GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
RAJYA SABHA
STARRED QUESTION No. *285
TO BE ANSWERED ON TUESDAY, THE 28th MARCH, 2017
7, CHAITRA, 1939 (SAKA)

TAX EXEMPTION TO NATIONAL PENSION SYSTEM

***285. SHRI N. GOKULAKRISHNAN**:

Will the Minister of **FINANCE** be pleased to state:

(a) whether it is a fact that the maturity amount of the National Pension System has no tax benefits like Public Provident Fund (PPF) and Employees' Provident Fund (EPF);

(b) if so, the details thereof;

(c) whether Government has received any representation requesting to provide tax exemption to NPS at par with PPF and EPF; and

(d) if so, the stand of Government in this regard?

ANSWER

THE MINISTER OF FINANCE
(SHRI ARUN JAITLEY)

(a)to (d):- A Statement is laid on the Table of the House.

Statement referred to in reply to parts (a) to (d) of Rajya Sabha Starred Question No.*285 for 28th March, 2017 by Shri N. Gokulakrishnan, MP reg. Tax Exemption to National Pension System.

(a)&(b) Prior to Finance Act, 2016, National Pension System (NPS) referred to in section 80CCD was Exempt, Exempt and Tax (EET) i.e., the monthly/periodic contributions during the pension accumulation phase were allowed as deduction from income for tax purposes; the returns generated on these contributions during the accumulation phase were also exempt from tax; however, the terminal benefits on exit or superannuation, in the form of lump sum withdrawals, were taxable in the hands of the individual subscriber or his nominee in the year of receipt of such amounts unlike PPF and EPF which have been enjoying EEE regime i.e. Exempt, Exempt, Exempt.

Vide Finance Act, 2016, section 10 of the Income-tax Act was amended to provide that any payment from National Pension System Trust to an employee on account of closure or his opting out of the NPS shall be exempt from tax, to the extent it does not exceed forty percent of the total amount payable to him at the time of closure or his opting out of the scheme. Further, Section 80CCD was also amended by Finance Act, 2016 to provide that the whole amount received by the nominee of NPS subscriber on his death shall be exempt from tax.

Further, vide Finance Bill,2017 as passed by the Lok Sabha on 22.03.2017, it has been proposed to exempt partial withdrawals by employees from their NPS accounts in accordance with the guidelines prescribed under Pension Fund Regulatory and Development Authority Act,2013.

Furthermore, it has also been proposed in the Bill to amend section 80CCD of the I.T.Act,1961 so as to increase the upper limit of deduction for contribution into NPS from ten per cent of gross total income to twenty per cent in case of individual other than employee.

(c) &(d) Yes, Madam, the Government has received such representations in the past and the stand of Government was reflected in the amendments made in Income-tax Act vide Finance Act,2016 and Finance Bill 2017 as discussed above.

Note For Pad for the Minister

Prior to amendment by Finance Act,2016, tax treatment for the National Pension System (NPS) referred to in section 80CCD was Exempt, Exempt and Tax (EET) i.e., the monthly/periodic contributions during the pension accumulation phase are allowed as deduction from income for tax purposes; the returns generated on these contributions during the accumulation phase are also exempt from tax; however, the terminal benefits on exit or superannuation, in the form of lump sum withdrawals, are taxable in the hands of the individual subscriber or his nominee in the year of receipt of such amounts.

However, commutation of Government Pension being Defined Benefit Pension and superannuation fund is exempt from taxation. The monthly contribution, annual accrued income, advances/ withdrawals for specific purposes and final withdrawal from the Public Provident Fund (PPF), Employees' Provident Fund (EPF) and Recognised Provident Funds (RPFs) on superannuation are also accorded EEE status i.e. Exempt, Exempt, Exempt.

Vide Finance Act, 2016(*Extract of Relevant amendments enclosed as **Annexure-A***), section 10 of the Income-tax Act was amended to provide that any payment from National Pension System Trust to an employee on account of closure or his opting out of the NPS shall be exempt from tax, to the extent it does not exceed forty percent of the total amount payable to him at the time of closure or his opting out of the scheme. Further, Section 80CCD was also amended by Finance Act, 2016 to provide that the whole amount received by the nominee of NPS subscriber on his death shall be exempt from tax.

