PPF scheme 2019: Loan against PPF account at 1% and other changes you need know

BY PREETI MOTIANI, ET ONLINE | DEC 30, 2019, 11.50 AM IST

The government has replaced the existing PPF Scheme 1968 with PPF Scheme 2019 which brings in 5 changes as compared to the scheme existing till now. These changes relate to: 1. Reduction in interest payable on loan from PPF account; 2. Expanding number of situations in which premature closure is allowed; 3. Clarity on continuance of PPF account after maturity; 4. No restriction on number of deposits and 5. New forms for the new PPF scheme.

The government via a notification dated December 12, 2019 has replaced the Public Provident Fund Scheme, 1968 with Public Provident Fund Scheme, 2019.

The new rules have kept most features of the scheme unchanged such as no change in minimum contribution, or penalty for reviving discontinued PPF account, safety from court decree and so on.

However, some tweaks have been made to the scheme. These changes are as follows:

Lower interest rate on loan taken from PPF account

PPF account rules allow an individual to take a loan from the account from the third financial year till the end of sixth financial year. Earlier, the interest charged on the loan taken from the PPF account was two per cent. Now the interest rate chargeable on the loan has been revised to one per cent.

Chartered Accountant, Naveen Wadhwa, DGM, Taxmann.com says, "As per the new scheme, the interest rate on the loan taken from PPF account will now be charged at one per cent instead of two per cent earlier. The interest rate will be charged for the period commencing from the first day of the month in which loan is drawn up to the last day of the month in which last instalment of loan is repaid."

He explains this with an example. If an individual is eligible for a Rs 50,000 loan from the PPF account subject to other conditions, then interest on the loan will be charged at the rate of 1 percent per annum.

Remember only the interest rate payable on loan taken from PPF account has been revised. Other things have not changed.

Alok Agrawal, Partner, Deloitte India says, "The new PPF scheme has revised the interest rate payable on loan from the PPF account to one percent. However, other things have not changed. The facility of loan from the PPF account is available from the third financial year till the end of the sixth financial year. The loan taken has to be repaid within 36 months, interest amount has to be repaid in not more than two monthly installments post the repayment of principal. If the loan taken is not repaid within 36 months, then the interest on the outstanding loan will be charged at six percent. The new interest rate will be applicable for the loan taken after December 12, 2019. Interest chargeable on loans taken prior to this date will continue to be two percent."

However, there is a word of caution for PPF account holders. Agrawal says, "When a loan is taken from the PPF account, then the account does not earn any interest until the time the loan is repaid. The account holder would lose out on the tax-exempt interest that would have been earned had the loan not been taken."

Premature closure allowed in 2 new situations

Under the PPF scheme, 2019, new conditions have been added for premature closure of the PPF account.

Shalini Jain, Tax partner, EY India says, "According to new rules of the PPF scheme, two new conditions have been added for premature closure of the PPF account. Premature closure will now also be allowed if there is a change in residency status of the account holder or to finance higher education of the dependent children of the account holder. To prematurely close the PPF account, the individual will be required to provide a copy of passport and visa or income tax return in case of change of residency status or documents and fee bills for confirmation of admission in a recognised institute of higher education in India or abroad. Remember, the premature closure is at a cost of a one percent reduction in the rate at which interest is credited to the account."

Existing rules regarding making the premature closure of PPF account have not been changed. As per the rules, premature closure of account will be allowed after completion of five financial years from the end of the year in which the account was opened. Also, interest rate in such a case will be lower by one percent as compared to interest rate as applicable if he or she has not opted for the facility.

Previous rules allowed premature closure only to finance treatment of serious ailments or life threatening diseases of account holder, spouse, dependent children or parents, or higher education of the account holder.

Agrawal adds, "PPF scheme 2019 has added two new situations- change in residency status and higher education of dependent children where premature closure of PPF account is allowed in addition to previous one. However, the new scheme is silent whether individual can continue to deposit money in the scheme after the change in residency condition to NRI. The previous scheme allowed the individual to continue to hold the PPF account until maturity."

No deposit allowed in PPF after maturity once you opt to continue it without deposits

The new scheme rules have provided clarity regarding whether the PPF account can be continued after maturity date without making any further deposits. The old rules under PPF scheme 1968 were silent whether the PPF account could be continued after maturity date without making any deposits.

According to new rules, once the PPF account is continued without deposits, then the account holder will not have the option to make deposits again thereafter.

Agrawal says, "Under the previous scheme, the PPF account was allowed to be continued on practical basis by the bank without making any further deposits. However, the new rules have clearly specified that the individual can continue to hold the PPF account post maturity without making any contributions. However, remember, once the PPF account is continued without deposits for more than a year post maturity, then account holder cannot make deposits in the subsequent years. The account will continue until the time it is closed. Such PPF account continued without deposits will continue to earn interest rate as applicable to the scheme."

However, if the individual wishes to continue the PPF account with deposits then he/she is required to inform the same to the authority.

"According to scheme rules, the PPF account holder has to inform the authority regarding the continuation of PPF account for a further block period of five years, within one year from the date of maturity as well as make a deposit within the same year and every subsequent year," says Jain.

Number of deposits

The new scheme rules have removed the restrictions on the number of deposits that can be made in the scheme. Wadhwa says, "PPF rules, 1968 did not allow the individual to make more than 12 deposits in a financial year. However, as per the new scheme rules, there is no such restrictions, however, the total amount deposited in the financial year should not exceed Rs 1.5 lakh."

Changes in the form

The new PPF rules have also revised the forms that will have to be used for opening, closure and other administrative work related to PPF account. According to the scheme notification, from now on following forms have to be used:

- Form 1: - Opening of Account form
- Form 2: Form for application for loan/withdrawal
- From 3: Form for application for closure of account
- Form 4: Application for extension of account
- Form 5: Form for premature closure of account

Earlier these forms were named as A, B and so on.

- Form A - Opening of account
- Form B - For depositing subscription amount
- Form C - Withdrawal from PPF account/Closure of account
- Form H - Continuation of account without deposits after maturity
- Form D - Applying for loan from PPF account
- Form G - Nomination Form
- Form F - Cancelation or making changes in nomination
- Form G - Form used by nominees where subscriber of the account has died