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Circular No. FCIDCPS-02/2023

Subject: Clarification on the provisions under Income Tax Act'1961 pertaining to National Pension System (NPS).

Implications of the prevalent provisions of Income Tax Act'1961 on the transactions affected under National Pension System (NPS) are stated hereunder: -

Sl. No.	Issue	Clarification
1.	Eligible deduction on the contribution made by a Member Employee.	Contribution by a Member Employee whether mandatory (being 2% of Salary) or voluntary, however, restricted to Rs. 50,000/- is an allowable deduction under Section 80CCD (1B).
2.	Tax implications on Employer Contribution to NPS.	Employer Contribution to NPS shall be included in working out the 'Value of Perquisite' as per Rule-3.
3.	Applicable provisions on partial withdrawal from NPS.	Lump Sum withdrawal for specified reasons, limited to 25% of the total contribution by Member Employee, is exempt under Section 10 (12B) of Income Tax Act'1961.
4.	Applicable provisions on 'Premature Exit' from NPS.	Permissible withdrawal upto 20% of the Corpus of the Member Employee is taxable and is to be included as part of Salary and tax deductions may be applied thereupon. The remaining 80% corpus of the Member Employee shall have to be mandatorily converted in Annuity, which is taxable as per Tax-Slab in the year of payout.

This issues with the approval of the Executive Director (DCPS).

(Hemant Kumar Varshney)
AGM (DCPS)

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