pnb MetLife
Milkar life aage badhaein

BUSINESS INSURANCE

Bouquet of Life Insurance
Solutions for Entrepreneurs



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Agenda

01 About Businesses and their challenges

02 How business insurance can help them overcoming the challenges

03 Various types of Business Insurance Solutions – Working & Benefits

04 Underwriting , Documentation & Support items

05 Action Plan

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Defining Business & Types of Business

- A **business** is defined as an organization or enterprising entity engaged in commercial, industrial, or professional activities.



Sole Proprietor

Business owned and managed by an individual.



Partnership

Two or more individuals come together to run business.



HUF/Family Owned

Business managed by family members.



Company

Board of Directors and shareholders run the show.

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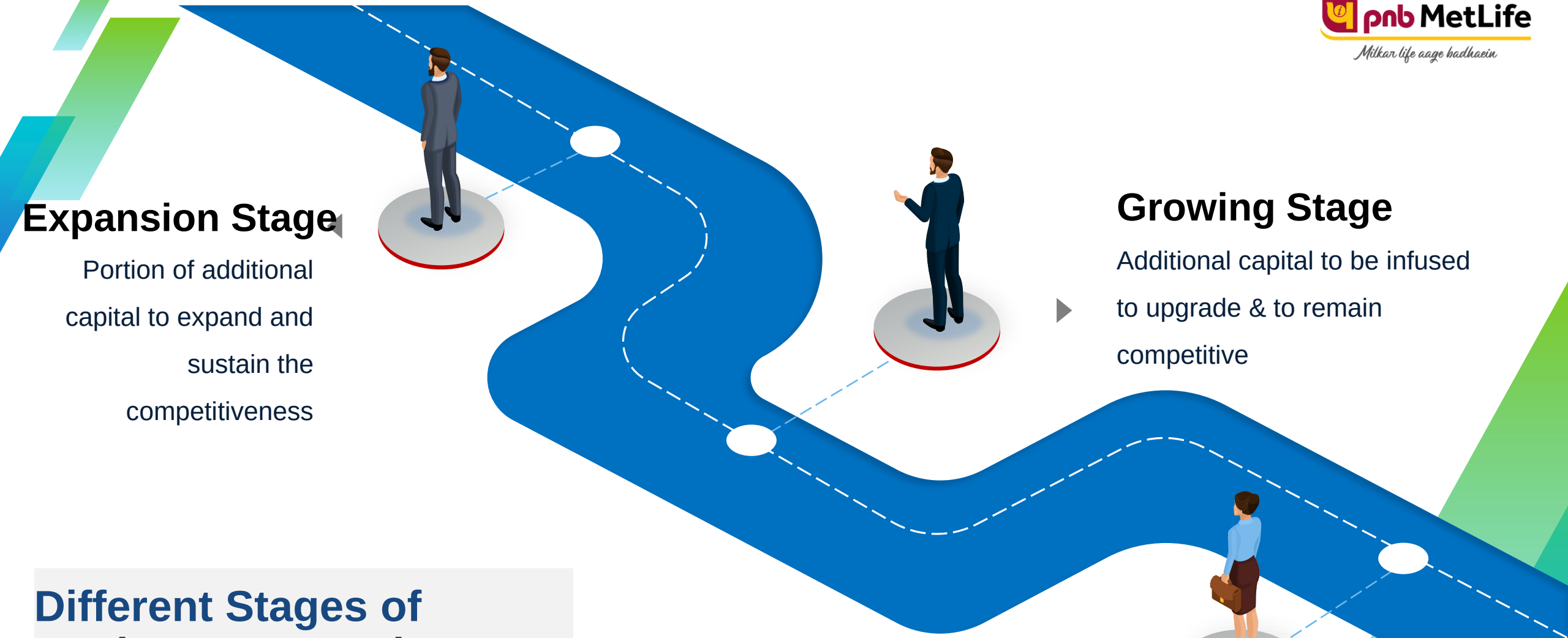
Different Stages of Business & Requirement of Capital



Expansion Stage

Portion of additional capital to expand and sustain the competitiveness

Growing Stage

Additional capital to be infused to upgrade & to remain competitive

Start Up Stage

Infusion of initial capital at the germination stage

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Categorization of Companies



Large Cap Companies

Market Capitalization of more than Rs. 20,000 Cr. → HDFC Bank, Reliance Industries , ITC , TCS etc

Mid Cap Companies

Market Capitalisation between Rs. 5,000 Cr to Rs. 20,000 Cr. → Century Plyboard, Aditya Birla Fashion Ltd,Dr. Lal path , Relaxo Footwear etc.

Small Cap Companies

Market capitalisation less than Rs. 5000 Cr. → Thyrocare, VIP Industries,Bajaj Electricals etc.

MSME's

Enterprises with yearly turnover of less than Rs. 250 Cr. → Get's further categorized into Micro, Small & Medium Enterprises

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Some common challenges that businesses face

- Requirement of working capital.
- Business continuity.
- Retention of employees.
- Business liability management.
- Asset Equalization.
- Securing family wealth.
- Ensuring Tax Efficiency.



