

FM withdraws proposal to tax EPF/Superannuation Fund

In View of pressure from all quarters Finance Minister Arun Jaitley has withdrawn the Proposal to Tax 60% of EPF/Superannuation Fund Proposed in Union Budget 2016 and which was to come into effect from 01.04.2016.

Extract of His Speech on the issue in Lok Sabha on 08.03.2016

The Issue of Tax Proposals for EPF/Superannuation Fund

THE MINISTER OF FINANCE, MINISTER OF CORPORATE AFFAIRS AND MINISTER OF INFORMATION AND BROADCASTING (SHRI ARUN JAITLEY): Some changes are proposed in the Finance Bill for the tax treatment of Recognised Provident Fund and NPS.

The purpose of proposed reform in tax regime is to encourage more number of private sector employees to go for pension security after retirement instead of withdrawing the entire money from the Provident Fund Account. Towards this objective, the Government has announced that 40 per cent of the total corpus withdrawn at the time of retirement will be tax exempt both under recognised Provident Fund and the National Pension Scheme. It is expected that the employees of private companies will place the remaining 60 per cent of the Corpus in Annuity, out of which they can get regular pension. When this 60 per cent of the remaining Corpus is invested in Annuity, no tax is chargeable. This means that the entire Corpus will be tax free, if invested in annuity. Only the periodic return on Annuity will be taxable.

The Government in this Budget has also made another change which says that when a person investing in Annuity dies and when the original Corpus goes in the hands of his heirs, then again there will be no tax. The idea behind this mechanism is to encourage people to invest in pension products rather than withdraw and consume the entire Corpus after retirement.

The main category of people for whom EPF scheme was created are the members of EPFO who are within the statutory wage limit of Rs. 15,000 per month. Out of around 3.7 crore contributing members of EPFO as on today, around 3.26 crore subscribers are in this category. For this category of people, there is going to be no change in any dispensation.

However, in EPFO there are other contributing members who have accepted EPF voluntarily and they are employees of private or public sector companies. At present, even this category of people can withdraw the whole amount without any tax liability. In the proposed amendment, there will not be any tax liability for such employee at the time of retirement if he contributes 60 per cent in any annuity product so that pension security can be created for him according to his earning capacity. However, if he chooses not to put any amount in annuity product, the exemption will be limited to 40 per cent.

A number of representations have been received from various sections of the society including Members of Parliament suggesting that this change will force people to invest in annuity products even if they are not willing to do so. The main argument is that the employees should have the choice of where to invest. Theoretically, such freedom is desirable but it is important for the Government to achieve policy objectives by the instrumentality of taxation. In the present reform, the policy objective is not to get more revenue but to encourage people to join the Pension Scheme. There are various other suggestions received which can also achieve the same policy objective of encouraging people to join the pension scheme.

In view of the representations received, the Government would like to do a comprehensive review of this

proposal and therefore I withdraw the proposal in paragraph 138 and 139 of my Budget Speech. The proposal of 40 per cent exemption given to NPS subscribers at the time of withdrawal remains.

Extract of [paragraph 138 and 139 of Budget Speech of Finance Mister Arun Jaitley](#)

138. In case of superannuation funds and recognized provident funds, including EPF, the same norm of 40% of corpus to be tax free will apply in respect of corpus created out of contributions made after 1.4.2016.

139. Further, the annuity fund which goes to the legal heir after the death of pensioner will not be taxable in all three cases. Also, we are proposing a monetary limit for contribution of employer in recognized Provident and Superannuation Fund of `1.5 lakh per annum for taking tax benefit.