By way of a notification dated **August 31, 2021**, there has been an amendment to calculation of taxable interest on contributions towards Employees' Provident Fund (EPF) and any recognised provident fund.

WHAT ARE THE CHANGES ?

Taxable interest:

Interest on EPF and Voluntary Provident Fund (VPF) contributions, **above INR 2.5 lakh** in a financial year will be taxable.

Interest on contributions made to any provident fund in which there is no employer's contribution, **above INR 5 lakh** in a financial year will be taxable.

Two separate accounts:

For the purpose of calculation of taxable interest, two separate accounts within the provident fund account shall be maintained:

- Non-taxable contribution account, and
- Taxable contribution account.

The two separate accounts are to be maintained during and subsequent to the financial year 2021-22.

NON-TAXABLE CONTRIBUTION:

This would include:

- Closing balance of the PF account as on March 31, 2021,
- Non-taxable contributions made during the financial year 2021-22 and subsequent years (i.e. contributions which are less than the threshold limit of INR 2.5 lakhs/5 lakhs),
- Plus, the interest accrued on the above.

TAXABLE CONTRIBUTION:

This would include:

- Contributions made by the employee during the financial year 2021-22 and subsequent years, in excess of the threshold of INR 2.5 lakhs/5 lakhs,
- Plus, the interest accrued on the above.

The calculation will be done after reducing any withdrawals.

WHEN ARE THE CHANGES APPLICABLE FROM?

- The notification states that the new Rule will come into effect from April 1, 2022.
- Thus, tax on the interest earned on excess contributions in FY 2021-22 will be payable and would have to be declared in your next year's income tax return filing.
- Further, from FY 2021-22, interest will be separately calculated on both these EPF accounts.