

TAX FLASH NEWS

Employees' Provident Fund Organisation to deduct income tax on Provident Fund withdrawals

Background

Under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (EPF Act) the employees can withdraw their Provident Fund accumulation after fulfillment of certain conditions laid down in the Employees' Provident Funds Scheme, 1952 (EPFS).

The Finance Act, 2015 has inserted a new provision (Section 192A) on payment of provident fund accumulation due to an employee.

Consequently, the Employees' Provident Fund Organisation (EPFO) has now issued a circular¹ to its field officials for deducting tax at the time of payment of accumulated provident fund balance due to an employee.

Key changes

As per the new provisions, income tax will be deducted at source (TDS) at the time of withdrawal of accumulated PF balance, where the withdrawal amount is more than or equal to INR30,000 and the services are for the period less than 5 years:

a) TDS will be at the rate of 10 per cent if Permanent Account Number (PAN) is submitted. No TDS in case Form 15G or 15H is submitted with PAN by the member.

b) TDS will be at the maximum marginal rate if a member fails to submit PAN.

As per the EPFO circular, TDS will not be deducted in respect of the following cases:

- Transfer of PF from one account to another PF account.
- Termination of service due to ill health of member, discontinuation/contraction of business by employer, completion of project or other cause beyond the control of the member.
- If employee withdraws PF after a period of five years of continuous service, including service with former employer.
- If PF withdrawal is less than INR30,000.
- If member submits Form 15G/15H along with their PAN.

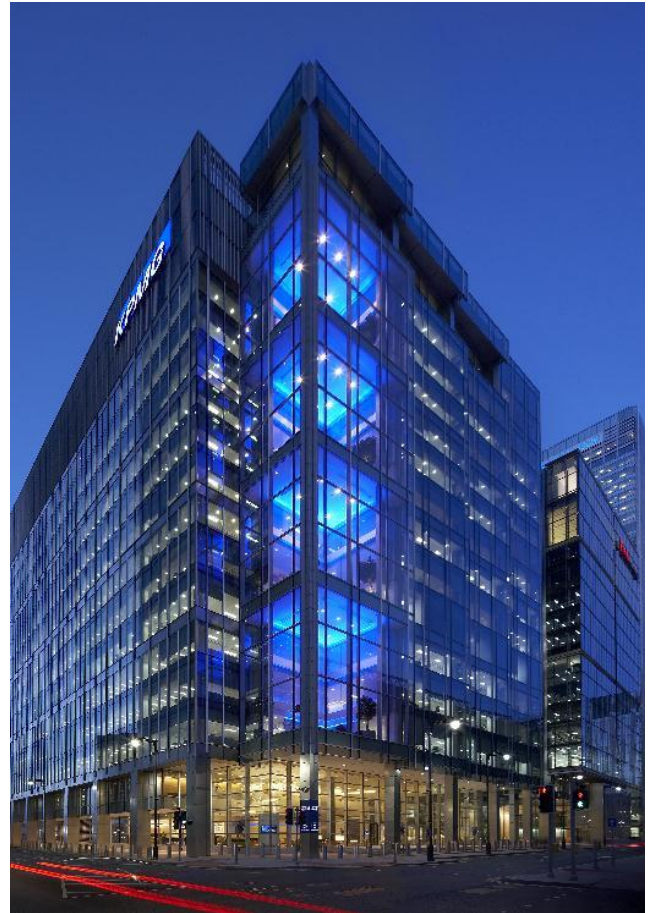
The EPFO has given the direction to its field officers to assist the members in filling up the withdrawal form (Form No. 19). There is no change in the process of authorisation of Form 19 and will continue as per the existing system. However, the members would be required to quote PAN in Form 19.

¹ http://www.epfindia.com/Circulars/Y2015-16/WSU_IncomeTax_5931.pdf

Our comments

The amendment in relation to PF withdrawals is expected to have significant implications for employees (*including International Workers*) who are withdrawing their provident fund balance.

TDS will be levied by the PF office unless documents/ details are provided to prove otherwise.



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