GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
RAJYA SABHA
UN-STARRED QUESTION NO. 3099

ANSWERED ON 28.03.2023

AMENDMENT IN INCOME TAX ACT

3099. SHRI SANJEEV ARORA:

Will the Minister of Finance be pleased to state:

the rationale behind the Amendment in Section 10(10D) of the Income Tax Act, related to taxation of maturity proceeds of life insurance policies as the proposed amendment is against the fundamental concept of incentivizing the citizens to invest in social security schemes?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PANKAJ CHAUDHARY)

In order to further the welfare objective by subsidising the risk premium for an individual's life and providing benefit to small and genuine cases of life insurance coverage, clause (10D) of section 10 of the Income-tax Act, 1961(the Act) provides for income-tax exemption on the sum received under a life insurance policy, including bonus on such policy subject to certain conditions.

II. Over the years it has been observed that several high net worth individuals are misusing the exemption provided under clause (10D) of section 10 of the Act by investing in policies having large premium contributions (as it is like an investment policy) and claiming exemption on the sum received under such life insurance policies.

III. In order to curb such misuse, Finance Act, 2021 amended clause (10D) of section 10 of the Act to provide that the sum received under a unit linked policy [ULIP] (barring the sum received on death of a person), issued on or after the 01.02.2021 shall not be exempt if the amount of premium payable for any of the previous years during the term of such policy exceeds Rs 2,50,000. It was also provided that if premium is payable for more than one ULIPs, issued on or after the 01.02.2021, the exemption under the said clause shall be available only with respect to such policies where the aggregate premium does not exceed Rs 2,50,000 for any of the previous years during the term of any of the policies.

IV. Finance Bill, 2023 has now proposed to tax income from insurance policies (other than ULIP for which provisions already exist) if the amount of premium payable for any of the previous years during the term of such policy exceeds five lakh rupees. It is also proposed to provide that if the premium is payable by a person for more than one life insurance policy (other than unit linked insurance policy), issued on or after 01.04.2023, the provisions of this clause shall apply only with respect to those life insurance policies (other than unit linked insurance policies), where the aggregate amount of premium does not exceed Rs 5,00, 000/- in any of the previous years during the term of any of those policies. Income is proposed to be exempt if it is received on the death of the insured person.

V. Hence, the proposed amendment will not impact pure term life insurance where money is payable to nominee on death of the subscriber. It will also not affect the exemption of any money received by the nominee on the death of the subscriber in any insurance product. Smaller policies which are required for social security are also not impacted.

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