

## **Things to note while paying life insurance premiums for tax saving**

Insurance plans have traditionally been a very popular tax saving tool considered by many people. Almost 70 percent of the overall insurance related products are sold in the quarter from January to March.

While insurance plans do offer tax benefits up to Rs 1 lakh under section 80c of the income tax act, new change in rules and regulations especially with the implementation of Direct Taxes Code (DTC) means one needs to be careful while selecting any insurance product simply because of its tax related benefits.

*Here are some things to note while taking life insurance premiums for tax saving.*

### **Not All Insurance Payments are Tax Free:**

Many people fail to understand that not all insurance payments are tax free. People in their quest to save tax usually end up buying a lot of unwanted insurance products. All insurance agents may not tell about this, as a lot of mis-selling happens in insurance products.

While premiums paid for life insurance policies are exempt from tax up to a maximum of Rs 1 lakh under Section 80C of the Income Tax Act, Section 80C encompasses investments from all the sources including life and health insurance premiums, investments in PPF and pension schemes to a ceiling of Rs 1 lakh per annum. For individuals paying premium more than Rs 1 lakh for multiple policies the apparent tax benefits may not be possible.

### **Change in Law for Tax Deduction Eligibility:**

The change in law with the introduction of the Direct Taxes Code (DTC) has laid down stiff conditions for deduction of premium from taxable income from insurance policies. Under the new regulation, any insurance policy offering a life cover of less than 10 times the annual premium is not eligible for tax deduction. For example if the premium of an insurance policy of ULIP is Rs 30,000, then the policy must offer life cover of at least Rs 3 Lakh to be eligible for tax deduction. In case the above mentioned pre condition for tax benefits is not met, even the income earned from the policy will be taxable.

### **Low IRR:**

Considering the new direct Taxes Code (DTC) allowing insurance policies offering a cover of 10 times the annual premium to be eligible for tax rebate, the internal rate of return or IRR has also reduced substantially. For a cover of Rs 25 lakh, a user would need to spend a minimum of Rs 2.5 lakh a year. Considering the IRR for a 10 year period, the average internal rate of return comes to a sluggish 5.75 percent which is far lower than other investment options like Public provident fund and bank fixed deposits.

**Relief Offered for People with Disease or Disability:**

While as per the older direct tax code (DTC) all insurance policies issued on or after April 1, 2012 must offer at least ten times the annual premium to be paid for tax free status, exceptions are being introduced for people with disability and those suffering from disease or ailment as specified in the rules made under section 80DDB.

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