FinMin notifies rules for calculating taxable interest in PF account

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The finance ministry has notified rules for calculation of taxable interest on employee contributions to provident fund of over Rs 2.5 lakh per annum.

In her Budget for 2021-22, Sitharaman had capped the tax-free interest earned on provident fund contribution by employees and employers together to a maximum of Rs 2.5 lakh in a year in an attempt to dissuade high earners from parking their surplus in what is supposed to be the common man's retirement fund.

The Central Board of Direct Taxes (CBDT) on Wednesday notified rules for calculating taxable interest in provident fund.

It said for the sake of calculation, separate accounts within the provident fund account shall be maintained beginning 2021-22 for taxable and non-taxable contributions made by a person.

Nangia & Co LLP Partner Shailesh Kumar said the notification issued by CBDT has finally put to end the ambiguity which arose with the introduction of taxation of interest on provident funds with contribution above the specified threshold.

Rule 9D inserted in the Income-tax Rules, 1962 has specified that separate accounts within the PF accounts shall be maintained clearing segregating the taxable and non-taxable contributions to PF along with interest thereon.

"This shall provide a convenience of calculation to the taxpayers for segregation of interest to be offered to tax. The threshold for PF accounts with employer contribution is Rs 2.5 lakhs whereas accounts with no employer contribution enjoy an increased threshold of Rs 5 lakhs," Kumar added.

Employees' Provident Fund Organisation (EPFO) has over six crore subscribers.

The Rs 2.5 lakh limit covers around 93 per cent of the people who are EPFO subscribers and they will continue to get assured tax-free interest. Hence, small and medium taxpayers will not be impacted by the step.

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