Taxing Retirement Income of Employees a Retrograde Step, Say Experts

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- The Amendment in Income Tax provisions seeking to levy tax on Contributions to retirement funds, in excess of Rs.7.50 lakh per annum, is a retrograde measure, according to experts.

The Union Budget for 2020 contains direct tax proposals in the Finance Bill to tax the retirement fund of an Employee, which has been called a retrograde step by experts.

The budget proposals seeks to limit the exemption of Contribution of Employer to retirement funds to the retirement fund kitty of an Employee, which would be tax exempt to an arbitrary figure of Rs.7.50 lakh.

To date, Contribution of Employer to retirement funds of Employee was tax exempt all through till withdrawal. The amendment in Income tax provisions seeking to levy tax on Contributions to retirement funds, in excess of Rs.7.50 lakh per annum, is a retrograde measure, according to experts.

There is a demand now to roll back this proposal as the post retirement, period, constitutes 25% per cent to 30% per cent of life-time. Private sector Employees are deprived of any social security and they have no choice but to "earn to retire" so that post-retirement he is free from want, with decency, independence and self-respect.

They also must provide adequately to take care of old age related health problems and well-being. Taking into account the pathetic conditions prevailing in the contemporary society with deteriorating human relations between parents and children, even a single pie of pension amount will provide a valuable support to the pensioner.

Experts point out that Right to life is guaranteed **under Article 21 of the Constitution**. The provision for retirement has been statutorily recognized under the Provident Fund Act, 1952. While working a person need to make adequate provision post-retirement for a decent living and self-respect, and it is a well-recognized financial principle that a person should save more than 10% per cent of earnings to sustain post-retirement.

Provident fund by statue have laid down 12% per cent of earnings as Contribution to retirement fund. A person's retirement needs are always expressed as a percentage of his earnings so that post retirement he can maintain a decent life of self-respect.

In addition, an Employee contributing to Provident fund has a little access to the amounts of fund and accumulations for the simple reason that the fund is a provision for retirement.

With no social security from Government post-retirement, the only reasonable expectation from the Government is that the present exempt status of retirement fund should be retained as a private sector Employee does not have any Government funded social security.

At most, the exemption may be allowed for only one retirement fund up to 12% per cent of salary, experts said. Contribution of 12% per cent of salary is a statutorily recognized parameter of retirement fund under Provident Fund Act. To put a value cap on exemption would be very harsh on the private sector Employees, as retirement fund is necessity and not a luxury, for people from all walks of life and from all economic background.

It is also true that retirement fund can be accessed only post retirement and not earlier. The Government has already levied heavy tax with surcharge (10%per cent to 37% per cent) on higher incomes. However, Contribution to retirement fund is not a current earning, but it is an "Earning for retirement" as there is no Government funded social security benefits post-retirement.

The Contribution do not accrue to the benefit of an Employee during his prime period of life. It is a fund to secure his post-retirement life. Experts have said that 12%per cent of salary is a sound financial principle to contribute to retirement funds, and hence measure to cap the exemption at Rs.7.50 lakh is an extremely harsh measure. More so when on current incomes an Employee is already paying high taxes. At the most, exemption may be restricted to only one retirement fund up to a Contribution of 12% per cent of salary.