Centre notifies new ULIP taxation rules

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The Centre on Wednesday notified new rules to calculate capital gains tax on the proceeds of high-premium unit-linked insurance policies (ULIPs), following the amendments to income tax and securities transaction tax rules.

According to a notification by the Central Board of Direct Taxes, capital gains on ULIPs with annual premium of more than ₹2.5 lakh, will be calculated on payments received by the policy holder, including withdrawals and bonus.

In the Finance Act, 2021, the Centre had said that high net-worth individuals were availing the tax benefits meant for small savers through ULIPs.

Allowing such exemptions in policies with a huge premium defeats the legislative intent of tax benefit, the Union finance ministry had said.

Accordingly, the government sought to tax capital gains from ULIPs with an annual premium of above ₹2.5 lakh.

According to the new rules, the difference between the proceeds from the scheme and the total premium paid will be considered as capital gains in the first instance and, subsequently, the gap between the incremental proceeds and premium paid will be used for computing capital gains.

Long-term gains of above ₹1 lakh will be taxable at 10%, while short-term gains on the high-premium ULIPs will be taxed at a flat rate of 15%.

New rules were also notified on the liability of collection of securities transaction tax on such policies at the time of sale and reporting requirements.

New rules were also notified on liability of collection of securities transaction tax on such policies at the time of sale

According to Aravind Srivatsan, tax leader at Nangia Andersen LLP, a consultancy, the amended rules prescribe form 2A as the annual return for insurance companies that has to be filed before 30 June.

Tax exemption has been partially withdrawn for ULIPs purchased after 1 February 2021, while STT will be levied on all transactions irrespective of the purchase date, he said.

A new income tax rule, 8AD, has also been introduced for computing capital gains on redemption of ULIP units purchased after 1 February 2021, but not exempted under Section 10(10D) of the Income Tax Act.

"With the new computation mechanism in place, such details of redemption will also be available in the new annual information statement. The details are available for taxpayers as well and this will get auto-populated in tax returns going forward," he said.

Denial of tax benefits for large investments in ULIPs is not applicable in case of the death of the insured.

To ensure that the tax benefits from savings instruments reach only to intended beneficiary, the government had also amended the rules applicable to provident funds, which said interest on Employees' Provident Fund and Voluntary Provident Fund contributions of above ₹2.5 lakh in a financial year will be taxable, effective 1 April 2021. For PF accounts where there is no employer contribution, the threshold is ₹5 lakh.

Long-term gains of above ₹1 lakh will be taxable at 10%, while short-term gains on the high-premium ULIPs will be taxed at a flat rate of 15%. MINT

Computation of capital gains under ULIP: IT department notifies norms

Proposal part of Budget announcement

SHISHIR SINHA

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The Income Tax Department has notified norms for computation of capital gains related to Unit Linked Insurance Policy (ULIP).

Notification on capital gains aims to implement FY 22 Budget proposal on 'Rationalisation of taxation of ULIP.' It is proposed to allow tax exemption for maturity proceed of the ULIP having annual premium up to ₹2.5 lakh. However, the amount received on death shall remain exempt without limiting the annual premium.

The cap of ₹2.5 lakh on the yearly premium of ULIP shall be applicable only for the policies taken on or after February 1, 2021. Further, to provide parity, the non-exempt ULIP shall be provided with the same concessional capital gains tax regime as available to the mutual fund.

ULIP premium

According to Om Rajpurohit, Director (Corporate & International Tax) with AMRG & Associates, the discussion on these rules was made in Section 45(1B) of the Finance Budget 2021, wherein the amount received under a

unit-linked insurance policy (ULIP) shall be taxable as capital gain, if the premium paid towards ULIP exceeds ₹2.5 lakh during any previous year w.r.t. policy issued on or after February 1, 2021.

"The government through this notification has provided the mechanism for computation of capital gain, wherein the gain will be computed on the basis of amount received in excess of aggregate premium paid for the first time and so on," he said.

According to Aravind Srivatsan, Tax Leader with Nangia Andersen LLP, a new Income Tax Rule 8AD has also been inserted to provide for the computation mechanism for the gains from ULIP redemption which were purchased after February 1, 2021 and not exempted under section 10(10D) of the Income Tax Act.

"With the new computation mechanism in place, such details of redemption would also be available in the new AIS (Annual Information Statement) thereby the details are available for the tax payer as well and would get auto populated in the tax returns as well, going forward," he said.

Computation method

The notification has prescribed two situations for computation of capital gain – one when the amount is received for the first time and one when received after that. Explaining this, Sandeep Sehgal, Partner- Tax with AKM Global, the newly introduced Rule 8AD, in line with the expectations, prescribes the calculation of capital gains to tax the bonus received on ULIPs.

On a first-time receipt, the difference between the amount of receipt and premiums paid till that date would be taxed. On a later receipt, the bonus taxed earlier and premiums considered earlier would be excluded and the gains shall be calculated accordingly.

"The intention behind bringing ULIPs to the tax net through capital gains for the policies issued on or after February 1, 2021, was to provide a level playing field for mutual funds and insurance companies selling ULIPs as investment product where premiums payable for any of the years during the term of the policy exceeds ₹2,50,000. The method to determine the taxability of such ULIPs was awaited, which is clarified now," he said.