions are satisfied:

- The assesses purchases a single ULIP on or after 01-02-2021; and
- The annual premium payable for any of the previous years during the term of such policy exceeds Rs. 2,50,000.

If both the conditions are satisfied, the fourth proviso is attracted, and the assesses shall not be eligible to claim an exemption I respect of such policy.

Fifth Proviso

The fifth proviso shall be triggered if the following conditions are satisfied:

- The assesses purchases multiple ULIPs on or after 01-02-2021; and
- He holds more than one ULIPs during any previous year.

If both the conditions are satisfied, the fifth proviso is attracted. All the multiple policies held during that year shall be clubbed, and the exemption should be claimed up to the threshold limit of Rs. 2.5 lakhs during the life cycle of all such policies.

CBDT's guidelines on the applicability of fourth and fifth proviso

To determine the exemption under section 10(10D) for the current previous year, the CBDT has issued clarifications on the following two situations:

- Assesses receives no sum from ULIPs in the past years, or sum is received, but assesses chose not to claim an exemption under section 10(10D);
- The sum is received, and the assesses has claimed exemption under section 10(10D).

Where no consideration is received, or assesses claims no exemption on the sum received:

An assesses has not received any sum from eligible ULIPs or if the sum is received, but the assesses did not claim exemption on such sum. In such cases, the exemption under section 10(10D) for the current previous year shall be determined in the following manner:

Sum is received from one ULIP only

The assesses shall be eligible to claim exemption only if the annual premium payable does not exceed Rs. 2.5 lakh in any year during the term of such one ULIP. If the premium payable exceeds Rs. 2.5 lakh in any year, the *fourth* proviso is attracted, and the sum received from ULIP shall not be eligible for exemption under Section 10(10D).

Example 1: Mr. Raj has ULIP A satisfying all the conditions of Section 10(10D), except the conditions provided by *Fourth and Fifth Proviso. Determine the exemption on maturity in the previous year 2031-32, assuming he did not receive any consideration under any other ULIPs in previous years.*

ULIP	*A*
Date of policy	01-04-2021
Annual premium	Rs. 2,00,000

Sum assured	Rs. 20,00,000
Consideration received on 01-04-2031 on maturity	Rs. 22,00,000

As the annual premium does not exceed the prescribed limit of Rs. 2.5 lakh, the consideration received on maturity will be exempt under Section 10(10D).

Sum is received from more than one ULIPs

The assesses shall be eligible to claim the exemption for all ULIPs if the aggregate of premium payable on all such ULIPs does not exceed Rs. 2.5 lakh in any year during their policy term. If the aggregate of premium payable on all ULIPs exceeds Rs. 2.5 lakh in any of the years, the consideration received from only those ULIPs shall be exempt whose aggregate premium payable does not exceed Rs. 2,50,000.

Example 2: Mr. Raj has multiple ULIPs satisfying all the conditions of Section 10(10D), except the conditions provided by *Fourth and Fifth Proviso. Determine the exemption on maturity in the previous year 2031-32, assuming he did not receive any consideration under any other ULIPs in previous years.*

ULIP	A	B	C	D
Date of policy	01-04-2021	01-04-2021	01-04-2021	01-04-2021
Annual premium (X)	Rs. 1,00,000	Rs. 1,50,000	Rs. 2,00,000	Rs. 3,00,000
Tenure of policy (Y)	10 years	10 years	10 years	10 years
Sum assured	Rs. 20,00,000	Rs. 20,00,000	Rs. 30,00,000	Rs. 30,00,000
Consideration received on 01-04-2031 on maturity (Z)	Rs. 22,00,000	Rs. 30,00,000	Rs. 34,00,000	Rs. 40,00,000
Yield (Z-X*Y)	12,00,000	15,00,000	14,00,000	10,00,000
Eligible for exemption	Yes	Yes	Yes	No
Exemption to be claimed	Yes	Yes	No	–

Since Mr. Raj has invested in multiple policies issued on or after 01-04-2021, and the aggregate of premiums payable in any year during such policies term exceed Rs. 2,50,000 the *fifth proviso* will apply. Accordingly, the exemption shall be allowed only for those low premium ULIPs, whose aggregate premium does not exceed the threshold limit of Rs. 2.5 lakh.

ULIP D is not eligible for exemption since its annual premium exceeds the threshold limit of Rs. 2.5 lakh.

Out of the remaining ULIPs A, B and C, the exemption can be claimed only for those ULIPs whose aggregate premium during any year does not exceed Rs. 2,50,000. He should choose those policies for the exemption that gives him maximum benefit. In this exercise, two factors should be considered: the yield of the policy and the policies that can exhaust the full limit of Rs. 2,50,000.

- As the yield of ULIP B is maximum (Rs. 15 lakhs), this should be considered for exemption.
- The annual premium of ULIP B is Rs. 1,50,000, so the next policy should be one having maximum yield but premium of that should not exceed Rs. 1,00,000.
- The next high yield policy is ULIP C (Rs. 14 lakhs) but it cannot be considered as its annual premium is Rs. 2,00,000. So, he will have to choose ULIP A for the exemption.

Accordingly, the consideration received on maturity of ULIP A and B shall be eligible for exemption under section 10(10D).

Where an exemption is claimed for consideration received from ULIP in any previous year:

The assesses has received any sum from eligible ULIPs during the preceding year and claimed the exemption for the same ('old ULIPs'). In such a case, the exemption under section 10(10D) during the current previous year shall be determined in the following manner:

Sum is received from one ULIP only

The assesses can claim exemption only if the premium payable on such ULIP and old ULIPs does not exceed Rs. 2.5 lakh in any year during the term of such ULIP. If the premium payable exceeds Rs. 2.5 lakh in any year, the sum received from such ULIP shall not be eligible for exemption under Section 10(10D).