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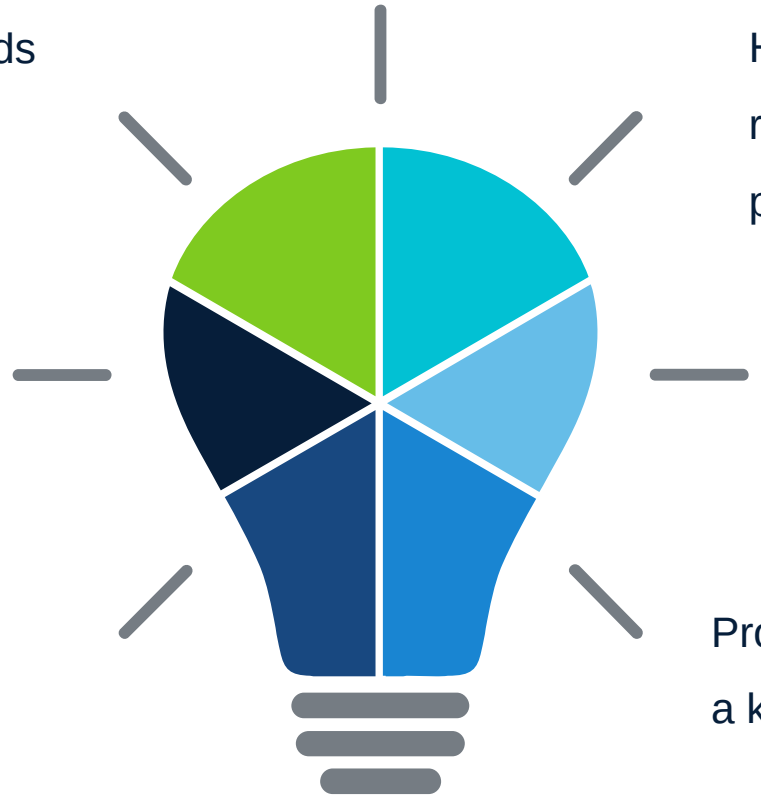
What they need to do to overcome the challenges they face

Have sufficient capital to pay off the business liabilities

Save tax outflow and manage funds for uninterrupted flow of working capital

Have sufficient money to return back the deceased partners share



Creating legacy & Effective distribution of wealth in family

Build a cost effective plan to retain talented employees

Enough provision to protect family's wealth from creditors

Provision and plan of action if a key employee leaves or die

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1. Employer Employee
2. Key Person
3. Partnership
4. MWP Act 1874
5. Asset Equalization & Legacy Creation

Business Insurance Solutions

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Employer Employee

Employer Employee is an arrangement between an employer and a life insurance company. Proposed on a life of an employee(s) and used primary as a long term retention tool.



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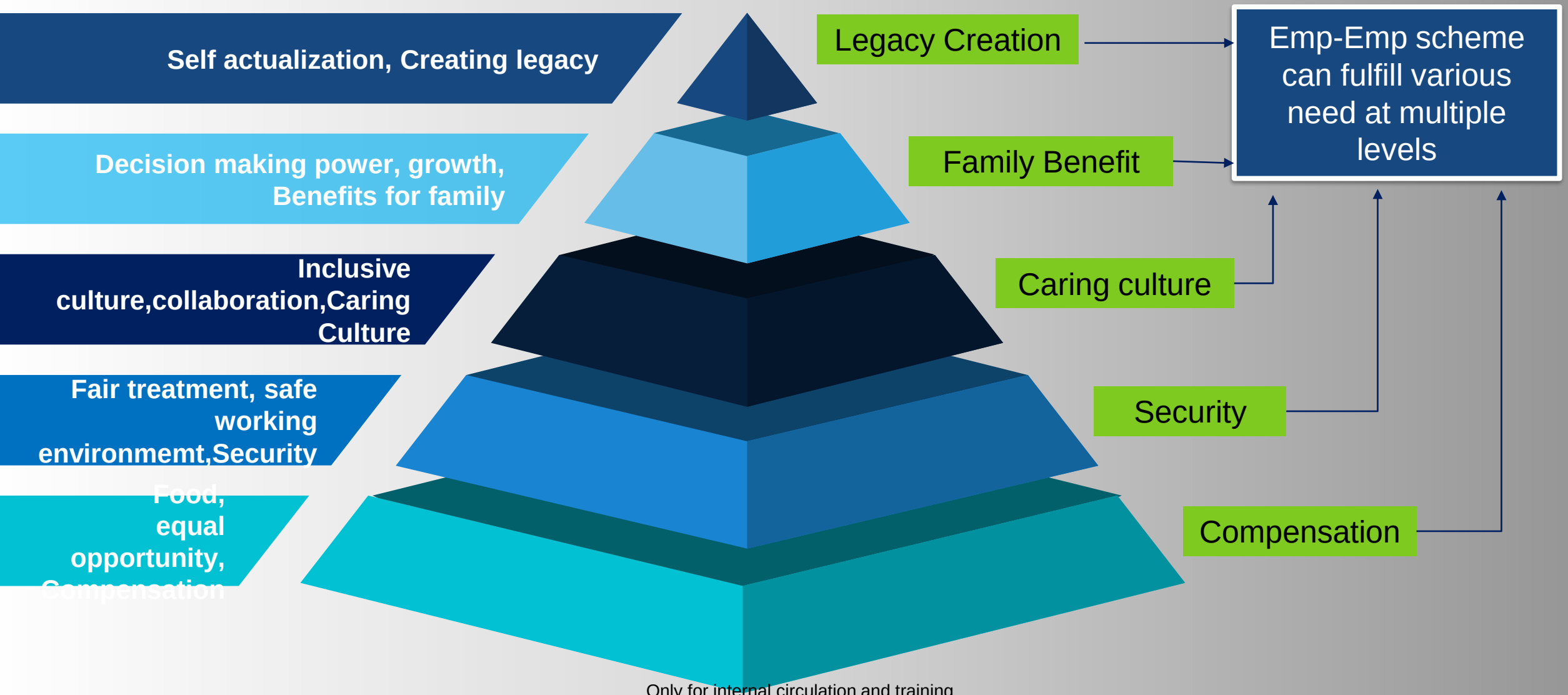
Hierarchy of Needs at workplace
(Based on Maslow's Hierarchy of Needs)



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How to approach the prospective client

01 Would you like to take unique steps to ensure that you are able to retain talented employees of your organization ?

02 Have you given a thought , how you can accomplish the task of retaining the employees in a tax efficient manner ?

03 Would you like to see a proposal that can take care of procuring working capital at a rate which is pretty low as compared to traditional avenues ?

