F. No. 65-02/2023-LI

Govt. of India
Ministry of Communications
Department of Posts
Directorate of Postal Life Insurance

Chanakyapuri PO Complex,
New Delhi – 110 021.
Dated 22.09.2023

To

All Heads of Circle

Subject: - Clarification / guidelines regarding deduction of TDS on payment of PLI/RPLI policies, as applicable, under section 194DA of IT Act'1961. – reg.

Kindly refer to this Directorate letter dated 09.08.2023 wherein instructions were issued regarding deduction of TDS on PLI/RPLI payments, as applicable, under Section 194DA of IT Act'1961.

In this regard certain circles have been seeking clarification/guidelines with regard to the applicability of TDS on PLI/RPLI payments and non- provision of TDS deduction in McCamish software.

Keeping this in view, following clarification/ guidelines are issued for smooth and timely payouts of PLI/RPLI policies to the insurants:

1) Implications with examples of TDS applicability on PLI/RPLI payment as per Section 194DA with exemption under clause10(D) of section 10 of Income Tax Act'1961 are given in Annexure.

2) Since there is no provision to deduct the applicable TDS in McCamish software at the time of processing of PLI/RPLI claims, below mentioned procedure may kindly be followed till the incorporation of the same in McCamish IT 1.0 or IT 2.0 project whichever is earlier:

a) Payment of PLI/RPLI policies where TDS is not deductible as explained in para 1 above, shall be processed as per existing rule/guidelines.

b) Payments of PLI/RPLI policies in which TDS is applicable, shall be processed for payment after deducting applicable TDS through Cheque or NEFT only. Status of such PLI / RPLI policies be changed as **"PAID"** in McCamish software to avoid duplicate payment.

c) TDS shall be deducted wherever applicable @5% in case insurant submits PAN. In case PAN is not submitted by insurant, TDS shall be deducted @20%.

d) TDS shall not be deducted if sum is paid on the death of insured person.

3) At present, deducted TDS amount on PLI/RPLI payments, are to be credited under MH – 0021-00-102-09-00-00 – Deduction from Insurance commission etc. under Sec 194-D & GL Code- 8002100150. On receipt of regular GL Code for TDS deduction, reversal entries are to be made which will be communicated in due course.

4) A register is to be maintained by the HOs for PLI/RPLI policies on which applicable TDS are deducted and a monthly consolidated report on TDS amount deducted on PLI/RPLI claims (GL balance) should be sent to respective GM (PA&F) by 10^{th} of the following month for monitoring and reconciliation.

Encl: As above.

(Sachidanand Prasad)
General Manager (Finance)

Copy for kind information to:
All Heads of PAO

ANNEXURE

TDS on PLI/RPLI payout under section 194DA and its Implication

What is Section 194DA?

Under Section 194DA of the IT Act' 1961, insurance companies in India have been made liable to deduct tax at source in case of life insurance policy at the time of maturity payment. This means payment made to insurance policy holders by the company is taxable at the time of payment. TDS is also deducted on the bonus payment.

Note: Any sum received against life insurance policy is covered under this act. Even loan taken against life insurance policy will be covered.

"Any person responsible for paying to a resident any sum under a life insurance policy, including the sum allocated by way of bonus on such policy, **other than the amount not includible in the total income under clause(10D) of section 10**, shall, at the time of payment thereof, deduct income tax thereon at the rate of 5% on the amount of income comprised therein,"

Exemption:

As mentioned in the text, no TDS under this section is deducted if the life insurance policy is covered by clause(10D) of section 10 of IT Act'1961. Policies that fall under this section include:

- Premium paid during any year must not exceed 20% of the sum assured for policies purchased between April 1, 2003, and April 30, 2012

- If the policy is purchased after April 30, 2012, the premium amount should not be more than 10% of the sum assured

- In case of the following :

    1. With a disability, or severe disability as per Section 80U.
    2. Has any disease, or ailment as specified in the rules under section 80 DDB

    Insurance premium payable in any year should not exceed 15% of the sum assured for policy purchased on, or after April 1, 2013.

Note: No TDS will be deducted if the taxpayer submits Form 15G/Form 15H under IT Act.

Payment threshold:

TDS deduction under Section 194DA is made only if the payment in a financial year is more than **Rs 1 Lakh**. On any payment less than that, no TDS is applicable.

