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PUSH PRODUCT

New I-T regime can put a brake on tax-driven insurance investments

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THE new optional personal income-tax proposal in the Union Budget 2020-21 will discourage the tax-driven investments, especially in life insurance and pension funds, as a major part of investments by the high-income groups in India are done to contain the tax liability.

Under the new income-tax regime, a person with an annual income of ₹5-7.5 lakh will have to pay a lower tax rate of 10 per cent; ₹7.5-10 lakh at 15 per cent; ₹10-12.5 lakh at 20 per cent; ₹12.5- 15 lakh at 25 per cent, and above ₹15 lakh at 30 per cent.

This has triggered a debate among investors whether to shift to the new regime or not. There is one school of thought, which firmly believes that policyholders must stay tuned to the existing regime if they want their tax exemptions to continue. The logic being given is that one can easily claim tax exemption under the relevant law.

It is widely believed that insurance is a 'push' product and hence, most people invest in life insurance policies just to avail those tax exemptions. Prashant Tripathy, managing director and chief executive officer, Max Life Insurance, says their initial analysis suggests that it is beneficial for taxpayers to continue their investment in life insurance policies for claiming tax exemption under Section 80C of Income Tax Act as it would be beneficial with less tax outflow in the year in which premiums are paid. "Additionally, tax exemptions under Section 10(10D) of Income Tax would continue against the amounts received from Life Insurance Companies," he added.

However, analysts believe that millennial working class who do not avail income-tax deductions may be interested in shifting to the new tax regime. The reason is that they will have good amount of disposable money in their hands, which they can better plan for securing their future, rather than investing in life insurance policies only to save taxes.

Another section of the industry feels that income-tax payers can shift to new tax regime for the simple reason that it will give additional money in their hands, which they can plan well when it comes to investing in insurance. "By proposing this optional new personal income-tax regime, the government will be putting more money in the hands of people, which should boost consumption," said Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance.

There lies yet another sect of people who want to wait and watch to see people's reaction on the issue. "With regard to individual tax regime, we need to wait and observe whether or what proportion of taxpayers opt for the reduced tax rates, and what effect it has on the savings culture of households," said G Murlidhar, managing director, Kotak Mahindra Life Insurance Company.

"It will favour those people who do not invest much under Section 80C or 80D of Income-Tax Act," said Delhi-based chartered accountant and income-tax expert Abhishek Aneja. He, however, believes that having two tax regimes will be more confusing to people and they will have to resort to the expertise of tax professionals.