04 Would you be interested in knowing a solution that helps you in deferment of taxes ?

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Benefit of Employer Employee

Employer

- It acts as a *retention* tool to retain talent in the organization
- It helps the employer to *motivate* its employees
- It provides *tax benefits under section 37(1)* to the employer for paying the premium as it is a business expense

Employee

- It acts as a *welfare measure* by the organization to take care of the dependents
- A *financial provision* is made for his/ her old age without spending anything from the pocket
- *Tax benefits* as per applicable tax laws



Tax disclaimer:
Premium paid can be claimed as deduction under section 37(1) of Income Tax Act by the employer company.
This may not be applicable for all cases & hold true in specific facts of the case only; can be claimed based on merits and guidance from independent tax consultant.

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Business Expenses allowed u/s 37(1) of IT Act

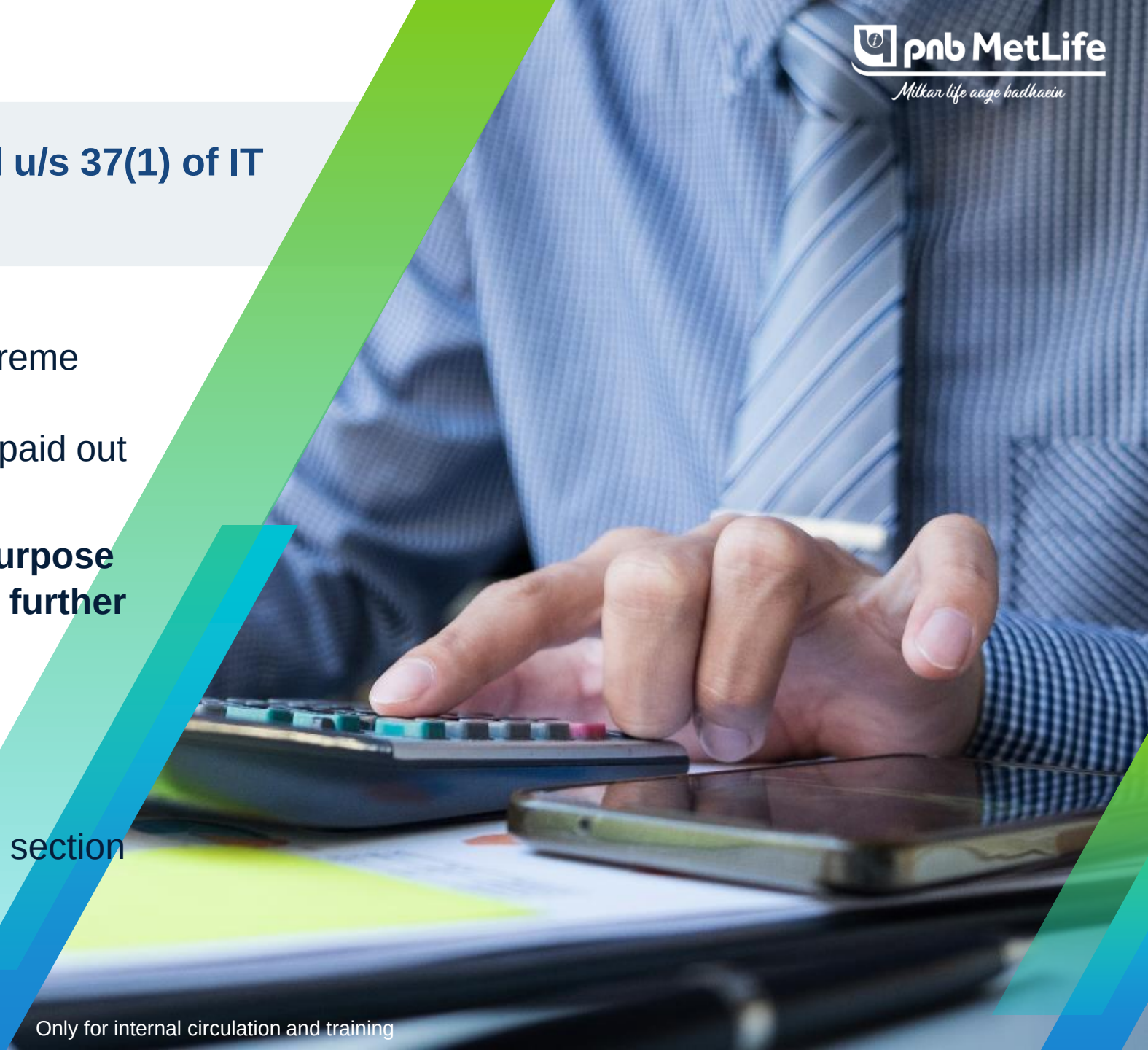
The main requisites laid down by the Supreme Court & IT Dept. for allowability of expenditure u/s 37(1) are that the money paid out must be –

- a) **wholly and exclusively for the purpose of the business or profession; and further**
- b) must not be for:

(i) Capital expenditure;

(ii) Personal expense; or

(iii) Expense of the character described in section 30 to section 36.



