



Tax alert: CBDT issues circular, notification for determining exempt, computing taxable life insurance proceeds

21 August 2023

The Central Board of Direct Taxes (CBDT) vide Circular No. 15 of 2023 dated 16 August 2023, has issued guidelines for determination of exemption under section 10(10D) of the Income-tax Act, 1961 and Notification No. 61/2023 dated 16 August 2023, prescribing the manner of computation of income in respect of sum received under life insurance policy.

Background:

- Section 10(10D) of the Income-tax Act, 1961 (ITA) provides for exemption on any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy subject to certain exclusions.
- Finance Act, 2023 (FA 2023) amended section 10(10D) of the ITA with effect from 1 April 2024 [i.e., Assessment Year (AY) 2024-25] to provide that:
 - sum received under a life insurance policy(ies), other than a unit linked insurance policy (ULIP)
 - issued on or after 1 April 2023
 - shall not be exempt
 - if the amount of premium payable or aggregate premium payable for any of the Financial Years (FYs) during the term of such policy(ies) exceeds INR 500,000.

The above does not apply in case of any sum received on death of a person.

- Further, FA 2023 had also introduced section 56(2)(xiii) of the ITA to provide that where any sum received, including the amount allocated by way of bonus, at any time during a FY, under a life insurance policy, other than the sum,-
 - a) received under a ULIP, or
 - b) income referred to in section 56(2)(iv)¹,

which is not to be excluded from the total income of the FY under section 10(10D) of the ITA, the sum so received as exceeds the aggregate of the premium paid, during the term of such life insurance policy, and not

¹ Section 56(2)(iv) of the ITA:

"In particular, and without prejudice to the generality of the provisions of sub-section (1), the following incomes, shall be chargeable to income-tax under the head 'Income from other sources', namely...

...(iv) income referred to in sub-clause (xi) of clause (24) of section 2, if such income is not chargeable to income-tax under the head "Profits and gains of business or profession" or under the head 'Salaries'."

Note that section 2(24)(xi) of the ITA refers to "any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy."

claimed as deduction in any other provision of the ITA, as computed in the manner prescribed shall be chargeable to income-tax under the head "Income from other sources".

- Section 10(10D) of the ITA also empowers the CBDT to issue guidelines in order to remove any difficulty which arises while giving effect to the provisions of the section 10(10D) of the ITA. Accordingly, the CBDT has now issued guidelines vide Circular No. 15 of 2023 dated 16 August 2023 providing certain situations and examples to be covered within the ambit of section 10(10D) of the ITA.
- Separately, the CBDT² vide Notification No. 61/2023 dated 16 August 2023 has also introduced new rule 11UACA of the Income-tax Rules, 1962 (Rules) prescribing the manner of computation of income chargeable to tax under section 56(2)(xiii) of the ITA, in respect of sum received under a life insurance policy.

Highlights of the Circular:

The Circular has issued following guidelines, by way of different situations along with examples, for determination of exemption under section 10(10D) of the ITA:

- **Situation 1:** No consideration³ is received on any **eligible life insurance policies**⁴ during any FY preceding the current FY⁵ or consideration has been received on such eligible life insurance policies but has not been claimed exempt under section 10(10D) of the ITA.
 - (i) Consideration received during the current FY under **one eligible life insurance policy** only and the amount of premium payable on such eligible life insurance policy for any of the FYs during the term of such eligible life insurance policy:
 - Does not exceed INR 500,000 – Eligible for exemption subject to fulfilment of other conditions.
 - Exceeds INR 500,000 – Not eligible for exemption.
 - (ii) Consideration received during the current FY, under **more than one eligible life insurance policies** and the aggregate of the amount of premium payable on such eligible life insurance policies for any of the FYs during the term of such eligible life insurance policies,
 - Does not exceed INR 500,000 – Eligible for exemption subject to fulfilment of other conditions.
 - Exceeds INR 500,000 – Only such eligible life insurance policies shall be eligible for exemption under the section 10(10D) of the ITA where aggregate of the amount of the premium payable does not exceed INR 500,000 for any of the previous years during their term (examples have been provided with respect to the same in the circular) subject to fulfilment of other conditions.
- **Situation 2:** Consideration received under any one or more eligible life insurance policies during any FY preceding the current FY and it has been claimed exempt under section 10(10D) of the ITA (**old eligible life insurance policies**):
 - (i) Consideration received during the current FY under **one eligible life insurance policy** only and aggregate amount of premium payable on such eligible life insurance policy and old eligible life insurance policies for any of the FY during the term of such eligible life insurance policy
 - Does not exceed INR 5,00,000 – Eligible for exemption⁶.