Further, the limit of contribution by the employee eligible under section 80C of the Act has been increased from one lakh rupees to one lakh and fifty thousand rupees vide Finance Act(No.2), 2014. Therefore, in order to bring parity in the monetary limit for contribution by the employer and the employee, section 17 (providing tax-free contribution of employer into account of employee in approved superannuation fund) was amended so as to provide the limit of employer's contribution to one lakh and fifty thousand rupees, without attracting tax.

Further with a view to bring all the pension plans under one umbrella, following amendments were also made in Finance Act,2016:-

(i) providing exemption to one-time portability from a recognised provident fund to National Pension System;

(ii) amending clause (13) of section 10 so as to provide that any payment from an approved superannuation fund by way of transfer to the account of the employee under NPS referred to in section 80CCD and notified by the Central Government shall be exempt from tax.

Further vide Finance Bill 2017*(Extract of Relevant amendments enclosed as **Annexure-B***), in order to provide further relief to an employee subscriber of NPS, it is proposed to amend the section 10 so as to provide exemption to partial withdrawal not exceeding 25% of the contribution made by an employee in accordance with the terms and conditions specified under Pension Fund Regulatory and Development Authority Act, 2013 and regulations made there under.(*PFRDA regulation annexed as **Annexure-C***)

Furthermore, in order to provide parity between an individual who is an employee and an individual who is self-employed, it has also been proposed in the Bill to amend section 80CCD of the I.T.Act,1961 so as to increase the upper limit of deduction for contribution into NPS from ten per cent of gross total income to twenty per cent in case of individual other than employee.

SOME RELEVANT ISSUES:

Q.1. What is National Pension System (NPS)?

Ans. National Pension System (NPS) is a voluntary, defined contribution retirement savings scheme designed to enable the subscribers to make optimum decisions regarding their future through systematic savings during their working life. NPS seeks to inculcate the habit of saving for retirement amongst the citizens. It is an attempt towards finding a sustainable solution to the problem of providing adequate retirement income to every citizen of India.

Under the NPS, individual savings are pooled in to a pension fund which are invested by PFRDA regulated professional fund managers as per the approved investment guidelines in to the diversified portfolios comprising of government bonds, bills, corporate debentures and shares. These contributions would grow and accumulate over the years, depending on the returns earned on the investment made.

At the time of normal exit from NPS, the subscribers may use the accumulated pension wealth under the scheme to purchase a life annuity from a PFRDA empanelled life insurance company apart from withdrawing a part of the accumulated pension wealth as lump-sum, if they choose so.

Opening an account with NPS provides a Permanent Retirement Account Number (PRAN), which is a unique number and it remains with the subscriber throughout his lifetime. The scheme is structured into two tiers:

Tier-I account: This is the non-withdrawable permanent retirement account into which the accumulations are deposited and invested as per the option of the subscriber.

Tier-II account: This is a voluntary withdrawable account which is allowed only when there is an active Tier I account in the name of the subscriber. The withdrawals are permitted from this account as per the needs of the subscriber as and when claimed.

Tax Benefits : Given that a tier-I account under the new pension scheme is primarily aimed at providing post-retirement benefits to the investor and does not allow any withdrawals, it is eligible for various tax benefits. On the other hand, Tier-II account currently does not offer any tax benefits.

Tier-1 tax Benefits are:

- Upto Rs.1,50,000 as per section 80CCD(1). The deduction which may be claimed has to be minimum of 10% of gross income (in case of a self-employed taxpayer) or 10% of salary (in case of the taxpayer being an employee) not exceeding Rs.1,50,000.
- Upto Rs.50,000 as per section 80CCD(1B) (Budget 2015 offered additional tax benefit under section 80CCD of the Income Tax Act,1961).

- Deduction under Section 80CCD(2). Deduction for employer's contribution to NPS account of employee not exceeding 10% of the salary, while there is no limit in terms of the maximum amount. The deduction applicable as per section 80CCD(2) is, therefore, over and above Rs.1,50,000 as per section 80C and 80CCD(1).