Insurance Premium for Family Members of Employees is Business Expense (taxguru.in)

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Example of expenses allowed u/s 37(1)

- *Litigation expenses* in protecting the trade or business.
- Expenditure incurred for the *preservation or protection of the asset*.
- *Interest paid on a loan* to finance business.
- *Commission* paid to selling agents.
- *Salary and perquisite* to employees.
- Expenditure on *training* of employees.
- ***Premia paid on loss of profit policies*.**
- *Advertisement expenditure* incurred by an assessee for building up its brand.

Source - Section 37(1)] : General Or Allowable Deductions under Business or Professions (incometaxmanagement.com)

Corporate Tax rate – Domestic Companies for AY 20-21 based on their turnover

Sections	*Tax rate*	*Surcharge*
Section 115BA~ (Companies having turnover up to Rs 400 crore in FY 2018-19)	25%	7%/12%*
Section 115BAA^	22%	10%
Section 115BAB**	15%	10%
Any other case	30%	7%/12%*

Source – New Income Tax Rates for Domestic Companies from AY 2020-21 (taxcorner.co.in) - Changes made from FY 2017-18 to FY 2018-19

- ~Section 115BA was introduced as a beneficial provision to provide for a reduced rate of 25 per cent of income-tax rate for a domestic company without claiming any exemption/deduction and subject to fulfilment of certain other conditions specified therein. It was also specified that once the beneficial reduced rate of income-tax is opted by a domestic company, the same cannot be withdrawn subsequently.
- ^A new section 115BAA is introduced from the Assessment Year 2020-21 which provides an option to a domestic company to pay tax at a lower rate of 22% as against the normal tax rate of 30% or 25% and MAT u/s 115JB. The reduced rate of income-tax under section 115BAA comes with certain conditions. Such conditions will apply to a domestic company opting section 115BAA. These conditions are related to the computation of the 'Total Income' of the domestic company.
- **New section 115BAB is introduced from the assessment year 2020-21 which provides an option to a domestic manufacturing company to pay tax at a lower rate of 15% if such a company is incorporated on or after 1st October 2019 and commences manufacturing within 31st March 2023 and satisfies certain other conditions. For eg. startup's
- *Plus surcharge in case a company gets taxed under section 115BA. The rate of surcharge is 7% in case the total income is above one crore rupees and up to Rs 10 crore. The surcharge is 12% in case total income is above Rs 10 crore. However, if a company opts for taxation under section 115BAA or section 115BAB, the surcharge is 10% irrespective of the total income.

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Dividend Distribution Tax

- Dividend received from domestic company is ***taxable in hands of shareholders***.
- The dividend income shall be ***chargeable to tax at normal tax rates*** as applicable in case of an assessee.

Employer Employee scheme is a better option for reducing Dividend Distribution Tax

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Employer Employee Schemes

Scheme A

01 Employee is the life assured and Employer is the proposer.

02 Premium is paid by the employer.

03 Policy is assigned(absolute/conditional) to the employee before a stipulated timeframe.

04 Employer continue to pay premium & same is taxed as perquisite in the hand of employee

Scheme B

01 Employee is the proposer and life assured.

02 Premium is paid by the employee and reimbursement from employer.

03 Employee needs to pay the premium to keep the policy in force.

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Tax implications

Scheme	Premium paid to be allowed as Business Expense u/s 37(1)	Perquisite u/s 17 (2) in the hands of Employee	Deduction Allowed u/s 80C for Employee	Tax free Maturity Benefit u/s 10(10D)	Tax free Death Benefit u/s 10(10d)
Scheme A – Pre Assignment	Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Scheme A – Post Assignment	Not Applicable	Surrender Value at Assignment	Allowed	Not Allowed	Allowed
Scheme B	Allowed	All the premiums paid by employer*	Allowed	Allowed	Allowed

- *Before he/she quits the organization
- All the tax benefits will be applicable only as per the current applicable tax laws.

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Eligible for Employer Employee Scheme

Sole Proprietor 	A sole proprietor as the employer where the employee (other than the sole proprietor himself) is any employee of the sole proprietary concern.
Partnership 	A partnership firm as the employer where the employee (other than a partner) is any Employee of the partnership firm.* Partner's in a Limited Liability partnership can buy Employer – Employee policies.
Company 	A Company as the Employer, where the Life to be Insured is an Employee of the Company
Other Legal Entity 	Any other legal entity as the employer and its employees

- *Exception to this would be a partnership firm as the employer with a WORKING PARTNER getting a defined, regular salary from the partnership firm, as clearly defined by the partnership deed and a case of partner in Professional Partnership firms, where he/she is actually a Salaried Partner in his/her professional capacity with a low profit sharing ratio. In all such instances the scope of cover is not wider then term assurance.
- Please note that employees part of the Keyman scheme will not be allowed for employer employee coverage.

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Mr. Vikas Singhania is looking for an investment option that not only gives him better returns but is also tax efficient.



