Government Savings Promotion Act

Why in news?

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The Centre has proposed the Government Savings Promotion Act to merge some existing small savings schemes.

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What is the proposal?

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- The Centre has proposed to merge two Acts with the Government Savings Banks (GSB) Act, 1873.
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- These are the Government Savings Certificates Act, 1959 and Public Provident Fund (PPF) Act, 1968.
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- The Government Savings Certificates Act, 1959 covers National Savings Certificates and Kisan Vikas Patra.
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What is the significance?

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- **Governance** - The merger is to remove existing ambiguities due to multiple Acts and rules for small savings schemes.
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- The merger will strengthen the objective of “Minimum Government, Maximum Governance”.
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- It will make implementation easier for the depositors and introduce certain

flexibilities for the investors.
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- **Investment** - The salaried class contributes to Employees' Provident Fund (EPF), which gives higher returns than PPF.
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- However, the self-employed do not have a similar recourse.
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- Popular schemes like Public Provident Fund (PPF) remain the most sought after investment option.
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- Small savings schemes' interest rates have been falling since April 2016.
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- At present, interest rate on PPF is 7.6%.
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- However, despite the cut in rates, investing in PPF is beneficial.
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- This is because it builds a tax-free retirement corpus.
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- Deposits in PPF qualify for deduction from income under Section 80C, where the ceiling is Rs 1.5 lakh a year.
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Will the merger affect existing provisions?

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- There are apprehensions that certain Small Savings Schemes would be closed.
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- Clearly, there are no proposals to withdraw the protection against the attachment of PPF account.
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- The existing and future depositors will continue to enjoy protection from the attachment under the amended umbrella Act as well.
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How are the existing shortfalls addressed?

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- **Early withdrawal** - Under the existing Act, PPF account cannot be closed prematurely before completion of five financial years.
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- This is a limitation, even if there is any urgent need for funds.
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- At present, one can withdraw money every year from seventh financial year from the year of opening the account.
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- However, under the proposed amendment, investors can withdraw their money from PPF account in case of exigencies.
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- These include medical emergencies, higher education needs, etc.
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- **Account for minors** - At present, a resident Indian can open a PPF account and the subscriber can even open another account in the name of minors.
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- But the maximum investment limit will be Rs 1.5 lakh by adding balance in all accounts.
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- The existing Act has no clear provision regarding deposits by minors in small savings.
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- Under the proposed Act, new Investment in Small Savings Schemes can be made by Guardian on behalf of minor(s).
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- The Guardian may also be given associated rights and responsibilities.
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- If the minor dies and there is no nomination, the balances shall be paid to the Guardian.
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- Also, provisions will be made to promote a culture of savings among children.
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- **Special persons** - There are no clear provisions in all the three Acts for operating accounts in physically infirm and differently abled persons' name.
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- The proposed Act will address these issues.
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- **Nominee** - There was some inconsistency with the provisions of the Acts and an earlier verdict of Supreme Court.
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- As per existing provisions, if a depositor dies and nomination exists, the outstanding balances will be paid to the nominee.
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- But, the SC had stated that a nominee is merely empowered to collect the

amounts as trustee for the benefit of legal heirs.
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- Hence, rights of nominees have now been more clearly defined in the new Act.
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- **Grievance redressal** - The existing Acts are silent about grievance redressal.
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- The amended Act allows the Government to put in place mechanism for redressal of grievances.
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- It also provides for amicable and expeditious settlement of disputes relating to Small Savings.
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- The provisions proposed will add to the flexibility in operation of the Account under Small Savings Schemes.
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Source: PIB, Financial Express

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