TDS rate under Section 194DA

Life insurance maturity payment type	TDS rate
Life insurance companies	5%
Other Indian companies	10%
Where a taxpayer does not submit PAN details	20%

The government has made changes to Section 194DA concerning the deduction of Tax Deducted at Source (TDS) on taxable life insurance maturity proceeds. As per the amendment, the deductor is now required to deduct TDS at a higher rate of 5% instead of the previous rate of 1%. This applies to the sum received through life insurance policies that do not fall under the exemption provided by Section10(10D).

Important Note:

Under the IT Act'1961, TDS in case of Insurance policies will not be applicable in two scenarios:

1. Amount of such payment or, as the case may be, the aggregate amount of such payments to the payee during the financial year is less than Rs 1 lakh. (Proviso to section 194DA)
2. Any sum received on the **Death** of a person. {Proviso to section 10 (10D)}

In these cases, there is no requirement to deduct any TDS on maturity amount.

PRACTICAL CASES:

A. Policy is procured during April 1, 2003 to March 31 2012

Scenario: 1

Sum assured: 10Lakh
Policy term: 9 years
Monthly Premium: 9,980
Yearly premium: 9980 *12= 1,19,760/-
20% of Capital Sum assured: 2,00,000/-
Maturity Amount: 14,68,000/-
As the annual premium payable is **less than 20%** of capital sum assured. Exemption under clause (10D) of Section 10 is applicable and no TDS to be deducted.

Scenario:2

Sum assured: 10 Lakh
Policy term: 5 years
Monthly Premium: 18,130/-
Yearly premium: 18,130 *12= 2,17,560/-
Total Premium paid: 10,87,800/-
20% of Capital Sum assured: 2,00,000/-
Maturity Amount: 12,60,000/-
As the annual premium payable is **more than 20%** of capital sum assured.
Exemption under clause (10D) of Section 10 is not applicable.
TDS to be deducted will be:
(Total maturity value – Total premium paid) * 5%
(12,60,000-10,87,800) * 5%= 8,610/-

Policy is procured on or after 01/04/2012

Scenario:1

Sum assured: 10 Lakh
Policy term: 9 years
Monthly Premium: 9,980/-
Yearly premium: 9,980 *12= 1,19,760/-
Total Premium paid: 10,77,840/-
10% of Capital Sum assured: 1,00,000/-
Maturity Amount: 14,68,000/-
As the annual premium payable is **more than 10%** of capital sum assured.
Exemption under clause (10D) of Section 10 is not applicable.
TDS will be deducted @ 5% , as follows
TDS = (Maturity Value- Total premium paid) *5%
= (14,68,000- 10,77,480)*5% = 19,508/-

Scenario:2

Sum assured: 10 Lakh
Policy term: 13 years
Monthly Premium: 6,840/-
Yearly premium: 6,840 *12= 82,128/-
10% of Capital Sum assured: 1,00,000/-
Maturity Amount: 16,76,000/-
Total premium paid- 10,67,644/-
As the annual premium payable is **less than 10%** of capital sum assured.

Exemption under clause (10D) of Section 10 is applicable and no TDS to be deducted.

Policy issued on or after 01/04/2013 to a person with severe disability covered under section 80U or person suffering with disease covered under section 80 DDB .

Scenario:1

Sum assured: 10 Lakh
Policy term: 9 years
Monthly Premium: 9,980/-
Yearly premium: 9,980 *12= 1,19,760/-
15% of Capital Sum assured: 1,50,000/-
Maturity Amount: 14,68,000/-
As the annual premium payable is **less than 15%** of capital sum assured.
Exemption under clause (10D) of Section 10 is applicable and no TDS to be deducted.

Scenario :2

Sum assured: 10 Lakh
Policy term: 7 years
Monthly Premium: 13,750/-
Yearly premium: 13,750 *12= 1,65,000/-
Total premium paid: 11,55,000/-
15% of Capital Sum assured: 1,50,000/-
Maturity Amount: 14,68,000/-
As the annual premium payable is **more than 15%** of capital sum assured.
Exemption under clause (10D) of Section 10 is not applicable TDS to be deducted as follows
TDS = (Maturity amount – Total Premium paid)* 5%
= (14,68,000-11,55,000)*5%
= 15,650/-