CBDT Rules on EPF Taxes

Why in news?

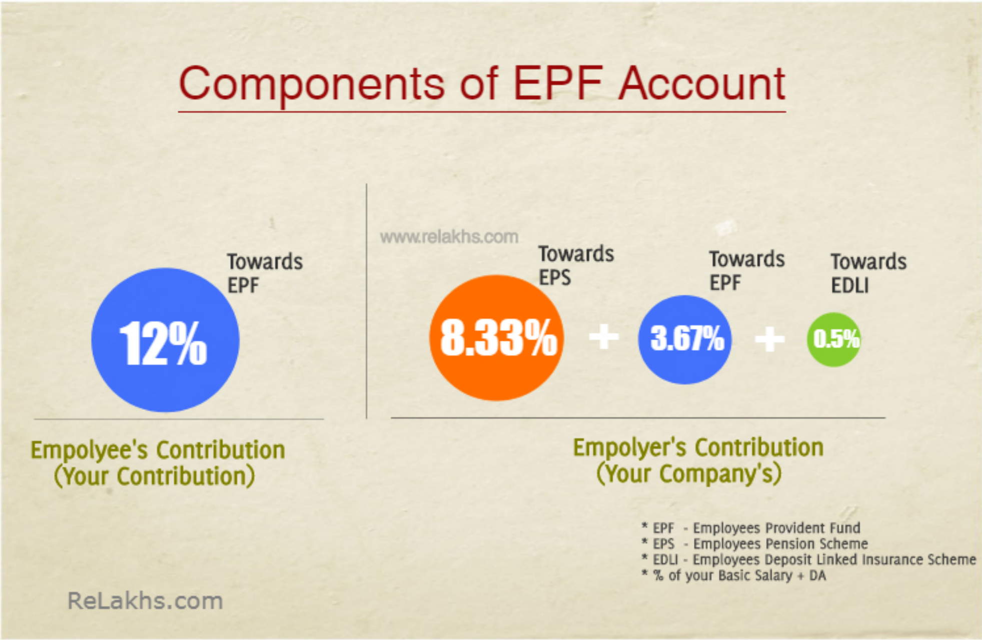
CBDT has notified the rules regarding the taxation of the interest on the excess Employees' Provident Fund contributions.

What is the Employees Provident Fund?

- EPF is a retirement benefit plan, and is the main scheme under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.
- The scheme is managed under the aegis of Employees' Provident Fund Organisation (EPFO).

> EPFO is a statutory body under the Labour and Employment Ministry. The Central Board of Trustees administers a contributory provident fund (EPF), pension scheme (EPS) and an insurance scheme for the workforce engaged in the organized sector in India.

- The scheme covers every establishment in which 20 or more people are employed, and other organisations too,subject to certain conditions and exemptions.
- An employee has to pay a certain contribution towards the scheme, and an equal contribution is paid by the employer.
- On retirement, the employee gets a lump sum amount including self and employer's contribution with interest on both.
- Under the Voluntary Provident Fund (VPF), an employee can voluntarily pay higher contribution above the statutory rate of 12% of basic pay.



What are provident fund taxes?

- Some employees were contributing huge amounts to the EPF and getting tax exemptionbenefit at all stages - contribution, interest accumulation and withdrawal.
- So, Budget 2021 proposed that tax exemption will not be available on interest income on PF contributions exceeding Rs 2.5 lakh in a year.
- This only excludes the high net-worth individuals (HNIs) from the benefits, and will not affect other workers.
- The latest CBDT notification clarifies on how the taxable interest will be calculated and separated from the non-taxable portion.

What are the CBDT rules?

The rules were notified by the Finance Ministry through an amendment to the Income-Tax Rules, 1962.This will come into effect from April 1, 2022.

- **Limits -** Interest on EPF and VPF contributions above Rs 2.5 lakh (non-government employees)and above Rs 5 lakh (government employees)in a financial year will be taxable.
- **Separate accounts**within the provident fund account shall be maintained during and from the financial year 2021-22, to manage taxable contribution and non-taxable contribution separately.
- **Non-Taxable Contribution**will include -
  1. balance of the provident fund as on March 31, 2021 [i.e., contributions made in the previous years]
  2. contributions made during financial year 2021-22 and subsequent years within the threshold limits (Rs. 5 / 5 lakh)
  3. the interest component on the above
- **Taxable contribution**will include contributions during the previous year (2021-22) and subsequent years in excess of the threshold limit.

- Clearly, the changes will not affect the salaried individuals’ (contributing to EPF) existing corpus or the aggregate annual interest on that.
- **Taxed for perpetuity** - The interest income on contribution beyond the limit for a particular

year will get taxed every year thereafter.
- E.g., If annual contribution of a person to PF in FY22 is Rs 10 lakh, the interest income on Rs 7.5 lakh will get taxed not only for FY22 but also for all subsequent years. (Needless to say, the corpus earns interest.)

What are the challenges?

- The EPFOis yet to formalise the separation of taxable and non-taxable contribution in their accounts, as this will take time.
- Data will have to be aggregated and then the separate accounting process has to be determined for such accounts.

Source: Indian Express, Economic Times