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Secretary to Govt of India (retd.)
Vice –Chairman, CAT, Kolkata Bench (retd.)

Thursday, March 03, 2016

Hon'ble Mantriji,

2016 Budget proposal on EPF has created a storm over taxing 60% of EPF withdrawal either during service period or on retirement. You have sought to cool down the controversy by stating that Government is aiming at pensioned future and thus is trying to create same features for EPF and NPS. The Government has, however, consciously kept the deposits under PPF scheme outside this controversy.

The point to ponder is whether the Government has taken right step either politically or from financial restructuring view point by trying to whittle down the EPF scheme for the sake of NPS. To be honest NPS, was introduced from the year 2004 as a part of structural reform taking Government out of its liability for payment of pension to its employees. Now all the States and Central Government employees are members of NPS for which they make contribution from their salary. The Scheme was extended to all citizens from 2009 as old age benefit for the professionals and self-employed of all descriptions as investment –cum annuity- cum pension at the age of 60. Since its inception the Regulator for NPS has been knocking at the door of the Government to offer NPS Fund exemption from taxation for purchase of annuity. The Government now, by virtue of the recent budget proposal, instead of meeting the demand of EEE benefit to NPS has reduced EPF to EET and thereby seeks to achieve parity between EPF & NPS.

What is not understood how the government is confusing the demand for giving EEE benefit to NPS by downgrading EPF without realizing its overall impact.

Historically speaking, EPF in India is a unique institution created over a period of 150 years-first by the British who introduced provident fund scheme for the various organizations & government servants and then after independence, Government of India created Employees' Provident Fund Scheme for the salaried people including the wage earners outside the Government for their social security. In 1995 this scheme was partially converted into a pension scheme thus making it a scheme with twin benefits of provident fund and defined contribution cum defined benefit pension scheme for which both the employer and the employee are making contribution. Government is making a part contribution to the extent of 1.6% of the salary of the employees since 1971 for pension. EPF has over the last seven decades culminated into a unique social security institution in the world- a matter of pride for us and for study for the other countries.

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On the other hand, NPS is designed to relieve government of the retirement benefit liability of its employees and an annuity based investment cum pension mechanism for the professionals, self-employed and wage earners in the society at large. It is a pure investment scheme ending with withdrawal for purchase of annuity for getting monthly pension. This pension scheme is strictly limited to old age monthly pension for the member only.

In short, the budget proposal does not constitute either a welcome financial structural reform nor it is logical to treat EPF and NPS as comparable financial products. It is an unwise policy initiative politically also, as this step is putting the Government look like a destructor of middle class social security net. On the other hand, it has failed to meet the legitimate demand of the NPS to get EEE benefit for spreading the scheme far and beyond.

It is, therefore, suggested to roll back the proposal to tax EPF withdrawal at retirement stage. Only thing that is acceptable, viable and timely, is to tax in-service withdrawal beyond Rs.50,000/- on the ground that now loan for housing purpose, medical purpose, higher studies are available from many other sources also. Further more than 50% of the annual PF contribution amount is taken out as withdrawals which strains a social security scheme.

We hope you will seriously consider our suggestion.

Thanking you,

Yours sincerely,

(B.N.SOM)

Shri Arun Jaitley,
Hon'ble Finance Minister,
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