

Tax Savings through the NPS (National Pension System)

Summary of Newsletter

What Income Tax Act, 1961 says about NPS?

What the rules 'effectively' mean?

How to save more with NPS?

Illustration for Tax Savings through NPS

Greetings Dear NPS Subscriber,

Welcome to the **Second Series of Newsletter for Government Employees** under National Pension System (NPS). First of all let me thank you for your overwhelming response to the first Newsletter that was sent in November '14. In the feedback received, a majority of the subscribers stated that they wanted to know more about the *Taxation angle of NPS*. After the recent Union Budget, it has become necessary to delve into this topic of **Tax Savings through NPS**.

One of the key advantages of retirement planning through NPS is that while saving for your future, you get to enjoy tax benefits today, as NPS comes with a unique mix of Tax advantages.

We are presenting an illustration, which will provide you with a brief idea as to the amount of tax you can save under NPS.

The illustration has been prepared with the following assumptions that-

- NPS is your only tax saving vehicle and
- You are under any of the three tax brackets i.e. 10, 20 or 30%

1. What the Income Tax Act, 1961 says on Tax deductions on Contributions?

Contribution Particulars	Current Year i.e. FY 2014-15	From Next Year i.e. FY 2015-16
Employee Contribution	Deduction upto 10 % of salary (Basic + DA) from taxable income- u/s 80 CCD (1) subject to <u>max. of Rs.1.00 Lakh</u> within overall ceiling of Rs.1.50 Lakh u/s 80 CCE.	Deduction upto 10 % of salary (basic+ DA) <u>within overall ceiling Rs.1.50 Lakh u/s 80 CCE.</u>
Employer Contribution	<u>Deduction upto 10 % of salary (Basic + DA) from taxable income- u/s 80 CCD (2); this is over and above the limits u/s 80 CCE (No limit).</u>	No change.
Additional Provision for NPS under Budget 2015-16	Not Available	<u>Deduction upto Rs.50,000 u/s 80 CCD(1B) from taxable income for additional contribution to NPS.</u>

2. What this effectively means?

As a subscriber under the Government sector model, you contribute 10% of your salary (Basic +DA) matched by a co-contribution from the employer (Government) which goes into your NPS account. Subject to a limit of the 10% of Salary, you can claim your contribution as a tax deduction.

For FY 2014-15, under the present tax regime, if your salary (basic +DA) is Rs.4.00/ 10.00 Lakh; your contribution is Rs.0.40/1.00 Lakh, you can claim the complete amount as tax deduction within the overall ceiling of Rs.1.00 Lakh. But if your salary is say, Rs.15.00 Lakh and your NPS contribution is Rs.1.50 Lakh, your tax deduction will still be confined to the ceiling of Rs.1.00 Lakh only.

However, for FY 2015-16, this limit has been raised such that, if you are contributing upto Rs.1.50 Lakh, subject to contribution being 10% of salary, you can claim the full amount as tax deduction.

Since your employer is also contributing towards your pension account, you can avail an additional deduction of 10 % of salary (basic + DA) u/s 80 CCD(2) irrespective of any limit, over and above the overall ceiling of Rs.1.50 Lakh u/s 80 CCE. This means that you can additionally claim tax deduction on the total amount of co-contribution by your employer, subject to that being 10% of your salary (basic + DA).

Also, for FY 2015-16, you can invest an additional amount of Rs.50,000 (or more) to your NPS Tier I account and claim tax deduction on the same, subject to a maximum of Rs.50,000. You may note that NPS is now the only investment vehicle which allows you this additional tax deduction.

3. How do all these bring about a change in your tax outgo?

As shown in the illustration your, your tax savings would effectively go up. By investing in NPS, the limit for tax deduction claim will now go up from Rs.1.00 Lakh to Rs.2.00 Lakh, a surge of almost 100%

NPS- SAVE RIGHT: RETIRE BRIGHT

It has been our endeavour to provide you with a low-cost-viable-retirement product built on highly efficient & technologically superior IT platform. Not only is it important to save for retirement, but also to save effectively and efficiently.

NPS provides that optimal mix of prudence, safety, return, and regulation that helps your money to grow in the best possible way.

We trust you have been receiving emails, SMSs and your SoTs (Statement of Transactions) from the CRA from time to time.

In case, you require any further information you may visit our website -www.pfrda.org.in or the CRA- Central Recordkeeping Agency website- www.npscra.nsdl.co.in.

With Regards

Hemant G. Contractor
Chairman, PFRDA

		Tax Savings through NPS [Contribution from Employee and Employer]		
(Amounts in Lakh)		10%	20%	30%
Tax Rates (as Applicable) →		10%	20%	30%
Salary (Basic + DA)		4.00	10.00	15.00
Allowances		1.00	1.00	1.50
Employer NPS Contribution (10% of Salary)		0.40	1.00	1.50
Total Taxable Salary	A	5.40	12.00	18.00
Deductions from Taxable Salary Available for Current FY 2014-15				
Employee Contribution (10% of Salary) Deductions u/s 80 CCD(1)	i	0.40	1.00	1.00
Employer Contribution (10% of Salary) Deductions u/s 80 CCD(2) through NPS	ii	0.40	1.00	1.50
Total Deductions	iii=i+ii	0.80	2.00	2.50
Taxable Salary	iv=A-iii	4.60	10.00	15.50
Tax (including surcharge)	v	0.22	1.29	2.99
Deductions from Taxable Salary available w.e.f. FY 2015-16				
Employee Contribution (10% of Salary) Deductions u/s 80 CCD(1)	B	0.40	1.00	1.50
Employer Contribution (10% of Salary) Deductions u/s 80 CCD(2) through NPS	C	0.40	1.00	1.50
Investment under 80 CCD(1B) [Max. Rs.50,000, available exclusive under NPS]	D	0.50	0.50	0.50
Total Deductions	E=B+C+D	1.30	2.50	3.50
Taxable Salary	F=A-E	4.10	9.50	14.50
Tax (including surcharge)	G	0.16	1.18	2.68
Additional Tax Saving by investing in NPS w.e.f. FY 2015-16	(v-G)	0.06	0.11	0.31