KEY IMPACT OF BUDGET 2021 ON HIGH NET WORTH INDIVIDUALS

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The Budget 2021 has proposed certain changes in the taxation of Interest on PF and exemption of Maturity proceeds of ULIPs which has restricted avenues for tax free returns for High Net Worth Individuals:

1. Maturity proceeds of ULIPs for which Annual Premium exceeds ₹ 2.5 Lakhs a year will not be exempt u/s 10 (10D).
2. The interest earned by the Employee share of Provident Fund (PF) contributions above ₹ 2.5 Lakhs a year will now be taxed at the normal rates.

ULIP PREMIUM

Budget 2021 has proposed that the proceeds from ULIPs issued on or after 01.02.2021 will be taxable as capital gains if the amount of annual premium exceeds ₹ 2.5 Lakhs.

What is a ULIP?

ULIP is a life insurance policy which has components of both investment and insurance and is linked to a unit.

EXISTING PROVISIONS:

S.10 (10 D) of the Income tax Act provides for the exemption for the sum received under a life insurance policy, including the sum allocated by way of bonus on such policy in respect of which the premium payable for any of the years during the terms of the policy does not exceed 10% of the actual capital sum assured.

Under the existing provisions of the Act, there is no cap on the amount of annual premium being paid by any person during the term of the policy.

There is a proposal in Budget'21 that the existing exemption under S.10(10D) shall not apply to any ULIP issued on or after the 1st February 2021, if the amount of premium payable during the term of the policy exceeds ₹ 2.5 Lakhs per annum.

If premium is payable by a person for more than one ULIPs, issued on or after the 1st February 2021, exemption shall be available only w.r.t such policies whose aggregate premium does not exceed ₹ 2.5 Lakhs per annum.

However, the amount received on death shall continue to remain exempt without any limit on the annual premium.

Further, in order to provide parity, the non-exempt ULIP shall be provided same concessional capital gains taxation regime as available to the mutual fund.

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CONTRIBUTION TO PF FUNDS

There has been a proposal to restrict tax exemption for the Interest income earned on the Employee's share of contribution to provident funds in excess of ₹ 2.5 Lakhs per annum.

This restriction shall be applicable only for the contribution made on or after 01April 2021.

EXISTING PROVISIONS:

S.10 (11) of the Income tax Act provides for exemption w.r.t any payment from a provident fund recognised by the Central Government.

S.10 (12) provides for exemption w.r.t the accumulated balance due and becoming payable to an employee participating in a recognised provident fund.

The provisions shall not apply to the interest income accrued during the previous year to the extent it relates to contribution exceeding ₹ 2.5 Lakhs, on or after 1st April 2021.

ONE PERSON COMPANY

The Incorporation of One Person Companies (OPCs) has been incentivised by allowing to grow without any restrictions on paid up capital and turnover, allowing their conversion into any other type of company at any time.

The residency limit for an Indian citizen to set up an OPC has been reduced from 182 days to 120 days.

Non-Resident Indians (NRIs) can incorporate OPCs in India.

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