Taxation Law & Accounts. (B.Com- III, Paper- VII)

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Q. What do you mean by 'Provident Fund.' Discuss the types of provident fund?

Ans.

Provident fund is another name for Pension fund. Its purpose is to provide employees with lump sum payments at the time of exit from their place of employment. ... Specific provident funds include; Employees' Provident fund organisation, India's retirement plan. Provident fund is a Pension scheme where 12% of sum will be deducted from an employee's basic salary on a monthly basis to add the employee's future savings. Both the employer and the employee contributes certain percentage to this deduction. Know more about Provident fund in India.

* Types of Provident fund:— Employer's provident fund is classified into 4 categories. Statutory provident fund, Recognized provident fund, unrecognized providend fund and public provident fund. Let us have a brief look on the types of funds and tax imposed imposed on these funds.

(a.) Statutory Provident fund:— It is set up under the provisions of the provident funds Act, 1925 maintained by the government and semi-government organisations, local authorities, railways, universities and educational institutions.

Tax on Statutory Provident fund:— Tax is exempted on employer's Contribution towards provident fund but deducted on employee's contribution. Interest credited to the provident fund and the retirement payment are tax exempt.

(b.) Recognized Provident fund:— Any establishment which is recognized by the commissioner of income tax is called as recognized provident fund. To be recognized, an organization of 20 or more members shall invest funds as per the guidelines of PF Act 1952, and can get an approval from the PF commissioner of income-tax.

Tax on Recognized Provident fund:— An employer's contribution towards provident fund is taxable when it exceeds 12%. Tax is deducted from employee's contribution provident fund.

(P.T.O.)

If the rate of interest credited to the provident fund is more than 9.5 %, tax will be deducted. The retirement payment shall be tax exempt under the following circumstances;

- If the employer rendered a continuous service of 5 or more years.
- If the employee has been terminated due to certain reasons such as health issues, discontinuation of business by the employer, etc.
- If the employee resigns and than later rejoins in an another organization.
- If the entire balance standing to the credit of the employee is transferred to his/her accound under a pension scheme in 80 CJ.

(C.) **Unrecognized Provident fund:—** The provident fund that is not recognized by Commissioner of income-tax is an unrecognized provident fund.

Tax on Unrecognized Provident fund:— An employer's contribution towards provident fund is tax exempt. The retirement payment is taxable under the following conditions,

- Payment received in respect of employer's contribution and interest is taxable under the head salaries.
- Payment received in respect of interest on employer's contribution is taxable under the head income from the other sources.
- Payment received in respect of employee's contribution is not chargeable to tax.

(d.) **Public Provident fund:—** The central government has established the public provident fund where any member, either salaried employee or a business employed person shall participate by opening a PF account at the state bank of India or other nationalized banks.

Any ammount subjected to a minimum of Rs. 500 and maximum of Rs. 1,50,000 per annum may be deposited under this PF account, on which a certain sum of interest is credited every year, which could be repayable after 15 years.

Tax on Public Provident fund:— An employer's contribution towards provident fund is taxable. The interest credited to the provident fund and the retirement payment are tax free.

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