PROVIDENT FUND & GRATUITY-ONE MUST KNOW

Provident Funds :

Employees Provident Fund Organization (EPFO), a statutory body of Govt of India (the enforcement agency to oversee the implementation of the EPF and MP Act) administers compulsory contributory provident fund scheme.

SUMMARIZED TABLE SHOWING TAX TREATMENT OF PROVIDENT FUNDS

	Statutory Provident Fund (PF fund managed by RPFC)	**Recognized Provident Fund** (Exempted Provident Fund Scheme*****-PF Fund not managed by RPFC)
Employer's contribution to provident fund	Exempt from tax	Exempt up to 12 % of salary (i.e. Basic+DA). Excess of Employer's contribution over 12% of salary is taxable.
Interest credited to provident fund	Exempt from tax	Exempt from tax if rate of interest does not exceed the notified rate of interest (i.e. 8.75%). Excess of interest over the notified rate is, however, taxable
Lump sum payment at the time of retirement or termination of service	Exempt from tax	Exempt from tax
Deduction u/s 80C employee's contribution	Available	Available

*****Under the Exempted Provident Fund Scheme, the employer forms his own Provident Fund Trust for benefits of his employees. The employer executes the Trust Deed, prepares the Provident Fund Rules and nominates the trustees amongst its employees for administering and managing the Trust. On formation of Provident Fund Trust the employer has to obtain recognition to the Provident Fund Trust from the Commissioner of the Income Tax (Rule 17A read with Section 12A / 12AA of Income Tax Act) and thereafter apply to the office of the Regional Provident Fund Commissioner for granting exemption from the Provisions of the Employees' Provident Fund & Miscellaneous Provisions Act 1952 and the Schemes framed thereunder. Such recognised and exempted Trust is a separate legal arrangement. The employer pays its monthly contributions to the Trustees who are in charge and responsible for day to day management and administration of the trust including that of doing necessary investments as per the pattern laid down in Rule 67 of the Income Tax Rules 1962.

Gratuity is a statutory benefit, governed by Payment of Gratuity Act, payable at the rate of 15 days salary for every completed year of service where the service period exceeds a minimum of 5 years. Maximum benefit payable is Rs.10 lakhs.

Under section 4A of the Payment of Gratuity Act, 1972, Gratuity amount is required to be insured by the employer. Hence, for Gratuity Payment Management, employer has option to fund liabilities with Insurance Company or may set up an irrevocable Trust and making contributions to the Trust Fund.

Every year, employer funds the Gratuity trust / Insurance Company to the extent of shortfall of the assets over the fund obligation, which is determined through actuarial valuation.

Tax Benefits:

- Insurance Premium paid towards Gratuity scheme / actual contribution to an approved Gratuity Trust fund is deductible under section 36 (1)(v) of the Income Tax Act, 1961 ;

- Income earned from investments received by an approved Gratuity fund* is tax-exempt under Section 10(25)(iv) of the Income Tax Act, 1961;

- Gratuity receipts are tax-exempt up to the limit of ₹10 lakhs under Section 10(10) of the Income Tax Act, 1961 in the hands of employee ; and

- The Insurance Premium / contribution to the Gratuity Trust made by the employer is not treated as taxable perquisites in the hands of the employees.

Approved Gratuity Fund :

Section 2(5) of the Act defines an 'approved gratuity fund' as 'a gratuity fund which has been and continues to be approved by the Chief Commissioner or Commissioner in accordance with the rules contained in Part C of the Fourth Schedule'. In order to get the approval of the chief commissioner or commissioner, an application needs to be made under Rule 109, including prescribed particulars regarding the employer, nature of business of the employer, employees eligible to participate in the fund and verified in the prescribed manner.

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