TAXABILITY OF PROVIDENT FUND

Meaning

- Provident fund scheme is a scheme intended to give **<u>substantial benefits</u>** to an employee at the time of his retirement. Under this scheme, a specified sum is deducted from the salary of the employee as his contribution towards the fund. **The employer also generally contributes the same amount out of his pocket, to the fund.**

Meaning

- The contribution of the employer and the employee are invested in approved securities. <u>Interest earned thereon is also credited to the account of the employee.</u> Thus, the credit balance in a provident fund account of an employee consists of the following:

Components of PF

Components of PF

- Employee's contribution
- Interest on Employee's contribution
- Employer's contribution
- Interest on employer's contribution

Amount received at the time of retirement:-

- The accumulated balance is **paid to the employee at the time of his retirement or resignation.** In the case of death of the employee, the same is paid to his legal heirs. The provident fund represents an important source of small savings available to the Government. **Hence, the Income-tax Act, 1961 gives certain deductions on savings in a provident fund account.**

Different types of PF:-

Statutory Provident Fund (SPF)

- The SPF is governed by Provident Funds Act, 1925. **It applies to employees of government, railways, semi-government institutions, local bodies, universities and all recognised educational institutions.**

Recognised Provident Fund (RPF)

- Recognised provident fund means a provident fund recognised by **the Commissioner of Income-tax for the purposes of income-tax.**

Different types of PF:-

Unrecognised Provident Fund (URPF)

- A fund **not recognised by the Commissioner of** Income-tax is Unrecognised Provident Fund.

Public Provident Fund(PPF)

- Public provident fund is operated under the Public Provident Fund Act, 1968. A membership of the fund is open to **every individual though it is ideally suited to self-employed people.** A salaried employee may also contribute to PPF in addition to the fund operated by his employer.

Taxability of provident fund:-

Particulars	SPF	RPF	URPF	PPF
Employee's contribution	Already included in his salary income. However, employee can claim deduction u/s 80C.			
Employer's contribution (whether exempt or not)	Fully exempt	Exempt up to 12% of salary Meaning of salary Basic + DA (if forming part of retirement benefit) commission based on % of turnover.	Not taxable at the time of contribution but taxable at the time of retirement.	Not applicable (as there is only assessee's own contribution)
Interest on P.F.	Fully exempt	Exempt up to 9.5%	Not taxable at the time of credit but taxable at the time of retirement.	Fully exempt
Receipt on retirement/ resignation / termination	Fully exempt u/s 10(11)	Exempt [if certain conditions are satisfied] [see note 1]	See note 2	Fully exempt u/s 10(11)

Note 1:- Payment of accumulated balance at the time of retirement from RPF:-

Withdrawal from RPF

If the employee has rendered continious of 5 years

Exempt

If the employee has not rendered continious of 5 years

Fully exempt :-

If service is terminated due to

i)employee's ill health ;

ii) contraction /discontinuance of the employer's business ;

iii)Other causes beyond the control of the employee,

Otherwise Fully taxable.

Note 2:- Payment of accumulated balance at the time of retirement from URPF:-

Withdrawal from URPF

Employee's contribution	Not taxable as already taxable on due basis.
Interest on employee's contribution	Taxable as IFOS
Employee's contribution	Taxable under the head Income from salary
Interest on employee's contribution	Taxable under the head Income from dalary