Executive summary

The Finance Minister of India, when presenting the Union Budget for the Financial Year 2015-16, had stated that suitable legislative amendments will be made to allow employees to opt for Employees’ Provident Fund (EPF) or National Pension System (NPS).

Then, through the Finance Act, 2016, the Income-tax Act, 1961 was amended to provide:

(a) Exemption from tax for transfer of fund balance from EPF to NPS.
(b) Exemption from tax for transfer of fund balance from Approved Superannuation Fund (SAF) to NPS.

On 6 March 2017, the Pension Fund Regulatory and Development Authority (PFRDA), the regulatory authority for administration of NPS, issued a circular detailing the process for transfer of fund balance from EPF / SAF to NPS.

However, for transfer of funds from EPF to NPS, changes will need to be made in the EPF Scheme to allow employees to voluntarily move from EPF to NPS. Also, for transfer of funds from SAF to NPS, changes will need to be made in the governing Income-tax rules and trust deed(s) for superannuation.
Background

► The PFRDA has issued a circular dated 06 March 2017 detailing the process for transfer of fund balance from EPF / SAF to NPS.

However, for transfer of funds from EPF to NPS, changes will need to be made in the EPF Scheme to allow employees to voluntarily move from EPF to NPS. Also, for transfer of funds from SAF to NPS, changes will need to be made in the governing Income-tax rules and trust deed(s) for superannuation.

Key features of the circular for transfer of fund balance

► The employee should have an active NPS Tier 1 account (whether through the employer or otherwise - corporate model or all citizen model).

► The employee is required to approach the EPF / SAF trust through the current employer by giving request for transfer from EPF / SAF to NPS account.

► The EPF / SAF trust may initiate transfer of fund balance as per the provisions of the Trust Deed read with the provisions of the Income-tax Act, 1961.

► In case of a Government employee:

  ► The EPF / SAF may issue cheque / draft in the name of Nodal Office Name<>Employee Name<>Permanent Retirement Account Number (12 digits).

  ► The employee should request the EPF / SAF to issue a letter to current employer or Point of Presence (as the case may be) mentioning that the fund balance is being transferred to NPS account of the employee.

  ► Under the Income-tax Act, 1961, the fund balance so transferred from EPF / SAF to NPS will not be treated as income of the current year and will not be considered as taxable.

  ► The fund balance so transferred from EPF / SAF to NPS will not be treated as contribution to NPS of the current year by employee / employer and will not be eligible for deduction under Section 80C of the Income-tax Act, 1961.

► In case of a private sector employee (both corporate model and all citizen model):

  ► The EPF / SAF may issue cheque / draft in the name of Point of Presence Collection Account-NPS Trust<>Employee Name<>Permanent Retirement Account Number (12 digits).

  ► The employee should request the EPF / SAF to issue a letter to current employer or Point of Presence (as the case may be) mentioning that the fund balance is being transferred to NPS account of the employee.

  ► The current employer while uploading the fund balance may mention that the transfer is from EPF / SAF in the remarks column through “Arrears” mode.
The circular issued by the PFRDA is a welcome move and clarifies PFRDA’s position on the transfer process from EPF / SAF to NPS. However, the transfer from EPF / SAF to NPS cannot be done in the absence of suitable changes in the EPF Scheme and Income-tax rules.

As per the current EPF Scheme, there are specific circumstances when EPF withdrawal is possible such as retirement after attaining 55 years of age, permanent and total disability, permanent migration from India, etc. Withdrawal from EPF is currently not possible for transfer of fund balance to NPS.

Similarly, the Income-tax rules stipulate specific limits upto with lump-sum withdrawal is possible from SAF. The trust deed(s) for SAF, as approved by the Income-tax office, also specifies circumstances when withdrawal from SAF is possible. Withdrawal from SAF is currently not possible for transfer of fund balance to NPS.

Thus, to enable employees to voluntarily opt for transfer of fund balance from EPF / SAF to NPS, changes will need to be made to the EPF Scheme, Income-tax rules and trust deed(s) for allowing such transfer.
Our offices

Ahmedabad
2nd floor, Shivalik Ishaan
Near, C.N Vidhyalaya
Ambawadi,
Ahmedabad - 380 015
Tel: + 91 79 6608 3800
Fax: + 91 79 6608 3900

Bengaluru
6th, 12th & 13th floor
“U B City” Canberra Block
No.24, Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 4027 5000
Fax: + 91 80 2210 6000
Tel: + 91 80 6727 5000
Fax: + 91 80 2224 0695

Chandigarh
1st Floor
SCO: 166-167
Sect 9-C, Madhya Marg
Chandigarh - 160 009
Tel: + 91 172 671 7800
Fax: + 91 172 671 7888

Chennai
Tidel Park,
6th & 7th Floor
A Block (Module 601,701-702)
No.4, Rajiv Gandhi Salai
Taramani
Chennai - 600 113
Tel: + 91 44 6654 8100
Fax: + 91 44 2254 0120

Hyderabad
Oval Office
18, iLabs Centre,
Hitech City, Madhapur,
Hyderabad - 500 081
Tel: + 91 40 6736 2000
Fax: + 91 40 6736 2200

Kochi
9th Floor “ABAD Nucleus”
NH-49, Maradu PO,
Kochi - 682 304
Tel: + 91 484 304 4000
Fax: + 91 484 270 5393

Kolkata
22, Camac Street
3rd Floor, Block C’
Kolkata - 700 016
Tel: + 91 33 6615 3400
Fax: + 91 33 2281 7750

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (west)
Mumbai - 400 028
Tel: + 91 22 6192 0000
Fax: + 91 22 6192 1000

5th Floor Block B-2,
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000
Fax: + 91 22 6192 3000

NCR
Golf View Corporate
Tower – B
Near DLF Golf Course,
Sector 42
Gurgaon - 122 002
Tel: + 91 124 464 4000
Fax: + 91 124 464 4050

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi-110037, India
Tel: +91 11 6671 8000
Fax: +91 11 6671 9999

4th & 5th Floor, Plot No 2B,
Tower 2, Sector 126,
Noida - 201 304
Gautam Budh Nagar, U.P. India
Tel: + 91 120 671 7000
Fax: + 91 120 671 7171

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada (Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 6603 6000
Fax: + 91 20 6601 5900

Ernst & Young LLP

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016.

© 2016 Ernst & Young LLP. Published in India. All Rights Reserved.

ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Ernst & Young LLP nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

Join India Tax Insights from EY on LinkedIn