INTEREST ON ANNUAL CONTRIBUTION ABOVE ₹2.5 L TO BE TAXABLE FROM FY23

PF Tax Rule: EPFO Members Await Clarity

Employers, experts seek info on issues such as withholding tax liability, timing of taxation

Grey Areas

EPFO to create 2 a/cs for taxable and exempt PF contributions from Apr 1

But no clarity on how it will be done

KEY ISSUES

Timing of taxability of interest earned on such deposits

No clarity on employers withholding tax liability

No info on whether sub a/c will be created under same UAN

No guidelines for taxation of PF deposits of NRI employees

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New Delhi: Employers, subscribers and tax experts are awaiting clarity on the tax related to interest on Employees' Provident Fund (EPF) contributions in excess of ₹2.5 lakh this year. There's just 15 days left for the splitting of their PF accounts to implement the levy announced in the budget last year.

The EPFO and organisations that manage contributions of employees in-house are looking for information on issues such as the withholding tax liability and the timing of the taxation. There is also ambiguity on whether the taxable portion of interest is required to be offered to tax each year on an accrual basis or taxed lumpsum at the time of withdrawal of the corpus on retirement.

The budget for FY22 had made taxable the interest earned on employees' contribution to provident funds in excess of ₹2.5 lakh a year. This requires splitting of accounts of those employees with an annual contribution in excess of ₹2.5 lakh beginning April 1, 2021. One account would house the exempt part of the contribution and the other the taxable portion in excess of ₹2.5 lakh.

'Changes Needed in I-T Laws' ▸▸ 8

'Changes Needed in Income Tax Laws'

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The change was aimed at preventing high earners from getting an excessive advantage due to the tax-exempt status of PF. If unaddressed, the issues regarding the changes could potentially lead to delay and confusion over tax computation from April 1, experts said, suggesting changes to the income tax law.

"This has not been expressly dealt with either in the amendment to Section 10 of the I-T Act or Rule 9D for computing the interest on taxable contributions. Hence, there is an ambiguity on timing of offering taxable interest income for tax," said Sonu Iyer, tax partner and people advisory services leader at EY India. The Central Board of Direct Taxes (CBDT) had issued a circular regarding the matter on September 1, but experts say more clarity is needed.

VPF CONTRIBUTIONS COVERED

Individuals opting for voluntary provident fund (VPF) contributions that take their total annual contribution to over ₹2.5 lakh will also be covered.

Iyer pointed out that in case taxability is on accrual of interest income each year, amendments are required in Section 192(4) and Section 192A of the I-T Act for allowing EPFO or the EPF trust to withhold tax on accrual basis.

As there is no consequential amendment, this obliges the employer or EPF trust to withhold tax on such taxable interest, he said. A tax official, however, said such a change is not required. "In fact, EPFO should come up with detailed guidelines on the same," the official said on condition of anonymity.

Tax experts say clarity is also needed on whether the employer is required to factor such taxable interest into the income of the employee suo moto or the employee has a choice on disclosing such income to the employer for the purposes of calculation of withholding tax liability by the employer.

"Companies with PF trusts need to examine the obligation of the trusts to withhold tax on such interest, how the trust would maintain the details to capture the information seamlessly," said Saraswathi Kasturirangan, partner, Deloitte India.

EMPLOYEES' TAX PLANNING

He said this clarity is also important for organisations to communicate their approach to employees to enable staff to plan individual tax matters.