

Labour min to oppose EPF tax in any form

A proposal from the finance ministry to tax the Employees Provident Fund in some new form came up in a meeting with the Prime Minister's Office (PMO) but there was no agreement on a threshold over which it should apply.

The labour ministry said it would again oppose any such proposal, due to staunch opposition from labour unions. It was a meeting of officials from the labour and finance ministries with the PMO that had drawn curtains on the Budget proposal on an EPF tax.

According to current norms of the EPF Organisation, a private sector employee earning less than Rs.15,000 a month has to contribute 12 per cent of his salary towards the fund, matched by equal contribution from the employer. While 3.6 percentage points of his equivalent employer contribution goes towards the EPF, the rest goes for the Employee Pension Scheme (EPS).

The proposal was that the same pattern follows in the case of those earning over Rs. 15,000 a month. This would have allowed a higher share flowing to the pension scheme. And, allowed the amount to be taxed at withdrawal, as income from pension is taxable.

“Yes, there was such a proposal but we had rejected it in the (PMO) meeting itself... a person earning more than Rs. 15,000 cannot be termed as a better- off Indian,” said a senior official, who was present at the meeting.

Labour ministry officials said they'd again oppose the proposal if it comes.

“Many people who are in the bracket of Rs.15,000 - 20,000 might move from a large firm to a smaller one or lose the job before five years. Why will they see a higher portion of their income being taxed?” asked an official.

In his Budget speech, Finance Minister Arun Jaitley had first proposed taxing withdrawal beyond 40 per cent of the EPF corpus. Later, finance ministry officials said this would affect only people earning only above Rs.15,000 a month, about seven million of the 37 million subscribers of the scheme. It was then decided to entirely withdraw it, under pressure from trade unions and Opposition parties.

(Business Standard)