

FM Arun Jaitley rolls back EPF tax proposal

The Finance Minister on Tuesday rolled back a Budget 2016 proposal to tax 60% of EPF withdrawals

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Finance Minister Arun Jaitley on Tuesday announced he was withdrawing a controversial Budget proposal to tax 60% of EPF balances at the time of withdrawal. He also withdrew another proposal to tax contribution made by an employer beyond Rs 1.5 lakh a year.

However, the proposal to not tax 40 per cent of money withdrawn from national pension system stays.

Earlier, he had said only 40% of the total accumulated EPF balance would be tax-free.

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Finance Minister Arun Jaitley

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Making a statement in the Lok Sabha on the issue, Jaitley said he was withdrawing "Proposal in paragraph 138 and 139 of my Budget speech."

Both Jaitley and Revenue Secretary Hasmukh Adhia had positioned the tax as a way of getting individuals to invest in annuity schemes that would then act as a pension plan and social security net for their retirement. The other reason was to bring equivalence between EPF and the NPS, which has been struggling to take off because of the tax provision, and provide a level-playing field for both.

However, the proposal -- which was proposed to apply only to those who earned more than Rs 15,000 a month -- was met with vociferous opposition from the salaried class, as well as from Opposition parties. An earlier report had said Prime Minister Narendra Modi, too, had asked the Finance Minister to withdraw the proposal.

"In case of superannuation funds and recognised provident funds, including EPF, the same norm of 40 per cent of corpus to be tax free will apply in respect of corpus created out of contributions made on or from April 1, 2016," Jaitley had said in his Budget speech on February 29.

This essentially meant that on withdrawal of EPF, 60% of the corpus, accumulated post April 1, 2016, would attract tax and the remaining

40% would be tax-free

With Jaitley's announcement today, the full balance of EPF will continue to be tax-free at all three stages: contribution, interest earned, and withdrawal.

The National Pension Scheme, or NPS, will continue with its earlier structure, in which only 40% would be tax free at withdrawal.