



CASE STUDY # 20



Minimum Income Criteria and earned income...

Underwriting Team - INCHES

Minimum Income Criteria is the criteria set by the re-insurer - at which minimum income a particular plan will be issued. This income criterion is different for different plans and for Salaried and Self-employed individuals. It is understood that the risk involved with a Salaried life is much less compared to that of a business owner or Self-employed life. Keeping this in mind the Min income criteria set for Self-employed is higher than that set for a salaried life.

During underwriting it is important to check this criterion and it has been observed that it is mostly missed by underwriters leading to incorrect policy issuance.

Another confusion faced by underwriters is earned vs unearned income calculation from the submitted ITR COI. It is important to know exactly which is earned income and which is unearned income in the COI. All Salaries, commissions, Net Profit, Consultancy income, interest income, share of profit exempt u/s 10 are earned income. Short term capital gains, long term capital gains, Interest on Bank savings, interest from individuals, house rent are all unearned incomes. Rent from commercial property can be considered as earned income and if push comes to shove 30-50% of house rent can be considered as earned income depending on the Insurance company.

Today will take up an ITR COI where the entire earned income was not calculated by the UW and the LA was offered a reduced sum assured even though he was completely eligible for the applied sum assured.

Computation of Total Income

Income Heads	Income Before Set off	Income After Set off
Income from Salary	580000	580000
Income From Business or Profession	70341	70341
Income from Capital Gains	1382	1382
Income from Other Sources	368507	368507
Gross Total Income		1020230
Less : Deduction under Chapter VIA		174481
Total Income		845749
Rounding off u/s 288A		845750
Income Taxable at Normal Rate		844368
Income Taxable at Special Rate		1382

As per this COI, earned income is Salary and Income from Business and Profession=6.5Lac [HLV@30=1.95CR](#) (Simple and Straight forward). Let's get into the comprehensive details of the COI to check if all is as it seems.

COMPREHENSIVE DETAIL				
Exempted Income				
Share in Profit Exempt u/s 10(2A)	Section	Amount		
		1566527		
		<u>1566527</u>		
Income from salary				580000
Name of employer : ██████████ INDUSTRIES				
Period : From 01/04/2021 To 31/03/2022				
Particular		Total Amount	Exempted Amount	Taxable Amount
Basic Salary		630000	0	630000
Allowance :				
Total		630000	0	630000
Standard Deduction				50000
Total Taxable Salary				580000
Income from Business & Profession Details				70341
Income From ██████████				
Interest		434867		
<u>Less : Expenses</u>		364526		
DEPOSITER INTEREST EXP.	364526			
Share in Profit Exempt u/s 10(2A)		1566527		
Total			70341	
Total of Business & Profession				70341
Income From Capital Gain(s)				1382
Income From ST Cap.Gain (111 A)				1382
(as per anx. attached)				
Total Capital Gain(s)				1382
Taxable Short Term Capital Gain Falling u/s 111A				1382
Income From Other Sources				368507
Interest on Bank Savings				
SB INTEREST - ██████████		10110		362836
SB INTEREST - ██████████		352326		
SB INTEREST - ██████████ BANK		400		
Interest on Bank FDR				
1. FD INTEREST - ██████████		5232		5671
2. FD INTEREST - ██████████		439		
Total Income				368507
Total of Other Sources				368507

As we can see from the comprehensive details, share of profit exempt u/s 10 is 15 Lac and Income from salary is 6.3Lac and not 5.8Lac which is calculated after standard deduction. So, the revised earned income is Income from salary (6.3Lac) + share of profit (15.6Lac) =21.9Lac [HLV@30=6.57Cr](#)

Since we have gone through the earned income, might as well have a look at the unearned income in the COI. Income from capital gains, Interest on Bank Saving and Bank FDR are not earned incomes.

To conclude, ITR COI contains a lot of hidden information, provided you know what and where to look, so go through the entire COI before accepting or rejecting a policy. I hope this ITR COI example will be useful in your underwriting journey. Happy Underwriting!

For details, drop in a mail to info@inchesgroup.com