



Introduction

Taxation of Life Insurance Policies

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The taxability of life insurance policies depends on the type of policy and the premium paid. Generally, any sum received under a life insurance policy, excluding a keyman insurance policy, is exempt under Section 10(10D), provided the premium does not exceed a certain percentage of the sum assured or a specified monetary limit. Additionally, premiums paid are eligible for deductions under Section 80C, subject to limits.

Taxability of Life Insurance Policies

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(a) **ULIPs:** Exempt from tax under Section 10(10D) if the premium does not exceed a specified percentage of the sum assured or Rs. 2,50,000. Deductions are allowed under Section 80C, provided the premium does not exceed the prescribed limit.

• Exemption under Section 10(10D)

o Exemptions apply to sums received under ULIPs, including any bonus allocations, unless the premium exceeds specific limits. Death benefits under ULIPs remain fully exempt, even if limits are exceeded.

o Exemption Not Allowed:

- If premium exceeds prescribed % of sum assured (20% for policies issued before 01-04-2012, 10% for policies issued on/after 01-04-2012, 15% for policies issued on/after 01-04-2013 for specified persons)
- For high-premium ULIPs issued after February 1, 2021, where the premium exceeds Rs. 2,50,000 per year. The threshold limit of Rs. 2,50,000 shall not apply to policies issued by IFSC-based insurers.
- In the case of multiple policies, exemption is only available if the total premium for all policies in a year does not exceed Rs. 2,50,000.

• Capital Gains from ULIPs

o If the exemption under Section 10(10D) does not apply, income from ULIPs is treated as capital gains.

o Short-Term or Long-Term Capital Gains:

- High-premium ULIPs (equity-oriented) are taxed under Section 111A (short-term capital gains) or Section 112A (long-term capital gains).
- Other ULIPs (debt-based, balanced) are taxed under general provisions.

• Deduction Under Section 80C

- o Deductions are allowed for premiums paid on ULIPs, subject to a cap of 10% of the sum assured.
- o The total deduction under Section 80C is limited to Rs. 1,50,000 per year.

(b) **Keyman Insurance Policy:** A Keyman Insurance Policy is purchased by the employer on the life of a key employee. The tax treatment depends on the point of investment, maturity, and assignment:

- **At the time of buying:** The premium paid by the employer is not taxable for the employee, but can be deducted as a business expense for the employer.
- **At the time of assignment:** When the policy is assigned to the employee or their family, no tax arises at the time of assignment, but any maturity amount received by the employee is taxable.
- **At maturity:** If the employer receives the maturity amount, it is taxable as business income. If the employee receives it, it is taxed as "Profit in lieu of salary," but not taxable if the payment is made to the legal heir or widow of a deceased employee.

(c) **Employer-Employee Insurance:** This differs from a Keyman Insurance Policy. The employer purchases life insurance for an employee, but the benefits are provided to the employee. The tax treatment is as follows:

- **At the time of buying:** The premium is taxable as a perquisite in the employee's hands.
- **At maturity:** The amount received by the employee is exempt from tax under Section 10(10D).

(d) **Other Life Insurance Policies:** Any sum received under a regular life insurance policy is exempt from tax under Section 10(10D), provided the premium does not exceed the prescribed limit (Rs. 5,00,000 for policies issued after April 1, 2023), except in case of death. Premiums paid are also deductible under Section 80C, subject to the limit.

- **Exemption Conditions:** The sum received under life insurance policies is exempt from tax unless the premium paid exceeds prescribed limits or the sum is received in cases of excess or high-premium policies.



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• When Exemption is Not Allowed:

- o **Excess Premium:** If the premium exceeds a certain percentage of the sum assured, no exemption is allowed, except in the case of death of the policyholder.
- o **High-Premium Policies:** No exemption for policies issued on or after April 1, 2023, if the premium exceeds Rs. 5,00,000 annually. The threshold limit of Rs. 5 lakhs on premium shall not apply to policies issued by IFSC-based insurers.

• Exemption Calculation:

- o **Single Policy:** Exemption is available if the annual premium does not exceed Rs. 5,00,000.
- o **Multiple Policies:** Exemption applies only if the total premium for all policies does not exceed Rs. 5,00,000 per year.

• Taxation on Excess or High Premium Policies

- o Policies with premiums exceeding the prescribed limit are taxable under "Income from Other Sources" as per Section 56(2)(xiii).
- o **Computation:** The taxable amount is the sum received under the policy minus the premiums paid.

• Deduction under Section 80C

- o **Eligibility:** Deductions are available for premiums paid for self, spouse, children, or HUF members.
- o The deduction is limited to a specified percentage of the sum assured. If the premium exceeds this percentage, the excess premium is not eligible for deduction under Section 80C.

- **TDS on Life Insurance Policies:** If the sum received is taxable (i.e., not exempt under Section 10(10D)), tax is deducted at source at 2% under Section 194DA for residents. For non-residents, tax is deducted under Section 195.

