

Client Alert

Provident Fund relief package announced on May 13, 2020

Pursuant to the announcement of the INR 20 trillion (~ USD 265 bn) relief package by the Prime Minister on May 12, 2020, the Finance Minister, Ms. Nirmala Sitharaman, announced various economic stimulus and relief measures for distressed sectors.

Several important announcements were made with regard to employee provident fund contributions to provide some relief to employers, as well as increase the take-home pay of employees.

- (i) Under the Pradhan Mantri Garib Kalyan Package ('PMGKP'), the Government of India shall continue to remit the PF contributions for both the employer and the employee, as per Section 6 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (the 'PF Act'), i.e. 12% on behalf of the employer and 12% on behalf of the employees, including the administration charges, for the next three (3) months, i.e. May, June and July 2020.

Condition: Applicable to establishments employing up to one hundred (100) employees, and in which ninety per cent (90%) of the total employees have been drawing wages less than INR 15,000 (Indian Rupees Fifteen Thousand) per month.

- (ii) Statutory PF contribution for both the employer and the employee has been reduced from 12% to 10% for all establishments covered under the PF Act for next three (3) months, i.e. May, June and July 2020. The reduction of rate of contribution is not applicable to central and state public sector undertakings or any other establishment owned or controlled by or under control of the central government or any state government; accordingly these establishments shall continue to contribute 12%. This relief will only be applicable for the workers who are not eligible for support under PMGKP and the extension thereof (please refer to point (i) above).

For ease of reference, the wage table prepared based on the amendment brought in the notification¹ by the Ministry of Labour is presented below.

Account Head	Up to wage month April 2020	From wage month May 2020 to July 2020
Employee's PF contribution (A/c no. 1)	12%	10%
Employer's PF contribution (A/c no. 1)	3.67% (12% - 8.33%)	1.67% (10%-8.33%)
Employer's EPS ² contribution (A/c no. 10)	8.33%	8.33%
EDLI ³ contribution (A/c no. 2)	0.50%	0.50%
Administrative charges (A/c no. 2)	0.50% (minimum INR 500)	0.50% (minimum INR 500)
<i>No change in inspection charges in A/c no. 22 in respect of EDLI exempted establishment</i>		

¹ https://www.epfindia.gov.in/site_docs/PDFs/Circulars/Y2020-2021/GN_for_reduction_in_EPF_contribution_rate.pdf

² Employees' Pension Scheme

³ Employees' Deposit Linked Insurance Scheme

With regard to the above, the following key facts may be kept in mind:

1. As a result of reduction in the statutory rate of contribution from 12% to 10%, an employee shall have a higher take-home pay. Further, as the employer shall also be required to contribute 10% as employer's contribution, its liability shall also be reduced by 2% of the wages of its employees.

For example, if INR 15,000 is the monthly PF wage⁴, only INR 1,500 (instead of INR 1,800) will be deducted from the employee's wages, and the employer would pay INR 1,500 (instead of INR 1,800) towards the PF contributions. Thus, the employee's monthly take-home wage would increase by INR 300 and the employer shall also save INR 300 per month on such employee.

2. If the employer works on a cost-to-company (CTC) model, the employee would be entitled to receive the reduced 2% employer's PF contribution from his employer. In this case, although the employer deposits 10% employer's contribution with the PF department (instead of 12%), the balance 2% would not be retained by the employer but would be paid to the employee. Therefore, while there would be no financial benefit for the employer, the employee would receive additional cash.
3. The reduced rate (i.e. 10%) is the minimum rate of contribution during the period of the relief package. However, the employer, employee, or both are free to contribute at a higher rate, subject to making the necessary compliances under the Employees' Provident Funds Scheme, 1952.
4. Any contributing member has an option to contribute at a rate higher than the reduced statutory rate (10%) during the relief period, but the employer can choose to keep its contribution at the statutory rate (10%) in respect of such employee. Similarly, if the employer decides to contribute at a higher rate (say 12%), the employee can restrict his contribution to the reduced statutory rate (10%), or authorize the employer to deduct PF at a rate higher than the reduced statutory rate of 10% from his PF wage.

⁴ 'PF wage' means the amount on which PF contribution is paid by the employer

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