2. What is Employees' Provident Fund (EPF) ?

Ans. Employee's Provident Fund (EPF) is a retirement benefit scheme that's available to all salaried employees. This fund is maintained and overseen by the Employees Provident Fund Organisation of India (EPFO) and any company with over 20 employees is required by law to register with the EPFO.

Tax Benefits: The employer contribution to EPF is tax-free upto 12% of employee's salary. Employee's contribution is tax-deductible under Section 80C of the Income Tax Act (subject to overall limit of Rs 1,50,000). The money invested in EPF, the interest earned and the money eventually withdrawn after the mandatory specified period (5 years) are exempt from Income Tax.

3. What is Public Provident Fund (PPF) ?

Ans. The Public Provident Fund is a savings-cum-tax-saving instrument in India, introduced by the National Savings Institute of the Ministry of Finance in 1968. The aim of the scheme is to mobilize small savings by offering an investment with reasonable returns combined with income tax benefits. The scheme is fully guaranteed by the Central Government.

Individuals who are residents of India are eligible to open their account under the Public Provident Fund. A minimum yearly deposit of Rs. 500 is required to open and maintain a PPF account. A PPF account holder can deposit a maximum of Rs 1.5 lacs in his/her PPF account (including those accounts where he is the guardian) per financial year.

Tax Benefits: Annual contributions qualify for tax deduction under Section 80C of income tax. The tax benefit is capped at Rs 1.5 lacs per financial year. Contributions to PPF accounts of the spouse and children are also eligible for tax deduction. Interest earned is exempt from income tax and maturity proceeds are also exempt from tax.

Enclosed Annexures:

1. Annexure A

2. Annexure B

3. Extract of Section 10(13) and 80CCD.

4. Annexure C

Annexure-A

Amendments made vide Finance Act, 2016

Amendment of section 10.

7. In section 10 of the Income-tax Act,—

(*A*) with effect from the 1st day of April, 2017,—

(*i*) after clause (*12*), the following clause shall be inserted, namely:—

"(12A) any payment from the National Pension System Trust to an employee on closure of his account or on his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed forty per cent of the total amount payable to him at the time of such closure or his opting out of the scheme;";

(*ii*) in clause (*13*),—

(*II*) in sub-clause (*iv*), for the word "thereon", the words "thereon; or" shall be substituted;

(*III*) after sub-clause (*iv*), the following sub-clause shall be inserted, namely:—

"(*v*) by way of transfer to the account of the employee under a pension scheme referred to in section 80CCD and notified by the Central Government;";

Amendment of section 17.

9. In section 17 of the Income-tax Act, in sub-section (2), in clause (vii), for the words "one lakh rupees", the words "one lakh and fifty thousand rupees" shall be substituted with effect from the 1st day of April, 2017.

Amendment of section 80CCD.

37. In section 80CCD of the Income-tax Act, in sub-section (3), the following proviso shall be inserted with effect from the 1st day of April, 2017, namely:—

"**Provided** that the amount received by the nominee, on the death of the assessee, under the circumstances referred to in clause (*a*), shall not be deemed to be the income of the nominee.".

Amendment of Fourth Schedule.

115. In the Fourth Schedule to the Income-tax Act, in Part A, with effect from the 1st day of April, 2017, in rule 8,—

(i) in clause (iii), for the words "such other employer" occurring at the end, the words "such other employer; or" shall be substituted;

(ii) after clause (iii) and before the Explanation, the following clause shall be inserted, namely:—

"(iv) if the entire balance standing to the credit of the employee is transferred to his account under a pension scheme referred to in section 80CCD and notified by the Central Government.".

Annexure-B

Amendment proposed in Finance Bill,2017

6. In section 10 of the Income-tax Act,—

(a) in clause (4), in sub-clause (ii), in the proviso, for the word, brackets and letter "clause (q)", the word, brackets and letter "clause (w)" shall be substituted and shall be deemed to have been substituted with effect from the 1st day of April, 2013;

(b) after clause (12A) [as inserted by section 7 of the Finance Act, 2016], the following clause shall be inserted with effect from the 1st day of April, 2018, namely:—

"(12B) any payment from the National Pension System Trust to an employee under the pension scheme referred to in section 80CCD, on partial withdrawal made out of his account in accordance with the terms and conditions, specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made thereunder, to the extent it does not exceed twentyfive per cent. of the amount of contributions made by him;";

33. In section 80CCD of the Income-tax Act, in sub-section (1), in clause (b), for the words "ten per cent.", the words "**twenty per cent**." shall be substituted with effect from the 1st day of April, 2018.

