

Invest Gup Corner



5 Minutes Chat
with **Uncle Wealth**

TOPIC
*Tax Rebate on
Life Insurance Plans*

UNCLE WEALTH provides
pro-active investment advice
based on his knowledge
and experience



People say that Life Insurance companies only invest in the stock market. That is very risky since I am interested to buy an Education Plan for my children?

Uncle Wealth: Not really, IGI life offers Aggressive, Balanced and Conservative Plans as per risk appetite of the potential policyholder. Aggressive plan invests mostly in equity securities whereas a Conservative plan invests mostly fixed income instruments like bank deposits and Balanced Plan carries approximately equal share of both equity and fixed income instruments.

A potential policyholder can choose any investment strategy e.g. Conservative and our dedicated fund management team manages the premium money in a professional manner.

Does IGI Life Offer Islamic Plans?

Uncle Wealth: Yes, IGI Life also offers takaful products for its customers. We have Aggressive, Balanced and Conservative Takaful plans which potential customers can opt.

How are Life Insurance plans different from other investment opportunities?

Uncle Wealth: Do remember this equation to understand Life Insurance plans

Protection + Investment Return = Life Insurance Investment Linked Plan

Besides investment returns, Life Insurance plans offer protection coverage to dependents in adverse situations like policyholder death or injury etc. This protection feature is unique with Life Insurance plans versus other investment opportunities available in market.

People say Life Insurance plans also offer tax savings? Can you elaborate how it works for a Salaried Individual like me?

Uncle Wealth: For salaried or self-employed individuals, let me change the above equation slightly

Savings
in monthly tax



Protection + Investment Return + Tax Saving* = Life Insurance Investment Linked Plan

(*These tax savings are available on both single premium and regular premium plans)

For example, suppose you have monthly salary of Rs. 200,000/ (~ Annual Rs. 2,400,000/-) and you have invested Rs. 480,000/- in Life Insurance plan during the year. Then your tax saving will be calculated as follows:

Tax Saving	=	$\frac{\text{Normal Income Tax Liability}}{\text{Annual Taxable Income}}$	X	Investment
	=	$\frac{60,000}{2,400,000}$	X	480,000
	=	12,000		20%

This means that your tax liability will be reduced by 20% under existing tax laws.

My brother has a higher salary income than me. Will he be entitled to same tax benefit? Can you define a thumb rule for such investment?

Uncle Wealth: As a thumb rule;

1. If an individual's annual taxable income is Rs. 10 million or less; then he can save upto 20% of his/her normal tax liability by investing upto 20% of his taxable income in Life Insurance plan.
2. If an individual's annual taxable income is more than Rs. 10 million, then he will get tax rebate on a maximum investment of Rs. 2,000,000/- in his/her Life Insurance plan.

Let me give a summary table, that you may discuss with your friends, siblings and relatives to guide them

Annual Taxable Income (Rs)	Annual Tax Liability (Rs)	Applicable Tax Rate	Optimum Investment Amount (Rs)	Tax Saving (Rs)	Tax Saving (%)	Net Tax Liability (Rs)
A	B	A/B = C	D*	C x D = E	E/B = F	B - E = G
2,400,000	60,000	3%	480,000	12,000	20%	48,000
3,600,000	230,000	6%	720,000	46,000	20%	184,000
4,800,000	450,000	9%	960,000	90,000	20%	360,000
6,000,000	690,000	12%	1,200,000	138,000	20%	552,000
8,000,000	1,090,000	14%	1,600,000	218,000	20%	672,000
10,000,000	1,590,000	16%	2,000,000	318,000	20%	1,272,000
12,000,000	2,090,000	17%	2,000,000	348,333	17%	1,741,667
15,000,000	2,840,000	19%	2,000,000	378,667	13%	2,461,333
20,000,000	4,090,000	20%	2,000,000	409,000	10%	3,681,000
25,000,000	5,340,000	21%	2,000,000	427,200	8%	4,912,800

*Optimum investment amount is calculated as lower of; "20% individual's taxable income" and "Rs. 2,000,000/-".

Are there any conditions attached to this tax benefit?

Uncle Wealth: Yes! There are certain conditions associated with tax rebate as per section 62 of Income Tax Ordinance 2001; like

- The tax credit is available to Pakistani residents having

National Tax Number and deriving income chargeable under the head "Salary" or "Income from business"

- The Life Insurance plan shall not be surrendered/matured within 24 months of its acquisition.

Will the tax benefit be available at the time of filing tax return or Can it be adjusted in monthly Salary?

Uncle Wealth: No need to wait till filing of tax return. A policyholder may provide copy of his/her IGI Life Insurance policy to the Payroll function of his/her company and request them to adjust tax credit in monthly income tax liability.

By when shall a policyholder pay Life Insurance premium to get tax rebate?

Uncle Wealth: The Tax period starts from July to June each year and a policyholder may claim tax credit on premium paid during this period on its IGI Life Insurance plan by providing copy of policy to his/her employer.

How much tax is deducted upon surrender or maturity of the policy?

Uncle Wealth: No tax will be deducted upon surrender or maturity of the policy.

No tax deduction on policy surrender/maturity

If a policyholder has multiple insurance policies, Can he/she claim tax credit on all of these?

Uncle Wealth: Yes, tax credit can be availed on total insurance premium paid during the tax year against one or more Life Insurance policies. However, tax credit should not be claimed twice against one policy premium.

Can a policyholder claim tax credit on his Takaful plans as well?

Uncle Wealth: Please note that all IGI Life plans are eligible for tax credit including Takaful plans.

Views shared in this brochure are general in nature and may not fully meet each individual's investment needs. Existing and prospective policyholders are advised to consult their individual tax and financial advisors for personal advice.

 A Packages Group Company

IGI Vitality[®]
Life

IGI Life Insurance Limited

Suite 701 – 713, 7th Floor,
The Forum, G-20, Block 9,
Khayaban-e-Jami, Clifton,
Karachi – 75600

Tel: (+9221) 3536-0040

UAN (+9221) 111-111-711

Fax: (+9221) 3529-0042

Website: www.igilife.com.pk

