Government of India issues a notification for changing the regulation of Inoperative Accounts under the Employees’ Provident Funds Scheme, 1952

Background

In accordance with the regulations of the Employees’ Provident Funds Scheme, 1952 (EPFS), interest is not credited to the account of a member from the date on which the account has become an ‘Inoperative Account’.

Para 72(6) of the EPFS regulates the classification of an ‘Inoperative Account’. As per amendments made in the EPFS, on 1 April 2011, interest shall not be credited to the account of a member from the date on which it has become an inoperative account.

The Ministry of Labour and Employment, Government of India issued a notification dated 11 November 2016 to amend the provisions relating to Inoperative Accounts. This notification is effective from 11 November 2016.

Key amendments in the classification of ‘Inoperative Accounts’

Relevant regulation before the amendment

Accumulation in respect of any member:

i) who has either ceased to be employed or died; and

ii) no application for withdrawal under paragraphs 69 or 70 or transfer, as the case may be, has been preferred;

within a period of thirty-six months from the date it becomes payable, or if any amount remitted to a person, is received back undelivered, and is not claimed again within a period of thirty-six months from the date it becomes payable, shall be transferred to an account to be called the ‘Inoperative Account’.

Relevant regulation after the amendment

Accumulation in respect of any member:

i) who has either retired from service after attaining age of fifty-five years or migrated abroad permanently’ or died; and

ii) no application for withdrawal under paragraphs 69 or 70 has been preferred;

within a period of thirty-six months from the date it becomes payable, or if any amount remitted to a person, is received back undelivered, and is not claimed again within a period of thirty-six months from the date it becomes payable, shall be transferred to an account to be called the ‘Inoperative Account’.

---

1 Notification No. G.S.R. 1065 (E), dated 11 November, 2016, published in the Gazette of India
In addition, the current notification has also inserted a new proviso:

*Provided further that if any amount becoming due to a member, as a result of supplementary contributions on account of litigation or default by the establishment or a claim which has been settled but is received back undelivered not attributable to the member, shall not be transferred to the ‘Inoperative Account’.*

**Our comments**

This is an important notification which can have significant benefit for employees who do not apply for withdrawal after cessation of employment. This is expected to encourage employees not to withdraw the accumulated PF balance before retirement. Therefore, this move from the government may help augment income security in retirement.

Establishments that have set up in-house PF Schemes under the ambit of Employees’ Provident Funds & Miscellaneous Provisions Act, 1952 (EPF Act), should revise their schemes to incorporate these changes. The new regulations on inoperative accounts in the statutory PF scheme i.e. EPFS will automatically apply to in-house PF schemes, pending revision of the rules of in-house PF trusts.

The PF Authorities have clarified in the past that the provision of ‘Inoperative Accounts’ is not applicable in case of International Workers (IW). Therefore, this amendment should not impact IWs and they should continue to earn interest on their accumulated PF balance till the time of actual withdrawal.