National Pension Scheme – Tax Hack

National Pension System (NPS) is a retirement benefit Scheme introduced by the Government of India to facilitate a regular income post-retirement to all subscribers. PFRDA (Pension Fund Regulatory and Development Authority) is the governing body for NPS.

National Pension System (NPS) is based on a unique Permanent Retirement Account Number (PRAN), allotted to every subscriber. To encourage savings, the Government of India has made the scheme reassuring from a security point of view and has offered some attractive benefits for NPS account holders.

BENEFITS OF NPS

- **Regulated:** NPS is regulated by PFRDA (Pension fund regulator under the Ministry of Finance, Govt. of India.), which ensures transparent norms governing the activities.
- **Voluntary:** It is a voluntary scheme for all citizens of India. You can invest any amount in your NPS account at any time.
- **Flexibility** Select or change the POP (Point of Presence), investment pattern, and fund manager. This ensures that you can optimize returns as per your comfort with various asset classes (Equity, Corporate Bonds, Government Securities, and Alternate Assets) and fund managers.
- **Economical:** NPS is one of the lowest-cost investment products available.
- **Portability:** NPS account or PRAN will remain the same irrespective of change in employment, city, or state.
- **Superannuation Fund transfer:** NPS account holders can transfer their Superannuation funds to their NPS account without any tax implication. (Post approval from relevant authorities)
- **Tax Benefits:** NPS offers triple tax benefits, which are as follows:

TAX BENEFITS OF THE CORPORATE MODEL

Sr. No.	Section of the Act	Benefits
1	80CCD(1)	**Deduction for Employee's Contribution:** Deduction u/s 80CCD(1) of up to - 10% of the salary (i.e., Basic + Dearness Allowance) is allowed while computing the net taxable income. However, the above contribution would be under the purview of overall limit prescribed for section 80C of the Act i.e. INR 1,50,000
2	80CCD(1B)	Additional deduction of up to INR 50,000 is allowed over and above the limit prescribed under section 80C of the Act for the contribution made by the Employee.
3	80CCD(2)	**Deduction for Employer's Contribution:** Deduction up to 10% of Salary (Basic + Dearness Allowance) will be available to employee from its total income upto INR 7,50,000.

Further, the following are the key parameters that employee should consider while opting in and withdrawal from the NPS Scheme:

a. The option to join the NPS scheme is available only once in a year;
b. Exit from the NPS Scheme is permitted only after completion of 10 years

Key Considerations for withdrawal from the NPS Scheme have been tabulated below:

Sr. No.	Parameter	Limit	Other Conditions / Consequences	Tax Implications under the IT Act
1	Partial withdrawal	Amount to be withdrawn should not exceed 25% of the Subscriber's Contributions	a. Amount can be withdrawn only after 3 years b. Amount can be withdrawn for maximum 3 times during the entire tenure of subscription c. Withdrawal is allowed only against the specified reasons – (e.g., Higher education of children, marriage of children, purchase / construction of residential house on specified conditions, treatment of Critical illnesses, etc.)	Withdrawal up to 25% of the Subscriber's Contributions would be exempt from tax.
2	Pre-mature withdrawal i.e., before 60 years of age; Or Exit from the NPS Scheme	No limit i.e., up to 100% of the accumulated amount under the NPS Scheme	At least 80% of the accumulated pension corpus out of the amount withdrawn shall be utilized to purchase an Annuity that would provide a regular monthly pension.	Amount up to 60% of the total amount payable by the NPS Scheme would be exempt from tax. Further, the income earned by way of regular monthly pension (due to investment in Annuity) would be taxed as per the normal income tax slab rates applicable to the employees.