

TAX FLASH NEWS

12 April 2022

Computation of taxability of interest on excess contribution made by employee to their Provident Fund account

Background

The Finance Act, 2021, vide amendment in the relevant provision¹ of the Income-tax Act, 1961 (the Act), has limited the tax exemption with respect to interest income on the contributions made by the employee in a financial year (FY) in a recognized provident fund (PF) to INR 2,50,000.

Consequently, the Central Board of Direct Taxes (CBDT), vide Notification², had inserted a new Rule³, wherein the mechanism of calculation of taxable interest on the contributions exceeding the specified limit, had been specified.

In this effect, the Employees Provident Fund Organization (EPFO) has recently issued a circular⁴ detailing the calculation and mode of deduction of taxable interest relating to employee's contribution in his/her PF account exceeding INR 250,000.

Taxability as outlined in the notification

- As per the notification², for the purpose of calculation of taxable interest from FY 2021-22 onwards, separate accounts (for taxable contribution and non-taxable contribution made by a person), are to be maintained by EPFO within the individual's PF account for interest credit (on a monthly basis) including for a claim of refund (upto the date of claim).
- For taxability pertaining to FY 2021-22, the effective date of TDS would be 01 April 2022/ date of transfer or settlement, as applicable. For other cases, TDS to be deducted as on the date of credit of interest.
- Such TDS to be applicable on PF final settlement, transfer from EPFO to exempted establishments and vice versa, from one Trust to another, death cases, IWs as well.
- Taxable contribution part would be subject to a separate accounting of interest and the rate of TDS is 10% (where PF account is linked with PAN) of the interest on taxable accumulation, and 20%⁵ if not linked.
- For Non-residents⁶, the TDS⁷ will be at 30% plus surcharge and cess⁸, as applicable, subject to benefits under the Double Taxation Avoidance Agreement, if any.

¹ Section 10(12) of the Act

² Notification No. 95/2021/ F. No. 370142/36/2021-TPL dated 31 August 2021 and KPMG Flash news [Computation of taxable interest on employee's contribution to their Provident Fund account in excess of specified limit \(kpmg.com\)](#)

³ Rule 9D of the Income-tax Rule, 1962

⁴ No. WSU/6(1)2019/IncomeTax/Part-I (E-33306) dated 05 April 2022

⁵ Section 194 A read with section 206 AA of the Act

⁶ Section 6 of the Act

⁷ Section 195 of the Act

⁸ However, cess and surcharge will not be applicable if TDS is deductible as per provision of the DTAA under Section 90 of the Act.

- In case of transfers:

Transfer from	Transfer to	TDS responsibility	Details to be disclosed
One regional office	Another regional office	Another regional office	<ul style="list-style-type: none"> Details of month wise contributions including taxable contribution along with interest, details of opening and closing balance along with withdrawal during the FY 2021-22 and all subsequent FYs through Annexure K TDS deductor⁹ will have to file Annual Return as prescribed¹⁰
Exempted Trust	EPFO	EPFO	
EPFO	Exempted Trust	Exempted Trust	
One Exempted Trust	Another Exempted Trust	Another Exempted Trust	

- Contribution which is added during financial year 2021- 22 and subsequent years, will be net off TDS.
- Non-resident PF member for claiming benefit¹¹ under DTAA would have to file declaration in Form 10F¹²
- EPFO would make the following necessary changes in its internal application software:
 - Non-taxable contribution account, starting from financial year 2021-22, would have details of opening balance, contribution below the threshold, interest earned on such contribution and withdrawals made in the relevant FY.
 - Taxable contribution account, starting from financial year 2021-2022, would have details of contribution made above the threshold, the interest earned thereon and the withdrawals made in the relevant FY.
 - Interest earned in the taxable contribution account, being excluded from exempted income, would attract taxes at the applicable rates.
- For instance:

Period	Monthly contribution	Cumulative balance at the end of the month		Interest accrued	
		Non taxable account	Taxable account	Non taxable account	Taxable account
Closing balance as on 31 March 2021 (opening balance as on 01 April 2021) – INR 50,00,000					
April 2021	30,000	30,000	-	203	-
May 2021	30,000	60,000	-	405	-
June 2021	30,000	90,000	-	608	-
July 2021	30,000	120,000	-	810	-
Aug 2021	30,000	150,000	-	1013	-
Sep 2021	30,000	180,000	-	1215	-
Oct 2021	30,000	210,000	-	1418	-
Nov 2021	30,000	240,000	-	1620	-

⁹ Section 195 of the Act

¹⁰ Section 285BA of the Act

¹¹ Section 90 of the Act

¹² Information to be provided under sub-section (5) of section 90 or sub-section (5) of section 90A of the Act

