

Taxing premature PF withdrawals of over Rs 30k may be kept in abeyance

The finance ministry is reconsidering its Budget provision to tax premature provident fund (PF) withdrawals of Rs 30,000 or more, even as the Finance Act of 2015 has been notified and deduction of tax at source from PF accounts settled before five years of service, comes into force on June 1.

"The government is mulling two options to hold back the implementation of this tax, after the PF office pointed out that it would be unfair to tax retirement savings of people whose income is less than the personal income tax threshold of Rs 2.5 lakh," said a senior government official. The finance ministry, the official said, may issue a directive to put the implementation of this clause in the Finance Act in abeyance or raise the Rs 30,000 trigger for tax deductions from PF accounts.

While a decision is expected by the end of this month, the PF department has asked all offices to gear up for deducting tax from all premature PF claims settled from June 1.

"Tax will be deducted at 10% if members submit their PAN card details and at the maximum marginal tax rate of 34.608% if a member fails to submit PAN. Only in cases where a member submits Form 15G or 15H, no tax will be deducted," the official said.

Form 15G is a self-declaration document for individuals having non-taxable income, while Form 15H is a similar declaration by senior citizens (over the age of 60 years). However, these forms won't be accepted as a valid defense for avoiding tax deductions in case of PF accounts with balances of Rs 2.5 lakh (for those with no taxable income) and Rs 3 lakh for retirees.

The Employees' Provident Fund Organisation (EPFO) has also said that no tax will be deducted if the PF savings are transferred to another PF account. Similarly, if an employee had to leave service due to ill health or other factors beyond their control such as a slowdown or shutting down of the employer's business, no tax will be deducted on their PF withdrawals.

Personal income tax is payable for those earning Rs 2.5 lakh or more annually. An EPF account is mandatory for all employees earning up to Rs 15,000 per month in firms employing over 20 workers. As per the law, 24% of an employee's salary is diverted to her or his PF account.

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