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TAX FLASH NEWS

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Computation of perquisite for annual accretion related to excess contribution made by employer to specified fund or scheme

Prior to tax year 2020-21, the employer contribution to Provident Fund (PF) in excess of 12 per cent of specified salary, employer contribution to Superannuation Fund (SAF) in excess of INR 150,000 and employer contribution to National Pension Scheme (NPS) in excess of 10 per cent of specified salary was taxable as salary. As per Finance Act 2020, effective 01 April 2020, the aggregate of such employer contributions to PF, SAF and NPS exceeding INR 750,000 has been taxable as perquisite[1]. Further, annual accretion (interest, dividend or other income) to the extent it relates to the taxable employer's contribution as above, is treated as a taxable perquisite.

The Central Board of Direct Taxes (CBDT), vide Notification No. 11 of 2021 dated 5 March 2021, has inserted a new Rule[2], wherein the method of computation of perquisites[3] has been specified.

Method to compute the annual accretion

Annual accretion by way of interest, dividend during the tax year to balance to the credit of the fund to the extent taxable as perquisites under Section 17(2)(vii) of the Act shall be the amount computed as per the below formula:

TP= (PC/2)*R + (PC1+ TP1)*R

wherein,

TP = Taxable perquisite[2] for the tax year;

TP1 = Aggregate of taxable perquisite[2] for the previous tax year or years commencing on or after 1st day April, 2020 other than the current tax year;

PC = Amount of principal contribution made by the employer in excess of INR 750,000 to the specified fund/ scheme[4] during the tax year;

PC1 = Amount of principal contribution made by the employer in excess of INR 750,000 to the specified fund/ scheme for the previous tax year or years commencing on or after 1st day April, 2020 other than the current tax year;

R = I/ Favg;

I = Amount of income accrued during the current tax year in the specified fund/ scheme account;

Favg = Half of (Amount of balance to the credit of the specified fund/ scheme on the first day of the current tax Year + Amount of balance to the credit of the specified fund/ scheme on the last day of the current tax year)

However, where the amount or aggregate of amounts of TP1 and PC1 exceeds the amount of balance to the credit of the specified fund/ scheme on the first day of the current tax year, then the amount in excess of the amount of the said balance shall be ignored for the purpose of computing the amount or aggregate of amounts of TP1 and PC1.

Our comments

The CBDT has now notified the method of computation of perquisite value of annual accretion by way of interest, dividend or any other amount of similar nature during the current year to the extent it pertains to the taxable perquisite of employer contribution to a specified fund or scheme. The formulae takes in to consideration, the taxable perquisite determined for the current tax year and for the previous tax years w.e.f 1 April 2020, principal contribution (made by the employer in excess of INR 750,000) made during the tax year and the previous tax years w.e.f 1 April 2020, income accrued during the tax year and the average of opening and closing balance to the credit of the specified fund during the tax year, for computation of such perquisite value.

[1] Sub-clause (vii) of clause (2) of section 17 of the Income-tax Act, 1961 ('the Act')
[2] Rule 3B of the Income-tax Rule, 1962
[3] Sub-clause (viia) of clause (2) of section 17 of the Act
[4] "specified fund or scheme" shall mean a fund or scheme referred to in sub-clause (vii) of clause (2) of section 17 of the Act

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