NO TAX ON ₹2.5 L+ PREMIUM ULIP

Tax arbitrage on GIFT City Ulips for NRIs

• 12.5% tax on gains from ₹2.5L + premium Ulips for residents

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THE BUDGET HAS created a tax arbitrage for non-resident Indians (NRIs) investing in unit-linked insurance plans (Ulips) through International Financial Services Centre (IFSC). While resident Indians will have to pay tax at 12.5% on the profits if the annual premium is above ₹2.5 lakh, NRIs investing from the GIFT City will be exempt from tax.

For residents, the existing laws provide that any sum received from an Ulip would be exempt from tax under Section 10(10D) of the Income Tax Act, if the premium paid does not exceed ₹2.5 lakh.

Yogesh Kale, executive director, Nangia Andersen, says the Budget has proposed to rationalise the taxation of proceeds received by a resident policyholder from a ULIP. "The Budget proposes to bring all Ulips that are not exempt under Section 10(10D) under the definition of a capital asset, and consequently, gains/payouts from such a capital asset will be taxed under the head 'capital gains'," he said. So for resident Indians, Ulips will be treated as equity-oriented schemes if the premium paid is above ₹2.5 lakh, with profits taxed at 12.5%.

NRI investing in Ulips through GIFT City

"In order to provide parity to non-residents availing life insurance from insurance office in IFSC vis-a-vis other foreign jurisdiction, it is proposed to amend the clause (10D) of Section 10 so as to provide that proceeds received on the life insurance policy issued by IFSC insurance intermediary office shall be exempted without the condition related to the maximum premium payable on such policy," the memorandum underlines.

Amit Maheshwari, tax partner, AKM Global, a tax and consulting firm, says this means NRIs can invest in higher premium policies through GIFT City without worrying about tax on the maturity benefits, unlike policies issued outside IFSC offices. "By leveraging this, NRIs can enjoy higher returns on their life insurance investments while minimising their tax liabilities," he said.

The purpose of GIFT City is to encourage offshore funds and financial entities to set up offices in India from where they can service foreign and non-resident investors.

Riaz Thingna, partner, Tax, Grant Thornton Bharat, says the tax arbitrage for Ulip would be 12.5% plus applicable surcharge and cess. "This tax benefit would attract investments into IFSC and would also leave surplus funds in the hands of investors," he adds.

Ulip tax structure

For resident Indians

Criteria	Current rules	Proposed rules (Budget 2025)
Annual premium ≤ ₹2.5 lakh and less than 10% of the actual capital sum assured	Exempt under Section 10(10D)	Exempt under Section 10(10D)
Annual premium > ₹2.5 lakh but less than 10% of the actual capital sum assured	Gains taxed as capital gains @12.5% in excess of ₹1,25,000	Gains taxed as capital gains @12.5% in excess of ₹1,25,000
Annual premium < ₹2.5 lakh but more than 10% of the actual capital sum assured	Taxed as other income	Gains to be taxed as capital gains @12.5% in excess of ₹1,25,000

For NRIs investing through GIFT City (IFSC)

Criteria	Current rules	Proposed rules (Budget 2025)
Annual premium > ₹2.5 lakh	Gains taxed as other income	Exempt from tax under section 10(10D)

For resident Indians

Scenario 1: Annual premium more than ₹2.5 lakh and less than 10% of the actual capital sum assured

Particulars	Amount (In ₹)
A. Premium Payment each year for 5 yrs	300,000
B. Total premium paid till lock-in period of 5 yrs	1,500,000
C. The actual capital sum assured	2,000,000
D. Payout on redemption	2,000,000
Long term capital gain (D-B)	500,000
Tax payable @ 12.5% under Section 112A	62,500

Scenario 2: Annual premium less than ₹2.5 lakh and less than 10% of the actual capital sum assured

Particulars	Amount (In ₹)
A. Premium Payment each year for 5 yrs	200,000
B. Total premium paid till lock-in period of 5 yrs	1,000,000
C. The actual capital sum assured	2,500,000
D. Payout on redemption	2,000,000
Payout is exempt under section 10(10D)	2,000,000
Tax payable	NIL

Source: Nangia Andersen LLP