

Your employer can contribute 12% to your EPF account if it is included in your CTC

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The government has reduced both employers and employee's contribution to the Employees' Provident Fund (EPF) account from 12 per cent of employee's pay to 10 per cent for the next three months. However, did you know that for these three months, i.e., for May, June and July, 2020, your employer can still continue to contribute to your EPF account at a rate of 12 per cent? This is possible if, under the terms of employment, the employer's contribution to your EPF account is part of your CTC (cost-to company).

Continued contribution at 12 per cent can be seen as a positive step by some employees working in private sector considering the fact that money that goes into one's EPF account is a sort of forced savings for retirement.

As per an analysis by EY India, an employee may choose one of the following 4 scenarios (regarding contribution to his/her EPF account) for the months of May, June and July 2020 if the employer's contribution to the employee's EPF account is part of the employee's CTC.

- a) Both employer and employee continue to contribute at 12 per cent of the employee's monthly pay;
- b) Employer contributes at 10 per cent but employee continues to contribute at 12 per cent of the employee's monthly pay;
- c) Employer contributes at 12 per cent of the monthly pay and employee contributes at 10 per cent of the monthly pay;
- d) Both employer and employee contribute at 10 per cent of the monthly pay.

Here is a look at how the above scenarios would work.

Both employer and employee continue to contribute at 12% of the monthly pay

If employer's EPF contribution is part of the CTC of an employee, then both the employer and employee can continue to contribute at 12 per cent despite the recent reduction in the EPF contribution rate (by the government).

This is because as per the scheme, if an employee desires, he/she may avail an option to contribute in excess of the statutory contribution. Employer shall not be under any obligation to pay any contribution over and above the contribution payable under the Provident Fund Act.

However, where employer's share of EPF contribution is part of the CTC at 12 per cent rate, in such a scenario, an employee can request his/her employer to keep the contribution at 12 per cent for May, June, July 2020 instead of paying out the differential 2 per cent amount as salary to the employee.

Once the employee has requested his/her employer to keep the contribution for May, June and July same as before, the above scenario is possible only if the employer also agrees. As the employer is not

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under obligation under the law to pay in excess of the statutory rate, under the CTC model, the employer may opt to pay 2 per cent differential as salary which is taxable in the hands of an employee.

However, if both the employer and employee agree to contribute at 12 per cent for May, June and July 2020, then there will be no increase in the take-home salary or income tax implications in the hands of the employee. However, employee would benefit as contribution to his/her retirement savings via EPF will continue intact and also because the interest earned on this is tax exempt.

Employer contributes at 10% but employee continues to contribute at 12% of the monthly pay

As mentioned above, if the employer does not avail the option to keep the EPF contribution at 12 per cent, then the reduction in the employer's share will lead to increase in the monthly take-home pay for the employee. The labour ministry, in a press release dated May 19, 2020, has clarified that in the CTC model, the employer will be required to pay the differential amount to the employee if the employer contributes at 10 per cent.

The press release has also clarified that the employee can contribute more than 10 per cent. Therefore, if you choose to continue your contribution to the EPF account at the rate of 12 per cent, then your take-home pay will only increase by the differential amount on account of reduced employer's contribution, i.e., 2 per cent (12 minus 10 per cent). However, the employee should remember that such additional payment by the employer will be taxable in the hands of the employee.

Employer contributes at 12% of the monthly pay and employee contributes at 10% of the monthly pay

In the Frequently Asked Questions issued by the EPFO on 20 May 2020, the EPFO has clarified that the employer, employee or both can contribute at the higher rate also. Thus, there is an option possible where the employer continues to contribute at 12 per cent but the employee contributes at 10 per cent.

If such an option is availed, the reduction in the employee's share of EPF contribution from 12 per cent to 10 per cent of monthly pay will increase the monthly take-home salary of the employee.

Both employer and employee continue to contribute at 10% of the monthly pay

The statutory rate of contribution for both employer and employee for May, June and July 2020 is 10 per cent of monthly pay, as recently announced by the government.

If both employer and employee contribute to the EPF account at the rate of 10 per cent, then employee's take home pay will increase by the differential amount i.e. 4 per cent (24-20 per cent). However, the additional amount paid by employer to the employee, due to reduced employer's contribution, to the extent of 2 per cent of monthly pay, will be taxable in the hands of employee.

What if EPF contribution by employer is NOT the part of the CTC of the employee?

If the employer's contribution is not part of the CTC of the employee, an option may be given to the employee by his employer to expressly opt for the rate at which the employee wants to contribute to his/her EPF account.

Consequently employee would be able to choose the rate at which his/her contribution to EPF would be deducted from his/her salary.

Here an employee will have two options:

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- a) Employee contributes at 12 per cent of monthly pay
- b) Employee contributes at 10 per cent of monthly pay

According to the EY analysis, in both situations, there will be loss of provident fund benefit to the employee on account of reduced employer's share of contribution. In situation (a), there is no increase in the take-home salary of an employee, as employer's share to EPF is not part of the CTC and the employee himself/herself is not reducing his/her own EPF contribution to increase take home pay.

In situation (b), if the employee opts to contribute to EPF at 10 per cent of monthly pay, then this 2% reduction will increase his monthly take-home salary by an equal amount.