Mr. Vikas Singhania – Auto Parts Manufacturer

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Employer Employee Proposal for Mr. Singhania

He is willing to invest *Rs.10 Lakh* in *Employer Employee Scheme A* through *PNB MetLife Super Saver Plan (Savings) – 5 Pay & 10 Year Policy Term.*

Premium Paid for 5 Yrs. from company books	50,00,000
Deduction u/s 37(1)	15,00,000
Net Outflow from company books	35,00,000
Surrender Value at the time of Assignment (A)	63,56,017
Tax paid by Mr. Singhania on SV @ 30.9%	19,06,821
Maturity Received by Mr. Singhania (B)	68,09,173
Tax Paid by Mr. Singhania on Maturity @ 30.9% (B-A)	1,40,990
Total Gain in Mr. Singhania's Account (Maturity Value – Tax paid)	**66,69,165**

Loan up to 90% of SV can be taken an utilized for the company also



Maximum Corporate Tax rate for Domestic Company @ 30% is considered for above calculations. Applicable surcharge and Cess not considered. Corporate tax rates are subject to change from time to time.
Premium paid can be claimed as deduction under section 37(1) of Income Tax Act by the employer company. This may not be applicable for all cases & hold true in specific facts of the case only; can be claimed based on merits and guidance from independent tax consultant.
The employee shall be subject to perquisite tax on premium paid by Employer after absolute assignment. At the time of absolute assignment, surrender value would be taxable in the hands of employee
The policy receipts at the time of Maturity/Surrender taxable in the hands of employees. Maximum individual tax @ 30.9% considered (without surcharge). Individual tax rate are subject to change from time to time
The above tax implication is enumerated as per our understanding of Income Tax Act, 1961. Clients are advised to take independent tax opinion before taking final tax position.

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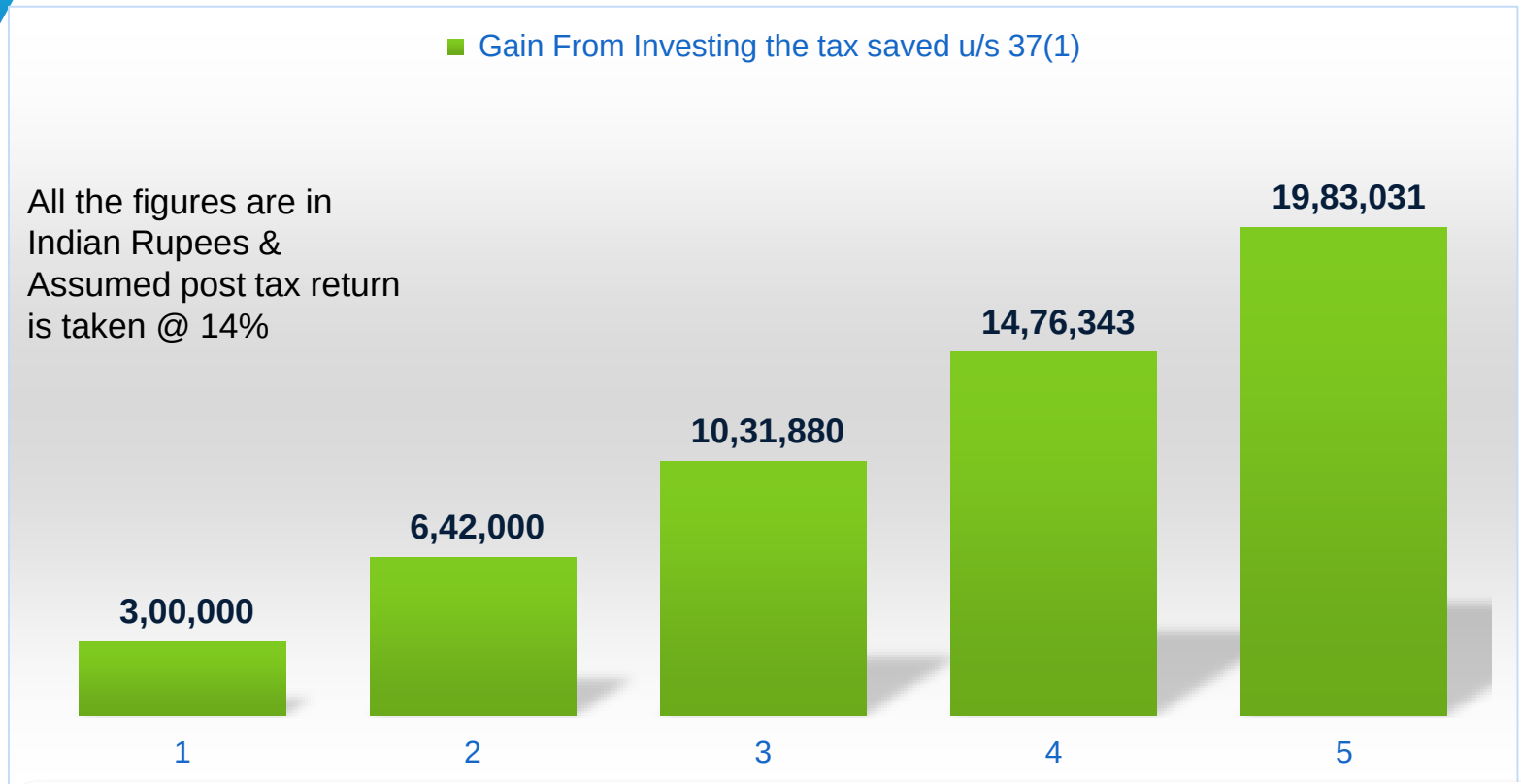
Gain from investing the tax saved u/s 37(1) in the business



If the company keeps the amount reinvested for next 5 years also (till the end of policy term), they will easily be able to gain more that what they have paid as a premium

Employer Employee solution is a Win-Win situation for Mr. Singhania and his company both.

The company of Mr. Singhania can generate **Rs.19.93** Lakh by investing the Rs 3 L (Tax saved u/s 37(1)) every year in his business during premium paying term.

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Mr. Rajat Jain is looking for an investment option that not only gives him guaranteed returns with but is also tax efficient.

