Special Issue

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Contents

All about the new tax on Employees' Provident Fund income

Source: The Hindu

Context: *In the Union Budget of 2021-22, Finance Minister Nirmala Sitharaman introduced a new provision to tax income on provident fund contributions from employees beyond ₹2.5 lakh a year. An Employees' Provident Fund (EPF) account is mandatory for formal sector workers earning up to ₹15,000 a month in firms with over 20 employees, as a means of ensuring retirement income. An amount equivalent to 12% of the basic pay and dearness allowance paid to a worker is deducted as employees' contribution to their accounts, with an equivalent amount remitted by the employer. The EPF members are also allowed to voluntarily deploy more of their savings into the EPF account, an option many choose due to the need to build a larger nest egg for their sunset years and the reasonably healthy tax-free annual returns on the EPF.*

What's the latest development on the PF tax introduced last year?

- The Finance Ministry had rationalised the tax move by arguing that the ₹2.5 lakh cap on contributions will cover about 93% of EPF members, and the tax-free, assured income was being milked by the super-rich and high net-worth individuals.
- Many were contributing crores into their EPF accounts and earning several lakhs as annual income, thus misusing what is essentially a social security scheme, the Revenue Department pointed out. While the tax provision also covers government employees, the contribution limit for tax-free income for them and any other PF accounts where employers do not contribute was set at ₹5 lakh per year.
- On August 31, 2021, the Central Board of Direct Taxes (CBDT) notified rules to calculate the taxable income on PF contributions exceeding the specified limits, starting from the financial year 2021-22.
- The rules require all PF accounts to be split into separate accounts — one with the taxable contribution and interest earned on that component, and another with the non-taxable contribution that shall include the closing balance of the PF account as on March 31, 2021 and all fresh non-taxable contributions and interest thereon.
- The Employees' Provident Fund Organisation (EPFO), in charge of managing most private sector employees' retirement savings as well as regulating the operations of a few thousand companies that manage their PF trusts in-house, issued a circular on Wednesday to explain the operational details of the tax.

How will this new tax provision be implemented for EPF account holders?

- The 43-page communique, which some tax experts noted is unusually long, seeks to provide guidelines on how to compute the tax liability in different scenarios.
- "The circular is mostly for administrative purposes and explains how withholding taxes would be computed and deducted in various situations such as withdrawal of funds from the PF account during the year," said Suresh Surana, RSM India founder, adding that it lays down norms for the tax to be deducted at source by the EPFO or company-run PF trusts.

At what rate will taxes be deducted from income on taxable contributions' account?

- As specified by the CBDT, the EPFO will maintain a non-taxable account for contributions up to ₹2.5 lakh a year, and a taxable account for members who contribute over that threshold.
- Tax will be levied at 20% on such income for EPF members whose retirement savings accounts have not been linked to their Permanent Account Number (PAN), while the rate will be 10% for those who have linked their tax and EPF accounts.
- "Thus, PF members should ascertain that their PF accounts are linked with PAN in order to avoid unnecessary blockage of funds by way of deduction of TDS at a higher rate," Mr. Surana advised.

- The TDS rate has been pegged at 30% for non-resident employees with active EPF accounts in India, unless their countries of origin have a Double Taxation Avoidance Agreement (DTAA) with India. According to Mr. Surana, this rate would be further increased by education cess and applicable surcharges.

How will it be factored in to Income Tax returns this year?

- While the EPFO or an employer will take care of the TDS levies, if your income tax slab rate is higher than the rate at which the TDS was undertaken, you will need to pay the differential rate at the time of filing your IT returns, pointed out Deloitte India partner Saraswathi Kasturirangan.
- Moreover, depending on how much you contribute beyond the ₹2.5 lakh limit and whether your EPF and PAN are linked, there is some trickier math for you to work out. "Section 194A of the IT Act provides TDS deduction at 10% on eligible PF interest, provided the interest payable in the entire year is ₹5,000 or more.
- Thus, no TDS would be deducted if the PF interest paid to the resident does not exceed ₹5,000," said Mr. Surana. Where the tax liability on PF contributions' income is ₹5,000 or less, the tax will have to be calculated by the employee at the time of filing their returns.
- For instance, an interest income of ₹50,000 or ₹25,000 from contributions over ₹2.5 lakh, attracting a levy of 10% or 20%, respectively, would fall within this ₹5,000 cap. This may cover a lot of EPF members voluntarily parking more than mandated savings.
- "Employees will certainly need to keep close tabs on this and include such income in their returns," Ms. Kasturirangan emphasised. This provision of the Income Tax Act, however, does not apply on non-residents, pointed out Mr. Surana, noting that the TDS in such cases would have to be deducted on the entire PF income chargeable to tax.

