

Income Tax Deduction on EPF Contribution: Old Tax Rate vs New Tax Rate

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- **In the new Income Tax regime as announced in Budget 2020, there are seven Tax slabs**
- **Contribution by the Employer towards the EPF account of an Employee of up to 12% remains Tax-free**

The Employer, typically, deducts 12% of your basic salary and dearness allowance towards EPF or Employees' provident fund Contribution and contributes an equal amount. If you are opting for the new Income Tax Rates as announced by the Finance Minister Nirmala Sitharaman in Budget 2020, you have to forego some deductions, including the popular Section 80C.

In the new Income Tax regime as announced in Budget 2020, there are seven Tax slabs: zero Tax for Income up to Rs.2.5 lakh; 5% for Income between Rs.2.5 lakh and up to Rs.5 lakh; 10% for Income between Rs.5 lakh and up to Rs.7.5 lakh; 15% for Income between Rs.7.5 lakh and up to Rs.10 lakh; 20% for Income between Rs.10 lakh and up to Rs.12.5 lakh; 25% for Income between Rs.12.5 lakh and up to Rs.15 lakh; 30% for Income above Rs.15 lakh."

EPF Contribution- Old Tax Rate vs New Tax Rate

1) Under the existing Income Tax laws, the Contribution by the Employer to the EPF account of an Employee in a recognized provident fund or EPF up to 12% remains Tax-free. If it exceeds 12%, it becomes Taxable. This provision will remain the same under the new as well as old Tax Rates.

2) Your Contribution towards EPF of up to 12% is eligible for deduction under Section 80C of Income Tax. This will continue under the old Tax Rate. But if you opt for the New Tax Rates, you will not be eligible to claim deduction under Section 80C.

3) However, in another Income Tax rule change proposed in Budget 2020, the Employer's Contribution exceeding Rs.7.5 lakh in a year towards NPS, superannuation fund and EPF will be Taxable in the hands of the Employee. This will be applicable under both the new as well as the old Tax Rates.

It is to be noted that some deductions, including Employer Contribution on account of Employee in NPS under Section 80CCD (2), can still be availed if you opt for the new Income Tax regime. The limit is 14% of the salary for central government Employees and for others it is 10%. If their organizations allow, Employees can opt to restructure their salary structure to opt for this Tax deduction.