National Pension Scheme in India

**1. What is National Pension Scheme?**

The National Pension System (NPS) is a defined-contribution pension system operated by

the Government of India. Contribution can be made by Employee himself or his Employer. Also

any person not in Employment i.e. Self Employed can also contribute to NPS.

**2. Who control NPS in India?**

The pension scheme is administered on behalf of the government by the Pension Fund

Regulatory and Development Authority India (PFRDA). (http://www.pfrda.org.in/)

**3. Eligibility to Contribute?**

NPS is open to all citizens of India between the ages of 18 and 60 on a voluntary basis. An NRI

can also contribute to NPS. This Scheme can be participated with in addition to PPF and EPF.

**4. Process to participate?**

***a. For New Registration :***

To open a new NPS, Subscriber needs to have either PAN Card or Aadhaar and a Bank Account.

Also while making registration Picture and Signature need to be uploaded within 4 – 12 KB.

After filling up all the required information payment can be made from selected Bank Account.

On Successful registration a PRAN (Permanent Retirement Account Number) is generated along with a letter. Such Letter need to be signed and sent to CRA (Central Recordkeeping Agency) in 90 Days.

After that Subscriber will then receive PRAN Kit which will contain Card, TPIN, Master Report and Welcome Letter.

***b. For Contribution:***

Minimum Contribution = Rs. 500

Maximum Contribution = Any Amount

Any Contribution is charged with fees of Higher of Rs. 20 or 0.25% of the Contribution made, each time the Subscriber makes such contribution.

Maximum 50% of such contribution can be allocated to Equity. Rest of the fund will be parked in Debt.

**5. Taxability of NPS?**

NPS in India works on EET model i.e. exempt at the time of Investment, Exempt on Appreciation and Taxable on Withdrawal. Newly proposed Direct Tax Code want to make this an EEE model.

**For Salaried :**

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| --- | --- |
| **Employee Contribution** | **Employer Contribution** |
| *Amount of Deduction:**Under Section 80CCD (1):*Employee can contribute any amount to NPS, but for the purpose of IncomeTax he is eligible for deduction of 10 % of the Salary, restricted to the limit ofSection 80CCE i.e. Rs. 1.5 Lacs*Under Section 80CCD (1B):*Finance Act 2015 provides an additional deduction benefit of Rs. 50,000 tothe Investor with the intention to boost Investment towards NPS. This benefitis apart from the limit of 80CCD (1) & over and above limits of 80CCE | *Amount of Deduction:**Under Section 80CCD (2):*Employer can contribute any amount to the NPS of his employee butdeduction will be restricted to 10 % of the Salary of such employee. Thiscontribution is not included in overall limit of Rs. 1.5 Lacs Under Section80CCE*Under Section 36 (1) (iv) (a) :*Employer can claim such contribution towards NPS of his Employee asBusiness Expense |
| Salary means Basic Salary plus Dearness Allowance | Salary means Basic Salary plus Dearness Allowance |

**For Self Employed :**

Gross Total Income (GTI) means Income before giving any Deduction under Chapter VI A

***Amount of Deduction :***

***Under Section 80CCD (1):***

Any person can register for NPS and can contribute any amount to NPS, but for Income Tax purpose deduction will be limited to 10 % of the GTI, further restricted to the limit of Section 80CCE i.e. Rs. 1.5 Lacs

***Under Section 80CCD (1B):***

Finance Act 2015 provides an additional deduction benefit of Rs. 50,000 to the Investor with the intention to boost Investment towards NPS. This benefit is apart from the limit of 80CCD (1) & over and above limits of 80CCE

**6. Withdrawal from NPS?**

***a. Retire Before Age of 60:***

Minimum 80% of the fund shall be invested in purchasing Annuity Plan and the rest lump sum amount of 20 % can be withdrawn

***b. Retire on or after Age of 60 :***

Minimum 40% of the fund shall be invested in purchasing Annuity Plan and the rest 60% can be withdrawn

Note: Contribution towards Annuity is Not Taxable, but any other amount withdrawn is Taxable as and when received. Such contribution towards Annuity Plan is Taxable under head Income from Other Source on Maturity.

NPS Account have to be mandatorily closed on reaching the age of 70 years and the Balance fund withdrawn shall be Taxable.

Source courtesy:Taxguru.in