Mr. Rajat Jain – Owner of an IT Firm

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Employer Employee Proposal for Mr. Jain

Mr. Jain runs a small IT firm. He is willing to invest *Rs.10 Lakh* in *Employer Employee Scheme A* through *PNB MetLife Guaranteed Future Plan (Lumpsum) – 7 Pay & 15 Year Policy Term*

Premium Paid for 7 Yrs. from company books	70,00,000
Deduction u/s 37(1)	21,00,000
Net Outflow from company books	49,00,000
Surrender Value at the time of Assignment (A)	1,17,18,784
Tax paid by Mr. Jain on SV @ 30.9%	35,15,635
Maturity Received by Mr. Jain (B)	1,26,28,000
Tax Paid by Mr. Jain on Maturity @ 30.9% (B-A)	2,80,948
Total Gain in Mr. Jain's Account (Maturity Value – Tax paid)	**Rs.1,23,47,052**

loan up to 90% of SV can be taken an utilized for the company also

Maximum Corporate Tax rate for Domestic Company @ 30% is considered for above calculations. Applicable surcharge and Cess not considered. Corporate tax rates are subject to change from time to time.

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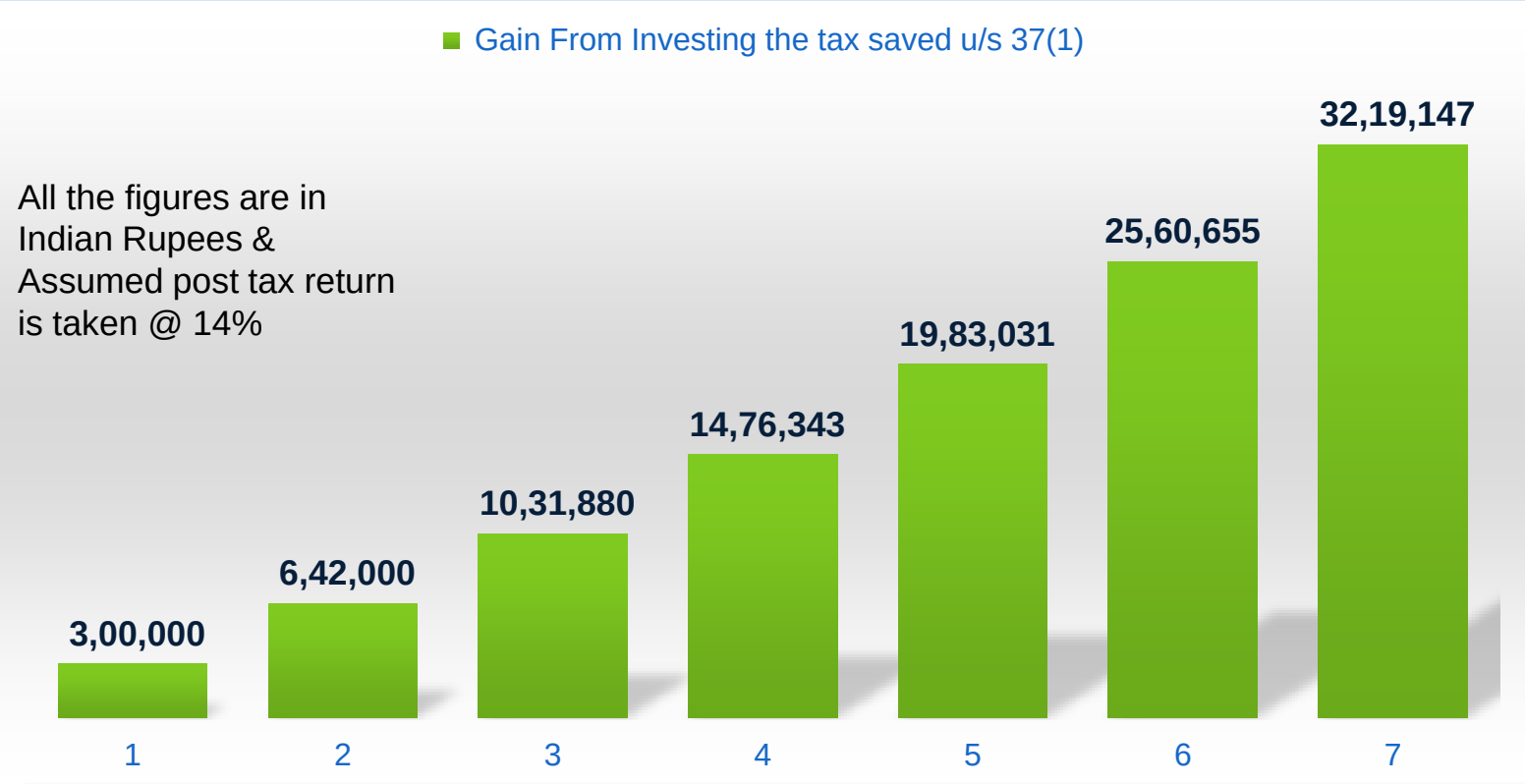
Gain from investing the tax saved u/s 37(1) in the business



If the company keeps the amount reinvested for next 5 years also (till the end of policy term), they will easily be able to gain more that what they have paid as a premium

Employer Employee solution is a Win-Win situation for Mr. Jain and his company both.

The company of Mr. Singhania can generate **Rs.32.19** Lakh by investing the Rs 3 L (Tax saved u/s 37(1)) every year in his business during premium paying term.

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Mr. Rajat Jain is also interested in knowing how he can get loan at lowest rate on the same policy that he bought under employer employee scheme A.

Mr. Rajat Jain – Owner of an IT Firm

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Loan @ 6.30%*

Interested in knowing how !

* Effective rate after tax benefits. Terms & Conditions applicable

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Suppose Mr. Jain takes loan and utilizes the amount in business. Let's see how it works .

