DAY 3

1. Practical Aspects of Section 10(10D)-Keyman Insurance Policy

Latest Infrastructure Limited took a keyman insurance policy on the life of its managing director. The details of which are as under:

(i)	Date of Policy	01.05.2003
(ii)	Date of Maturity	30.04.2013
(iii)	Actual sum assured	Rs. 52 crores
(iv)	Date of insurance premium payable every year	1^{st} May
(v)	Annual insurance premium payable [from 2003 to 2010]	Rs. 6 crores
(vi)	Surrender Value as on 12.04.2010	Rs. 24.25 crore

Company assigned the policy in favour of the managing director by recovering the surrender value. After assignment, managing director paid the last instalment of insurance premium of Rs. 6 crores. On maturity, managing director received Rs.62 crores.

The contention of the managing director is that entire amount received from insurance company is exempt under section 10(10D) on the ground that the policy is not a keyman insurance policy. The argument is that in order to be called "keyman insurance policy", it must be a policy taken by one person on the life of another person connected with business of first person. But in his case, after assignment of policy, it becomes a personal policy and it is not now a policy taken by the one person on the life of another person.

Is contention made by managing director correct?

Before, we go to the solution, lets comprehend amendment first.

Generally, proceeds received on life insurance policy are exempt under section 10 (10 D). However, such exemption is not available in case of following life insurance policies:

(a) Keyman insurance policy
(b) Policy where premium paid or payable exceeds 10 % of sum assured
(c) Policy referred to in section 80DD

That means, amount received on keyman insurance policy will not be eligible for exemption.
Now, let's move to amended definition of term "Keyman Insurance policy" which reads as under:-

> *"For the purposes of this clause, "Keyman insurance policy" means a life insurance policy taken by a person on the life of another person who is or was the employee of the first-mentioned person or is or was connected in any manner whatsoever with the business of the first-mentioned person* ***[and includes such policy which has been assigned to a person, at any time during the term of the policy, with or without any consideration]". [Explanation 1 to section 10(10D)]***

Now, let's find out taxable gain on this policy in the hands of managing director.

Solution:

In the hands of managing director, insurance policy is a capital asset. Computation of capital gains is as under:

	Particulars	Amount Rs.
	Full value of consideration	62,00,00,000
Less:	Indexed cost of acquisition [Rs. 30.25 crore $\times \frac{939}{711}$] {NOTE}	39,95,04,219
	Long Term Capital Gain	**13,79,95,781**

Considering amended definition, readers can understand that policy continues to be a keyman insurance policy even after assignment. Therefore, the contention raised by managing director is not tenable (acceptable). Proceeds received on keyman insurance policy is subject to income tax and it cannot be exempt under section 10(10D).

NOTE :-

Cost of acquisition of insurance policy in the hands of managing director
=Amount paid to company at the time of assignment of policy + Last premium paid
=Rs.24.25 crores + Rs. 6 crores
=Rs.30.25 crores

2. Practical Aspects of Section 10(23ED)-exemption of income of Investor Protection Fund set up by depositories

Compute taxable income of NSDL Investor Protection Fund from the following information:

Particulars	Rs. (in crores)
Contribution received from NSDL	18.50
Contribution received from public	1.05
Interest on securities	7.20
Fixed Deposit interest	1.30
Further, investor protection fund shared to NSDL (which was not taxed earlier)	1.00

Before, we go to the solution, lets comprehend amendment first.

Section 10(23ED) grants exemption to the investor protection fund set up by depository. As per this section:-

(1) Any contribution received by such investor protection fund from depository is completely exempt.
(2) Readers must take care that exemption is restricted to contributions received from depository and not to any other income like interest income or contribution received from others.
(3) Further, whenever in future such contribution (on which tax has not paid) is shared with depository, then it shall be liable to tax in the year in which it is so shared.

Solution:

Computation of Taxable Income of NSDL Investor Protection Fund

Particulars	**Rs. (in crores)**
Contribution from NSDL	Exempt
Contribution from public	1.05
Interest on securities	7.20
Fixed Deposit interest	1.30
Investor protection fund shared to NSDL (which was not taxed earlier)	1.00
Total Income	**10.55**