



Rule for Taxing Contributions to EPF

Why in News

Recently, the Finance Ministry has notified the rules for taxing interest income on contributions made to the [Employees' Provident Fund \(EPF\)](#).

Employees' Provident Funds Scheme

- EPF is the main scheme under the **Employees' Provident Funds and Miscellaneous Act, 1952**.
- This scheme **offers the institution of provident funds for factory employees and other establishments**.
- The **employee and employer each contribute 12% of the employee's basic salary** and dearness allowance towards EPF.
 - The [Economic Survey](#) 2016-17 had suggested that **employees be allowed to choose** whether or not to save 12% of their salary into EPF or keep it as take home pay.
- As per current laws, **a person mandatorily becomes a member of EPF** if his **monthly salary does not exceed Rs. 15,000**.

Key Points

- **Background:**
 - In February 2021, the [Budget](#) proposed that [tax exemption](#) will not be available on interest income on [Provident Fund](#) (PF) contributions **exceeding Rs 2.5 lakh in a year**.
 - In March 2021, the **government introduced an amendment** to the **Finance Bill, 2021** in which it **proposed to double the cap on contribution from Rs 2.5 lakh to Rs 5 lakh** for tax-exempt interest income, if the contribution is made to a fund where there is no contribution by the employer.
 - With this, the **government provided relief for contributions made to the General Provident Fund** that is available only to government employees and there is no contribution by the employer.
- **New Rules:**
 - Interest income on **contributions made to the EPF beyond Rs. 2.5 lakh** (for private sector employees) and **Rs.5 lakh** (for government sector employees) **will be taxed**.
 - Beginning this Fiscal Year (FY) 2021-22, the **government will tax interest on contributions made in excess of these limits**, with separate accounts to be maintained within the provident fund account for 2021-22 and subsequent years for taxable contribution and non-taxable contribution made by an individual.
 - A **Fiscal Year (FY)**, also known as a **budget year**, is a period of **time used by**

the government and businesses for accounting purposes to formulate annual financial statements and reports.

- The **Central Board of Direct Taxes (CBDT)** has **inserted Rule 9D** in the **Income-Tax Rules, 1962**, according to which **income through interest accrued during the previous year that is not exempt** (over Rs 2.5 lakh for private and Rs 5 lakh for government employees) **shall be computed as the interest accrued during the previous year** in the taxable contribution account.

▪ **Perpetuity of Tax:**

- As per the notification, the interest income on the additional contribution (over Rs 2.5 lakh for private and Rs 5 lakh for government employees) for a year **will get taxed every year**.
 - This means that if one's annual contribution to PF in FY 2021-22 is Rs 10 lakh, the interest income on Rs 7.5 lakh will get taxed not only for FY 2021-22 but also for all subsequent years.

▪ **Need:**

- The Budget proposal had noted that the **government has found instances where some employees are contributing huge amounts** to these funds and are getting the benefit of tax exemption at all stages — contribution, interest accumulation and withdrawal.
- With an **aim to exclude High Net-Worth individuals (HNIs)** from the benefit of high tax-free interest income on their large contributions, the government has proposed to impose a threshold limit for tax exemption.

Source: IE

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