Premium Paid for 7 Yrs. Form company books	70,00,000
Deduction u/s 37(1)	21,00,000
Effective outflow for the company	49,00,000
Loan availed by Mr. Jain from the policy and rotated in his business	**1,05,46,909**

- Against the ***49 lakhs*** net premium paid, you get ***more liquidity/loan of total 1.05 Cr (max. up to 90% of SV)*** from beginning of 3rd year till 15th year of the policy.
- This liquidity through ***loan is cheaper than any loan available in the market*** loan available at G Sec + 1% interest. Loan available in the open market will have minimum interest rate of 13%.p.a.

Calculation of Effective rate of Interest on Loan taken on Employer Employee Policy

G Sec rate = 8%
Interest on Loan = 9%
Tax saved on interest @ 30% 2.70%
Net interest on loan 9% – 2.7% = 6.3%



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Documentation – Employer (Scheme A)

Documents	Company (Ltd.)	Partnership	Others*
MOA,AOA,COI			
Form 23 AC and Form 23 ACA/ Audited Balance sheet and audited Profit and Loss statement/ ITR's of the company for last 3 years			
Resolution of the Board of Directors to enter into an insurance contract and identification of those persons who have authority to operate the account or Power of attorney granted to its managers or employees on its behalf and employer-employee questionnaire			
Power of attorney granted to its managers /employees on its behalf to do the transaction and to enter into an Insurance contract.			
Partnership Registration Certificate , if registered			
Registered Partnership Deed			
Registration certificate, if registered			
Registered Trust Deed			
Current Address Proof			
Copy of PAN			
ID & Address Proof of the Individual signing the proposal form (person holding the power of attorney)			

*Trust, Charitable, NGO etc

RED colur denotes that the document is not required and Green Denotes that the document is required

Additional documents can be requested by underwriters on case to case basis.

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Documentation – Employer (Scheme B)

Documents	Company (Ltd.)	Partnership	Others*
MOA,AOA,COI			
Form 23 AC and Form 23 ACA/ Audited Balance sheet and audited Profit and Loss statement/ ITR's of the company for last 3 years			
Resolution of the Board of Directors to enter into an insurance contract and identification of those persons who have authority to operate the account or Power of attorney granted to its managers or employees on its behalf and employer-employee questionnaire			
Power of attorney granted to its managers /employees on its behalf to do the transaction and to enter into an Insurance contract.			
Partnership Registration Certificate , if registered			
Registered Partnership Deed			
Registration certificate, if registered			
Registered Trust Deed			
Current Address Proof			
Copy of PAN			
Declaration of Premium Payor			

*Trust, Charities, NGO etc

RED colur denotes that the document is not required and Green Denotes that the document is required.

Additional documents can be requested by underwriters on case to case basis.

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End of Section 1



Learning and Insights from Day 1

Detailed Illustration

5 Pay - 10 Term										
Premium Payment year	Premium Paid	Estimated Surrender Value @ 8% scenario (End of Year)	Business Expense Deduction under Section 37(1)	Tax Paid from Personal Account	Loan Eligibility	Additional Loan Taken	Return on Loan Amount Invested in Business (Post Tax)	Interest on Loan @ 9%	IRR Calculations including all inflows and outflows	
									Effective Outflow: Premium - Tax Deferred + Tax paid from Personal Account- Loan taken - Return on Loan + Int on Loan	IRR Column
0	10,00,000	0	3,00,000						7,00,000	-7,00,000
1	10,00,000	0	3,00,000						7,00,000	-7,00,000
2	10,00,000	10,46,790	3,00,000		0	0	0	0	7,00,000	-7,00,000
3	10,00,000	17,11,502	3,00,000		0	0	0	0	7,00,000	-7,00,000
4	10,00,000	24,87,383	3,00,000		0	0	0	0	7,00,000	-7,00,000
5	0	33,89,059	0		0	0	0	0	0	0
6	0	38,34,660	0		0	0	0	0	0	0
7	0	43,33,015	0		0	0	0	0	0	0
8	0	56,40,144	0		0	0	0	0	0	0
9	0	63,56,071	0		0	0	0	0	0	0
10	0	0		1,40,009					68,09,173	78,26,724
	50,00,000		15,00,000	1,40,009		0	0	0	Post Tax Returns	*10.45%*
									Pre Tax Returns	*14.92%*

Premium paid can be claimed as deduction under section 37(1) of Income Tax Act by the employer company. This may not be applicable for all cases & hold true in specific facts of the case only; can be claimed based on merits and guidance from independent tax consultant.

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Illustration 2

7 Pay - 15 Term										
Premium Payment year	Premium Paid	Estimated Surrender Value (End of Year)	Business Expense Deduction under Section 37(1)	Tax Paid from Personal Account	Loan Eligibilty	Additional Loan Taken	Return on Loan Amount Invested in Business (Post Tax)	Interest on Loan @ 8%	IRR Calculations including all inflows and outflows	
									Effective Outflow: Premium - Tax Deferred + Tax paid from Personal Account- Loan taken - Return on Loan + Int on Loan	IRR Column
0	10,00,000	0	3,00,000						7,00,000	-7,00,000
1	10,00,000	6,00,000	3,00,000						7,00,000	-7,00,000
2	10,00,000	10,50,000	3,00,000		0	0	0	0	7,00,000	-7,00,000
3	10,00,000	20,00,000	3,00,000		0	0	0	0	7,00,000	-7,00,000
4	10,00,000	25,00,000	3,00,000		0	0	0	0	7,00,000	-7,00,000
5	10,00,000	32,57,400	3,00,000		0	0	0	0	7,00,000	-7,00,000
6	10,00,000	41,24,820	3,00,000		0	0	0	0	7,00,000	-7,00,000
7	0	47,42,724	0		0	0	0	0	0	0
8	0	54,40,778	0		0	0	0	0	0	0
9	0	62,15,041	0		0	0	0	0	0	0
10	0	70,91,280	0		0	0	0	0	0	0
11	0	80,54,970	0		0	0	0	0	0	0
12	0	91,45,528	0		0	0	0	0	0	0
13	0	1,03,60,035	0		0	0	0	0	0	0
14	0	1,17,18,784	0		0	0	0	0	0	0
15	0	0	2,80,948						1,26,28,000	1,44,93,812

