

10 Things you may not know about PPF

One of the popular, preferred, and preeminent tax saving investments is PPF – Public Provident Fund.

Let us discuss in detail about PPF in this article and understand it comprehensively and completely.

1) Where to open the PPF account?

PPF accounts can be opened in a post office or in selected bank branches. The regular KYC documents need to be submitted for opening a PPF account with a minimum investment of Rs.500.

2) What is the interest rate?

The current interest rate is 8.70% p.a. The interest rate will change every financial year in accordance with the average bond yield of the previous year. The interest rate will be fixed 0.25% above the 10 year government bond yield.

3) How is the interest calculated?

For the balance amount in your PPF account the interest is compounded annually. However, the interest calculation will be done each and every month.

If your contribution to the PPF account is credited on or before 5th of that month, then that contribution will bear interest for that month too. If it is credited after 5th of that month, you will get interest only from the subsequent month. Therefore, if you make sure your contribution is getting credited in your account on or before 5th of that month, and then you will not miss the interest for that month as well.

4) What is the tax benefit?

Under Section 80 C, whatever the contribution you make in PPF is eligible for tax deduction. Also the interest from PPF is also tax free. These tax benefits are available as of now. If DTC is implemented, then the tax benefits will change prospectively and not retrospectively.

5) What is the minimum and maximum investment?

The minimum amount needed to be invested every year is Rs.500. The maximum amount of investment allowed every year is Rs.1 lac. You can make investments through a maximum of 12 installments per year. If your minor child also holds a PPF account then the combined limit of both the PPF account is limited to Rs. 1 lac.

Not making the minimum investment in a year will attract a penalty of Rs50.

6) When does it mature?

A PPF account will mature at the end of the 15th year. This can be extended for one or more blocks of 5 years thereafter.

7) Can I withdraw in between?

Yes. You can withdraw after the 6th year. However, you can withdraw only up to 50% of the balance at the end of 4th year or at the end of immediate preceding year whichever is lower. You will be allowed to withdraw only once in a year.

8) Can I get a loan against my PPF account?

Yes. You can avail the loan facility only from the 3rd year. You will be allowed to take a loan to the extent of 25% of the balance in the previous year.

9) Can an NRI open a PPF account?

NRI can't open a PPF account. If you open a PPF account as a resident and subsequently you become an NRI, you will be allowed to continue and contribute till its maturity on a non-repatriable basis.

10) What happens if the PPF account holder dies?

In the event of the death of the PPF account holder, the balance amount in the PPF account will be paid even before the completion of 15 years, to the nominee or legal heir of the deceased person. The nominee or the legal heir is not allowed to continue the PPF account by making fresh contributions to it.

PPF is an excellent tax saving option. It needs to be part of your tax saving investment or not, depends upon your overall tax plan and asset allocation for the current year. Do your tax plan and check PPF fits into your tax plan or not in the current year.