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How to calculate Employees Provident Fund balance and interest

EPF interest is calculated on the Contributions made by the employee as well as the employer. Contribution made by the employee equals 12% of his/her Basic Pay plus Dearness Allowance (DA). When the Basic Pay plus DA is less than or equal to Rs 15000, the employee contribution is 12% of Basic Pay + DA whereas the employer contribution is 3.67% of the Basic Pay + DA.

There are 3 methods of computing the contributions if the income is above the threshold of Rs 15000. Any one of these methods can be adopted by an employer. The most commonly used is the first method.

Methods	**Employee Contribution**	**Employer Contribution**
1	12% of Basic Pay Plus DA	12% of Basic Pay-8.33% of 15000
2	12% of Basic Pay Plus DA	3.67% of 15000
3	12% of 15000	3.67% of 15000

In the EPF calculator, we have used the 1st method for computing the employee and the employer contribution. Just to understand our methodology, let us take the following case:
1. Employees' Basic Pay + DA: Rs 25000
2. Employee contribution towards EPF: 12%*25000 = Rs 3000
3. Employer contribution towards EPF = 3.67% of 25000 = 3.67%*25000 = Rs 917.50…..(A)
4. Employer contribution in Employee Pension Scheme (EPS): 8.33% * 25000 = Rs 2082.50 …..(I)
5. Employer contribution in EPS on the threshold income of Rs 15000: 8.33%* 15000 = Rs 1250….. (II)
6. Excess contribution of employer towards EPS above the threshold (I) - (II): Rs 2082.50 - Rs 1250 = Rs 832.50….. (B)
7. The excess amount in (B) is added to the employer contribution towards EPF in (A) = 917.50 + 832.50 = RS 1750

Hence the final employer contribution towards EPF will be Rs 1750

In lieu of the above steps, if we use the formula used in Method 1 that is, 12% of Basic Pay - 8.33% of 15000, we get 12*25000 - 8.33%*15000 = 1750. Hence the 2 methods produce the same result.

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Once the Contribution of the employee and the employer is computed, we compute the interest on the contribution. The interest is computed on the opening balance of each month. As the opening balance for the first month is zero, the interest earned on the 1st month is zero.

For the second month, interest is computed on the closing balance of the 1st month which is the same as the opening balance of the second month. The closing balance of the 1st month is calculated by adding the employee's and the employer's contribution for the 1st month.

Similarly, the interest on the 3rd month is computed on the closing balance of the 2nd month. The closing balance of the 2nd month is calculated by adding the closing balance of the 1st month and the employee as well as the employer contribution of the 2nd month.

The sum of the employee as well as the employer contribution at the end of the year is added to the sum of the interest earned in each of the 12 months of the year. The result so obtained is the closing EPF balance at the end of the year.

This amount becomes the opening balance for the 2nd year. The interest in the 1st month of the 2nd year is computed on the opening balance of the 2nd year.

Illustration: (Assuming 9% rate of interest on EPF)

Months	Basic Salary	Employer (3.67%)	Employee (12%)	Balance of The Month	Interest	Remarks
1	25000	1751	3000	4751	0	No interest earned on the first month
2	25000	1751	3000	9501	36	Balance at the end of 1st month
3	25000	1751	3000	14252	71	Balance at the end of 2nd month
4	25000	1751	3000	19002	107	Balance at the end of 3rd month
5	25000	1751	3000	23753	143	Balance at the end of 4th month
6	25000	1751	3000	28503	178	Balance at the end of 5th month
7	25000	1751	3000	33254	214	Balance at the end of 6th month
8	25000	1751	3000	38004	249	Balance at the end of 7th month
9	25000	1751	3000	42755	285	Balance at the end of 8th month
10	25000	1751	3000	47505	321	Balance at the end of 9th month
11	25000	1751	3000	52256	356	Balance at the end of 10th month
12	25000	1751	3000	57006	392	Balance at the end of 11th month

Total EPF balance at the end of the year = Balance at the end of 12 month (Employee plus the Employer contribution) + Sum of the interest earned in each month in the year = 57006 + 2351 = Rs 59357/-

As regards the withdrawal, one can withdraw the full EPF balance on attaining the age of 58 years. However, he can withdraw 90% of the EPF corpus on attaining the age of 57 years.

Thank you……………………