


Taxing EPF contribution: New taxation rule to affect 0.27% subscribers

Updated on February 04, 2021

The new EPF (Employees Provident Fund) taxation rule is expected to affect 1.23 lakh subscribers, sources in the Income Tax Department said on Thursday. This is 0.27 per cent of the total EPF subscribers.

There are 4.5 crore contributors' accounts to EPF. Of these, more than 1.23 lakh accounts are High Networth Individuals (HNIs) who contribute very huge sums every month to their EPF accounts. Their total contribution is to the tune of ₹62,500 crore as of now. "The government is owing or paying an assured interest at the rate of 8 per cent with tax exemptions to these very high-income category persons at the cost of honest low and middle income, salaried class and other taxpayers," said a source.

According to the Budget proposal, in order to rationalise tax exemption for the income earned by high-income employees, it is proposed to restrict tax exemption for the interest income earned on the employees' contribution to various provident funds to the annual contribution of ₹2.5 lakh. This restriction shall be applicable only for the contribution made on or after April 1, 2021.

Top 20 Member Balances in EPFO as per System		Member name	Total balance (in ₹ cr)	Member name	Total balance (in ₹ cr)
	A	103.05	L	29.43	
	B	85.63	M	28.62	
	C	85.63	N	27.41	
	D	72.83	O	26.04	
	E	47.03	P	24.44	
	F	39.99	Q	24.35	
	G	36.09	R	23.65	
	H	32.12	S	23.51	
	I	31.33	T	23.28	
	J	30.53			
	K	29.56			
				Grand total	824.53

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'Removing disparity'

Explaining the rationale, the source said this has been done with a purpose to remove disparity among contributors and to ensure that HNIs who park huge sums – more than a crore of rupees per month – to misuse and game the provision of assured high interest are checked and do not distortedly earn at the cost of other honest taxpayers' money.

Without disclosing any names of these HNI EPF contributors, the sources said that one of the highest contributors has more than ₹103 crore in his account, followed by two second highest ones having more than ₹86 crore each. Sources said that the top 20 HNIs have about ₹825 crore in their accounts, while top 100 HNI contributors have more than ₹2,000 crore.

Sources said such EPF account holders have on an average a corpus of ₹5.92 crore per person and thereby were earning very huge sum at the rate of ₹50.3 lakh per such person per annum as tax free assured interest in a very scheming manner at the cost of the salaried class and other taxpayers. The government has done away with this disparity of paying huge sum of tax-free interest to HNIs at the cost of honest average salaried class contributor and taxpayers.

Sources reiterated that since any tax exemption is provided through taxpayers' money, it was unfair to allow a small group of HNIs to misuse a welfare facility and earn wrongfully tax-free income as assured interest return, adding that average normal EPF or GPF contributor would not be affected by the removal of anomaly in the system prevailing over a long period of time.