² In exercise of powers conferred by section 56(2)(xiii) read with section 295 of the ITA

³ "consideration" means sum received (of any nature including bonus) under an eligible life insurance policy

⁴ "eligible life insurance policy" means any life insurance policy (other than ULIP) issued on or after 1 April 2023

⁵ "current previous year" means the FY in which consideration is received and its taxability is being examined.

⁶ Provided not excluded under sub-clauses (a) to (d) of section 10(10D) of the ITA

- Exceeds INR 5,00,000 – Not eligible for exemption.
- (ii) Consideration received during the current FY under **more than one eligible life insurance policies** and aggregate of the amount of premium payable on such eligible life insurance policies and old eligible life insurance policies for any of the FYs during the term of such eligible life insurance policies
 - Does not exceed INR 500,000 – Eligible for exemption⁷.
 - Exceeds INR 500,000 – Only such eligible life insurance policies shall be eligible for exemption⁸ where aggregate amount of premium along with the aggregate amount of premium of old eligible life insurance policies does not exceed INR 500,000 for any of the FYs during the term of any of such eligible life insurance policies (examples have been provided with respect to the same in the circular).
- CBDT has also clarified that the premium payable/ aggregate premium payable for a life insurance policy(s), other than a ULIP, issued on or after 1 April 2023, for any FY, shall be exclusive of the amount of the Goods and Service Tax (GST) payable on such premium.
- It has also been clarified that the aforesaid conditions related to the threshold of INR 500,000 provided under section 10(10D) of the ITA shall not be applicable in case of a term life insurance policy i.e. where sum under a life insurance policy is only paid to the nominee in case of the death of the person insured during the term of the policy and no amount is paid to anyone if the insured person survives the policy tenure.

Summary of the Notification:

- The new rule 11UACA of the Rules provides that where any person receives at any time during any FY any sum under a life insurance policy, then the income chargeable to tax under section 56(2)(xiii) of the ITA shall be computed in accordance with the following formulas:

Sum received for the first time

- Where the sum is received for the **first time** under the life insurance policy during the first FY, the income chargeable to tax in the first FY shall be computed as,

A-B

where,

A = the sum or aggregate of sum received under the life insurance policy during the first FY.

B = the aggregate of the premium paid during the term of the life insurance policy till the date of receipt of the sum in the first FY that has not been claimed as deduction under any other provision of the ITA.

Sum received subsequent to the first FY of receipt

- Where the sum is received under the life insurance policy during the FY **subsequent** to the first FY, the income chargeable to tax in the subsequent FY shall be computed as,

C-D

where,

C = the sum or aggregate of sum received under the life insurance policy during the subsequent FY.

D = the aggregate of the premium paid during the term of the life insurance policy till the date of receipt of the sum in the subsequent FY except the following premium which:

⁷ Provided not excluded under sub-clauses (a) to (d) of section 10(10D) of the ITA

⁸ Provided not excluded under sub-clauses (a) to (d) of section 10(10D) of the ITA

- a) has been claimed as deduction under any other provision of the ITA; or
- b) is included in amount 'B' or amount 'D' of this rule in any of the FY or FYs.

Further, it has been clarified that the sum received under a life insurance policy would mean any amount, by whatever name called, received under such policy which is not to be excluded from the total income of the previous year in accordance with the provisions of section 10(10D) of the ITA, other than the sum—

- a) received under a unit linked insurance policy; or
- b) being the income referred to section 56(2)(iv) of the ITA.

Comments:

The circular and the notification shall provide clarity to the taxpayer, receiving proceeds under eligible life insurance policy(ies), while determining eligibility to claim exemption under section 10(10D) of the ITA and in other cases for computing its income under newly inserted section 56(2)(xiii) of the ITA.



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