Example 3, Mr. Raj has the following ULIPs satisfying all the conditions of Section 10(10D), except the conditions provided in *Fourth and Fifth Proviso. Determine the exemption on maturity in the previous year 2032-33, assuming he received consideration on maturity of ULIP A in the previous year 2031-32.*

ULIP	***A***	***B***
Date of policy	01-04-2021	01-04-2022
Annual premium	Rs. 1,00,000	Rs. 1,50,000
Sum assured	Rs. 20,00,000	Rs. 20,00,000
Consideration received on 01-04-2031 on maturity	Rs. 28,00,000	–

Consideration received on 01-04-2032 on maturity	–	Rs. 30,00,000

The sum received on ULIP A would be eligible for exemption as the annual premium of ULIP A does not exceed Rs. 2.5. lakh. As aggregate premium payable for ULIPs A and B does not exceed Rs. 2.5 lakh in any term of the policy, ULIP B shall also be eligible for exemption under Section 10(10D).

Suppose in the above example, the annual premium for ULIP B is Rs. 2,00,000. In that case, the sum received from ULIP B shall not be eligible for exemption as the amount of premium payable on ULIP B and ULIP A exceeded the threshold limit of Rs. 2.5 lakhs.

Sum is received from more than one ULIPs

The assesses can claim exemption only if the premium payable on more than one ULIPs and old ULIPs on which exemption was claimed in the prior year does not exceed Rs. 2.5 lakh in any year during their term. If the premium payable exceeds Rs. 2.5 lakh in any year, the sum received from ULIP shall not be eligible for exemption under section 10(10D).

Example 4: Mr. Raj has the following ULIPs satisfying all the conditions of Section 10(10D), except the conditions provided in *Fourth and Fifth Proviso. Determine the exemption on maturity in the previous year 2032-33, assuming he claimed exemption on consideration received on the maturity of ULIP A in the previous year 2031-32.*

ULIP	**A**	**B**	**C**	**D**
Date of policy	01-04-2021	01-04-2022	01-04-2023	01-04-2023
Annual premium (X)	Rs. 1,00,000	Rs. 50,000	Rs. 1,00,000	Rs. 2,00,000
Tenure of policy (Y)	10 years	10 years	10 years	10 years
Sum assured	Rs. 20,00,000	Rs. 10,00,000	Rs. 15,00,000	Rs. 20,00,000
Consideration received on 01-04-2031 on maturity (Z1)	Rs. 22,00,000	–	–	–
Consideration received on 01-04-2032 on maturity (Z2)	–	Rs. 20,00,000	Rs. 15,00,000	Rs. 30,00,000
Yield (Z2+Z2-X*Y)	Rs. 12,00,000	Rs. 15,00,000	Rs. 5,00,000	Rs. 10,00,000

All the policies shall be eligible for the exemption because the annual premium for each policy does not exceed Rs. 2.5 lakhs in any year. However, as the aggregate premium of all policies exceeds Rs. 2.5 lakhs in any year (in this case, it exceeded in the previous year 2023-24 and onwards) the exemption shall be allowed only with respect to those ULIPs, whose aggregate premium does not exceed the threshold limit of Rs. 2.5 lakhs. Since he has already claimed exemption for ULIP A, its annual premium shall also be considered while computing the limit of Rs. 2.5 lakhs.

Out of the remaining ULIPs B, C and D, the exemption can be claimed only for those ULIPs whose aggregate premium, including premium payable on old ULIPs (ULIP A) during any year, does not exceed Rs. 2,50,000.

The annual premium of the old ULIP was Rs. 1,00,000. Thus, he should choose those policies whose aggregate annual premium is Rs. 1,50,000 and give him maximum benefit. In this exercise, two factors should be considered: the yield of the policy and the policies that can exhaust the full limit of Rs. 2,50,000.

- As the yield of ULIP B is maximum (Rs. 15 lakhs), this should be considered for exemption.
- The annual premium of ULIP B is Rs. 50,000, so the next policy should be one whose premium does not exceed Rs. 1,00,000.
- He cannot choose ULIP D because its annual premium is Rs. 2,00,000. So he will have to choose ULIP C.

Accordingly, the consideration received on maturity of ULIP B and C shall be eligible for exemption under section 10(10D).

Computation of Capital Gain for the purpose of sub-section (1B) of section 45(1):

Where any person receives at any time during any previous year any amount under a specified unit linked insurance policy, including the amount allocated by way of bonus on such policy, then

(i) where the amount is received for the first time under the specified unit linked insurance policy during the previous year, the capital gains arising from receipt of such amount by such person during the previous year in which such amount is received shall be calculated in accordance with the formula:

A-B

where,

A= the amount received for the first time under a specified unit linked insurance policy during the previous year, including the amount allocated by way of bonus on such policy; and B = the aggregate of the premium paid during the term of the specified unit linked insurance policy till the date of receipt of the amount as referred to in "A‟;

(ii) where the amount is received under the specified unit linked insurance policy during the previous year, at any time after the receipt of the amount as referred to in clause (i), the capital gains arising from receipt of such amount by such person during the previous year in which such amount is received shall be calculated in accordance to the formula,

C-D

where,

C= the amount received under a specified unit linked insurance policy during the previous year, at any time after the receipt of the amount as referred to in clause (i), including the amount allocated by way of bonus on such policy excluding the amount that has already been considered for calculation of taxable amount under this sub- rule during the earlier previous year or years; and

D = the aggregate of the premium paid during the term of the specified unit linked insurance policy till the date of receipt of the amount as referred to in „C‟ as reduced by the premium that has already been considered for calculation of taxable amount under this sub-rule during the earlier previous year or years.

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