

## NATIONAL PENSION SCHEME (NPS): INCOME TAX VIEW

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### ABSTRACT

*The National Pension Scheme (NPS) is a Social Security Initiative by the Central Govt. of India. NPS is Open for employees from Public, Private Sectors etc. The Scheme Encourages Peoples to Invest in Pension Account at Regular Intervals during the Course of Their Employment.*

**KEYWORDS:** *National Pension Scheme (NPS), Social Security, Gross Total Income.*

### Introduction

After Retirement the subscriber can take out a certain percentage of of the corpus (fund). As a NPS account holder, you will receive remaining amount as monthly pension post your Termination/Retirement. NPS also provide certain tax benefits to Employees & Employers.

### Tax Provisions for National Pension Scheme (NPS)

**From Employees Point of View:** An Individual Salaried Person & Self Employed Person Who Contribute to National Pension Scheme can take the following tax benefits:

- **Employees Contribution U/s 80CCD(1)**
  - Deduction for Self Contribution Up to 10% of Salary Subject to Maximum 150000
  - In Case of Self Employed Person Deduction is 20% of Gross Total Income & Subject to Maximum 150000.
- **Deduction U/s 80CCD (1B) for Self Contribution:** Additional Deduction up to 50000 can be Claimed By the Taxpayer for the Amount Deposited in Their NPS Account.
- **Employers Contribution to NPS U/s 80CCD(2):** The Entire Contribution Made by the Employer is Included in The Salary Income of the Employee then Additional Deduction for Employers Contribution to NPS account of Employee up to 10% of Salary. However When Contribution is made by Central Govt. than Deduction is Available up to 14% of Salary

**Note:** Salary Means Basic Salary+ D.A. (Terms of Employment).

**From Employers Point of View:** Employers Contribution towards National Pension Scheme (NPS) for Employees is Deductible U/s 36 while Computing Income of PGBP to the Extent of 10% of Salary of the Employee concerned.

### Steps of Computation of Taxable Income (Salary) of a Employee Covered Under NPS

1	Income from Salary	-----
2	Add:-Employer Contribution to NPS	-----
3	Gross Total Taxable Salary Income	-----
4	Less:-Deduction u/s 80C (LIC, PPF etc.)	-----
5	Employee's Contribution to NPS u/s 80CCD(1)	-----
6	Total (4+5) (But Maximum 150000)	-----
7	Less:-Employer's Contribution to NPS Ded. u/s 80CCD(2)	-----
8	Total Deduction (6+7)	-----
9	Net Taxable Salary Income (3-8)	-----

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**Tax Treatment on Withdrawal from NPS**

Section 10(12A) Provides that Any Payment from National Payment System Trust to Assessee on account of closure or his opting out of Pension Scheme than 60% of Amount payable at the time of Opt out of the scheme shall be exempt from tax.

Example: Following Investments & Payments made by Mr. Manish, employed with Bhandari Ltd during the previous year 2019-20. He Earned Salary Income of 14,00,000:

- Deposited Rs.1,10,000 in Public Provident Fund A/c
- Payment of Life Insurance Premium 10,000
- Contributed Rs.2,10,000 being 15% of Salary to New Pension Scheme of the Central govt. A matching Contribution was made by Bhandari Ltd.

Compute different deductions available to Mr. Manish for the A.Y. 2020-21.

Solution: Computation of deduction available to Mr. Manish For A.Y. 2020-21

Section	Particulars	Amount	
80C	Deposit in PPF	1,10,000	
	Payment of Life Insurance Premium	10,000	1,20,000
80CCD(1)	Contribution of Mr. Manish in NPS:		
	Total Contribution	2,10,000	
	Less: utilized for additional deduction u/s 80ccd(1b)		
	Balance available	50,000	
	Restricted to 10% of Salary (14,00,000@10%)	1,60,000	1,40,000
	Total Eligible amount u/s 80C,80CCD(1)		2,60,000
80CCE	Above total Restricted to		1,50,000
80CCD(1B)	Additional Deduction for Contribution under NPS		50,000
80CCD(2)	Contribution of Employer to NPS(max. 10% of Salary)		1,40,000
	Total Deduction Allowable		3,40,000

**Other Provisions in Income Tax Related to NPS**

- Transfer from Superannuation fund to NPS account of Employee is Exempt from Tax.
- Income of New Pension System Trust is Exempt from Tax.
- No Dividend distribution Tax (DDT) is Payable by Companies on Dividend paid to New Pension Scheme (NPS) Trust.

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