Section 10.

(*13*) any payment from an approved superannuation fund made—

(*i*) on the death of a beneficiary; or

(*ii*) to an employee in lieu of or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or

(*iii*) by way of refund of contributions on the death of a beneficiary ; or

(*iv*) by way of refund of contributions to an employee on his leaving the service in connection with which the fund is established otherwise than by retirement at or after a specified age or on his becoming incapacitated prior to such retirement, to the extent to which such payment does not exceed the contributions made prior to the commencement of this Act and any interest thereon; **[***or***]**

Following sub-clause (*v*) shall be inserted after sub-clause (*iv*) of clause (*13*) of section 10 by the Finance Act, 2016, w.e.f. 1-4-2017:

(v) *by way of transfer to the account of the employee under a pension scheme referred to in section 80CCD and notified by the Central Government;*

Deduction in respect of contribution to pension scheme of Central Government.

80CCD. (1) Where an assessee, being an individual employed by the Central Government on or after the 1st day of January, 2004 or, being an individual employed by any other employer, or any other assessee, being an individual has in the previous year paid or deposited any amount in his account under a pension scheme notified or as may be notified by the Central Government, he shall, in accordance with, and subject to, the provisions of this section, be allowed a deduction in the computation of his total income, of the whole of the amount so paid or deposited as does not exceed,—

(a) in the case of an employee, ten per cent of his salary in the previous year; and

(b) in any other case, ten per cent of his gross total income in the previous year.

(1B) An assessee referred to in sub-section (1), shall be allowed a deduction in computation of his total income, whether or not any deductions is allowed under sub-section (1), of the whole of the amount paid or deposited in the previous year in his account under a pension scheme notified or as may be notified by the Central Government, which shall not exceed fifty thousand rupees:

Provided that no deduction under this sub-section shall be allowed in respect of the amount on which a deduction has been claimed and allowed under sub-section (1).]

(2) Where, in the case of an assessee referred to in sub-section (1), the Central Government or any other employer makes any contribution to his account referred to in that sub-section, the assessee shall be allowed a deduction in the computation of his total income, of the whole of the amount contributed by the Central Government or any other employer as does not exceed ten per cent of his salary in the previous year.

(3) Where any amount standing to the credit of the assessee in his account referred to in sub-section (1) [or sub-section (1B)], in respect of which a deduction has been allowed [under those sub-sections] or sub-section (2), together with the amount accrued thereon, if any, is received by the assessee or his nominee, in whole or in part, in any previous year,—

(a) on account of closure or his opting out of the pension scheme referred to in sub-section (1)[or sub-section (1B)]; or

(b) as pension received from the annuity plan purchased or taken on such closure or opting out,

the whole of the amount referred to in clause (a) or clause (b) shall be deemed to be the income of the assessee or his nominee, as the case may be, in the previous year in which such amount is received, and shall accordingly be charged to tax as income of that previous year.

Following proviso shall be inserted to sub-section (3) of section 80CCD by the Finance Act, 2016, w.e.f. 1-4-2017 :

Provided that the amount received by the nominee, on the death of the assessee, under the circumstances referred to in clause (a), shall not be deemed to be the income of the nominee.

(4) Where any amount paid or deposited by the assessee has been allowed as a deduction under sub-section (1) [or sub-section (1B)],—

(a) no rebate with reference to such amount shall be allowed under section 88 for any assessment year ending before the 1st day of April, 2006;

(b) no deduction with reference to such amount shall be allowed under section 80C for any assessment year beginning on or after the 1st day of April, 2006.

(5) For the purposes of this section, the assessee shall be deemed not to have received any amount in the previous year if such amount is used for purchasing an annuity plan in the same previous year.

Explanation.—For the purposes of this section, "salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and

NOTE FOR PAD

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15th Position

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