Maximum Corporate Tax rate for Domestic Company @ 30% is considered for above calculations. Applicable surcharge and Cess not considered. Corporate tax rates are subject to change from time to time.
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Illustration – Employer Employee with Loan availed on the policy for Business Purpose

7 Pay - 15 Term										
Premium Payment year	Premium Paid	Estimated Surrender Value (End of Year)	Business Expense Deduction under Section 37(1)	Tax Paid from Personal Account	Loan Eligibilty	Additional Loan Taken	Return on Loan Amount Invested in Business (Post Tax)	Interest on Loan @ 8%	IRR Calculations including all inflows and outflows	
									Effective Outflow: Premium - Tax Deferred + Tax paid from Personal Account- Loan taken - Return on Loan + Int on Loan	IRR Column
0	10,00,000	0	3,00,000						7,00,000	-7,00,000
1	10,00,000	6,00,000	3,00,000						7,00,000	-7,00,000
2	10,00,000	10,50,000	3,22,680		9,45,000	9,45,000	1,32,300	75,600	-3,24,380	3,24,380
3	10,00,000	20,00,000	3,43,200		18,00,000	8,55,000	2,52,000	1,44,000	-3,06,200	3,06,200
4	10,00,000	25,00,000	3,54,000		22,50,000	4,50,000	3,15,000	1,80,000	61,000	-61,000
5	10,00,000	32,57,400	3,70,360		29,31,660	6,81,660	4,10,432	2,34,533	-2,27,919	2,27,919
6	10,00,000	41,24,820	3,89,096		37,12,338	7,80,678	5,19,727	2,96,987	-3,92,514	3,92,514
7	0	47,42,724	1,02,443		42,68,452	5,56,114	5,97,583	3,41,476	-9,14,664	9,14,664
8	0	54,40,778	1,17,521		48,96,700	6,28,249	6,85,538	3,91,736	-10,39,571	10,39,571
9	0	62,15,041	1,34,245		55,93,537	6,96,837	7,83,095	4,47,483	-11,66,694	11,66,694
10	0	70,91,280	1,53,172		63,82,152	7,88,615	8,93,501	5,10,572	-13,24,716	13,24,716
11	0	80,54,970	1,73,987		72,49,473	8,67,321	10,14,926	5,79,958	-14,76,277	14,76,277
12	0	91,45,528	1,97,543		82,30,975	9,81,502	11,52,337	6,58,478	-16,72,904	16,72,904
13	0	1,03,60,035	2,23,777		93,24,032	10,93,056	13,05,364	7,45,923	-18,76,275	18,76,275
14	0	1,17,18,784	2,53,126		1,05,46,906	12,22,874	14,76,567	8,43,752	-21,08,814	21,08,814
15	0	0		2,80,948					1,26,28,000	39,46,907
	70,00,000		37,35,149	2,80,948		1,05,46,906	95,38,371	54,50,498	Post Tax Returns	*30.57%*
									Pre Tax Returns	*43.67%*

Maximum Corporate Tax rate for Domestic Company @ 30% is considered for above calculations. Applicable surcharge and Cess not considered. Corporate tax rates are subject to change from time to time.

Premium paid can be claimed as deduction under section 37(1) of Income Tax Act by the employer company. This may not be applicable for all cases & hold true in specific facts of the case only; can be claimed based on merits and guidance from independent tax consultant.

The employee shall be subject to perquisite tax on premium paid by Employer after absolute assignment. At the time of absolute assignment, surrender value would be taxable in the hands of employee
The policy receipts at the time of Maturity/Surrender taxable in the hands of employees. Maximum individual tax @ 30.9% considered (without surcharge). Individual tax rate are subject to change from time to time
The above tax implication is enumerated as per our understanding of Income Tax Act, 1961. Clients are advised to take independent tax opinion before taking final tax position.

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Illustration – Employer Employee with Loan availed on the policy for Business Purpose

Employer Employee Calculator		
Premiums Paid from Company Books	70,00,000	Out
Deduction u/s 37 (Business expense)	21,00,000	In
Effective Premium	49,00,000	Out
Loan received for rotation in business	1,05,46,906	In
Net Cash Inflow	56,46,906	In
Interest paid on Loan	54,50,498	Out
Tax Saved on Interest	16,35,149	In
Profit Generated on Loan rotated in business	95,38,371	In
Loan repaid before assignment	1,05,46,906	Out
Effective Outflow and Impact on Liquidity	***8,23,023***	
Maturity received by Employee	1,26,28,000	In
Tax Paid By Employee at the time of maturity	2,80,948	Out
Surrender value at the time of assignment	1,17,18,784	-
Tax paid by employer (on behalf of employee)	35,15,635	Out
Net Gain in Company Reserves	8,23,023	In
Net Gain in Employer Account	1,23,47,052	In
Total Gain	**1,31,70,075**	

Maximum Corporate Tax rate for Domestic Company @ 30% is considered for above calculations. Applicable surcharge and Cess not considered. Corporate tax rates are subject to change from time to time.

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