Dec 2021	30,000	250,000	20,000	1688	135
Jan 2022	30,000	250,000	50,000	1688	540
Withdrawal	(A) 275,000	(B) -225,000	(C) -50,000	-	-
Feb 2022	30,000	55,000	0	371	-
Mar 2022	30,000	85,000	0	574	-
Total of monthly contribution during FY 2021-22 (net off withdrawal)	360,000	85,000	0	11613	(D) 675
TDS on interest @ 10%					68
Opening balance for FY 2022-23 (balance as on 01 April 2022)		(E) 50,96,613			(F) 607

(A)- refers to withdrawal amount during the FY;

(B) and (C) – The withdrawal amount of INR 275,000 has been adjusted against taxable account at first and the balance is adjusted against non taxable account

(D)- refers to interest earned on taxable account during the FY and (F) refers to interest amount net off TDS (@ 10%) in taxable account, which is the closing balance for the relevant FY

(E)- refers to the opening balance for the next FY, which is the sum of opening balance of 50,00,000, total of monthly contribution during FY 2021-22 (net off withdrawal) in non taxable amounts along with interest on non taxable account

- The Circular also includes various Annexures as follows:
 - Annexure A: Illustrations covering different scenarios
 - Annexure B: Related income tax provisions
 - Annexure C: Disclosure pertaining to TDS deducted in books of account and balance sheet
 - Annexure D: FAQs
 - Annexure E: Flowchart for TDS deduction

Our comments

The EPFO circular has clarified the mechanism of taxing the interest on employee's contribution to PF account exceeding the specified limit, wherein interest on employee contribution to PF, would be separately calculated on non taxable and taxable contribution. The circular also details the mechanism and modus operandi of TDS deduction.

KPMG in India addresses:

Ahmedabad

Commerce House V, 9th Floor,
902, Near Vodafone House, Corporate
Road,
Prahlad Nagar,
Ahmedabad – 380 051.
Tel: +91 79 4040 2200

Bengaluru

Embassy Golf Links Business Park,
Pebble Beach, 'B' Block,
1st & 2nd Floor,
Off Intermediate Ring Road, Bengaluru –
560071
Tel: +91 80 6833 5000

Chandigarh

SCO 22-23 (1st Floor),
Sector 8C, Madhya Marg,
Chandigarh – 160 009.
Tel: +91 172 664 4000

Chennai

KRM Towers, Ground Floor,
1, 2 & 3 Floor, Harrington Road,
Chetpet, Chennai – 600 031.
Tel: +91 44 3914 5000

Gurugram

Building No.10, 8th Floor,
DLF Cyber City, Phase II,
Gurugram, Haryana – 122 002.
Tel: +91 124 307 4000

Hyderabad

Salarpuria Knowledge City,
6th Floor, Unit 3, Phase III,
Sy No. 83/1, Plot No 2, Serilingampally
Mandal,
Ranga Reddy District,
Hyderabad – 500 081.
Tel: +91 40 6111 6000

Jaipur

Regus Radiant Centre Pvt Ltd.,
Level 6, Jaipur Centre Mall,
B2 By pass Tonk Road,
Jaipur – 302 018.
Tel: +91 141 - 7103224

Kochi

Syama Business Centre,
3rd Floor, NH By Pass Road,
Vytila, Kochi – 682 019.
Tel: +91 484 302 5600

Kolkata

Unit No. 604,
6th Floor, Tower – 1,
Godrej Waterside,
Sector – V, Salt Lake,
Kolkata – 700 091.
Tel: +91 33 4403 4000

Mumbai

2nd Floor, Block T2 (B Wing),
Lodha Excelus, Apollo Mills
Compound, N M Joshi Marg,
Mahalaxmi, Mumbai- 400011
Tel: +91 22 3989 6000

Noida

Unit No. 501, 5th Floor,
Advant Navis Business Park,
Tower-A, Plot# 7, Sector 142,
Expressway Noida,
Gautam Budh Nagar,
Noida – 201 305.
Tel: +91 0120 386 8000

Pune

9th floor, Business Plaza,
Westin Hotel Campus, 36/3-B,
Koregaon Park Annex,
Mundhwa Road, Ghorpadi,
Pune – 411 001.
Tel: +91 20 6747 7000

Vadodara

Ocean Building, 303, 3rd Floor,
Beside Center Square Mall,
Opp. Vadodara Central Mall,
Dr. Vikram Sarabhai Marg,
Vadodara – 390 023.
Tel: +91 265 619 4200

Vijayawada

Door No. 54-15-18E,
Sai Odyssey,
Gurunanak Nagar Road, NH 5,
Opp. Executive Club, Vijayawada,
Krishna District,
Andhra Pradesh – 520 008.
Tel: +91 0866 669 1000

home.kpmg/in



home.kpmg/in/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011
Phone: +91 22 3989 6000, Fax: +91 22 3983 6000

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is meant for e-communication only.