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

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Hon'ble Prime Minister,

Government Of India,

New Delhi-110011

2016 Budget proposal on EPF has created a storm over taxing 60% of EPF withdrawal either during service period or on retirement. Both the MOS(F) & FM have sought to cool down the controversy by stating that Government is aiming at pensioned future and thus is trying to create level playing field for EPF and NPS. The Government has, however, consciously &wisely 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. Government now, by virtue of the recent budget proposal, instead of meeting the demand of EEE benefit to NPS has reduced EPF to EET leaving NPS request unfulfilled.

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 both political and financial.

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 (DCDB) for which both the employer and the employee are making contribution. Government is making a part contribution to the extent of

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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. 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.

While postulating the operative part of the aforesaid policy, the policy makers appears to have omitted to notice that EPF has EPS (Employees' Pension Scheme) component ingrained in it which is 8.33 percent of 24 percent of wages. This means 34.7 percent is already getting annuitized for pension. On that, to further annuitize 60 percent of corpus created from the remainder 15.67 percentage of wages, would mean 74.8 percentage of corpus going into pension. It will in effect deny EPF members level playing ground in that they will be left with only 25 percent of the corpus as cash benefit unlike 40 percent mandated for the NPS members. **From the about facts of the case, it is undeniable that the proposal to tax withdrawal of EPF on retirement is antithesis to the basic principle of equity and basic philosophy of level playing ground.**

. **Further, to apply tax on employer share beyond Rs 150000 is disincentive to savings.** This will force employer to load tax as cost of employment and thus less money in the hands of the member. If member is asked to pay tax then he pays tax on notional income and thus his cash in hand will be reduced. To further tax at exit as lump sum cash is double whammy. Besides, it will inhibit raise in wages and increase of wage benefits will be disguised in artificial allowances and benefits to mask wage increase

It has another pernicious fallout on Govt employees of post-2004 era. **At current salaries of deputy secretary, it would cross Rs 105000 a month. Will the Govt contribution on NPS be taxed as a part of level playing ground between NPS/EPF? If so who will pay tax Govt or the officer**?\

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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 is available from many other sources also. Further more than 50% of the annual PF contribution amount is taken out as withdrawals for current consumption amounting over 30k crore per year which strains a social security scheme.

We hope you will seriously consider our suggestion.

Thanking you,

Yours sincerely,

(B.N.SOM)

Secretary General,

Social Security Associatiomn of India