All about Indonesia's palm oil crisis

(Source: Indian Express)

Context: *It's rare for any country that is the largest producer and exporter of a product to experience domestic shortages of the same product — so much so as to force its government to introduce price controls and curbs on shipments. But that is precisely the story of Indonesia vis-à-vis palm oil. The US Department of Agriculture (USDA) has estimated the archipelago's palm oil production for 2021-22 (October-September) at 45.5 million tonnes (mt). That's almost 60% of the total global output and way ahead of the next bigger producer: Malaysia (18.7 mt). It is also the world's No. 1 exporter of the commodity, at 29 mt, followed by Malaysia (16.22 mt).*

Details:

- Yet, the country has seen domestic prices of branded cooking oil spiral, from around 14,000 Indonesian rupiah (IDR) to 22,000 IDR per litre between March 2021 and March 2022. On February 1, the Indonesian government imposed a ceiling on retail prices.
- These were fixed at 14,000 IDR for "premium" 1-, 2- or 5-litre packs and at 13,500 IDR for "simple" minimally-labelled below-1-litre containers.
- The price caps, however, led to the product disappearing from supermarket shelves, amid reports of hoarding and consumers standing in long queues for hours to get a pack or two (14,000 IDR is less than $1 or Rs 74).
- Besides domestic price controls, the government also made it compulsory for exporters to sell 20% of their planned shipments in the domestic market. These were again at predetermined prices of 9,300 IDR

per kg for crude palm oil (CPO) and 10,300 IDR per kg for RBD (refined, bleached, deodourised) palmolein. The domestic market obligation was further raised to 30% with effect from March 10.

INDIA'S IMPORTS OF PALM OIL (IN LAKH TONNES)

Fiscal	Crude palm oil		Refined palm oil		Total palm oil	
(Apr-Mar)	Indonesia	Malaysia	Indonesia	Malaysia	Crude	Refined
2015-16	37.09	33.76	21.48	4.24	71.12	25.72
2016-17	33.37	19.61	23.15	6.27	53.56	29.43
2017-18	45.85	17.21	23.57	4.16	67.50	27.73
2018-19	41.57	17.13	16.78	7.17	64.15	25.21
2019-20	42.72	14.89	3.71	17.9	61.76	25.02
2020-21	40.95	27.99	1.13	0.05	73.92	1.32
2021-22*	21.27	28.43	6.93	2.15	59.78	11.19

*Apr-Jan. Source: Department of Commerce

Plausible factors

- How does one explain this conundrum — consumers unable to access or paying through the nose for a commodity in which their country is the preeminent producer and exporter?
- There are two possible reasons.
  - The first has to do supply disruptions — manmade and natural — in other cooking oils, especially sunflower and soyabean.
    - Ukraine and Russia together account for nearly 80% of the global trade in sunflower oil, quite comparable to the 90% share of Indonesia and Malaysia in palm. Russia's invasion of Ukraine on February 24, which is ongoing, has resulted in port closures and exporters avoiding Black Sea shipping routes. Sanctions against Russia have further curtailed trade in sunflower oil, the world's third most exported vegetable oil (12.17 mt, according to USDA estimates for 2021-22) after palm (49.63 mt) and soyabean (12.39 mt).
    - Soyabean oil, too, is facing supply issues due to dry weather in South America. The USDA has projected the combined soyabean output of Brazil, Argentina and Paraguay for 2021-22 to fall by 9.4%, translating into the continent's lowest harvest in six years. Supply tightness in sunflower and soyabean — from war and drought, respectively — has, in turn, transmitted to palm oil.
  - The second factor is linked to petroleum, more specifically the use of palm oil as a bio-fuel. The Indonesian government has, since 2020, made 30% blending of diesel with palm oil mandatory as part of a plan to slash fossil fuel imports. The country's domestic consumption of palm oil is forecast at 17.1 mt, of which 7.5 mt is for bio-diesel and the balance 9.6 mt towards household and other use.
    - "Palm oil getting increasingly diverted for bio-diesel is leaving less quantity available, both for the domestic cooking oil and export market," said B V Mehta, executive director of the Mumbai-based Solvent Extractors' Association of India. Such diversion has become all the more attractive with Brent crude prices hardening post the Ukrainian war

— to a closing high of $127.98 per barrel on March 8 and staying elevated at $100-plus levels.

Impact on India

- India is the world's biggest vegetable oils importer. Out of its annual imports of 14-15 mt, the lion's share is of palm oil (8-9 mt), followed by soyabean (3-3.5 mt) and sunflower (2.5). Indonesia has been India's top supplier of palm oil, though it was overtaken by Malaysia in 2021-22 (see table).
- On March 16-17, the Indonesian government lifted its retail price caps on palm oil along with the 30% domestic market sale obligation on exporters. At the same time, it levied a progressive tax on exports, linked to a reference price for CPO. These rates range from $175 per tonne (when the reference export price is $1,000-1,050) to $375 (when prices are above $1,500).
- The restrictions on exports, even in the form of levy, take into cognizance Indonesia's higher population (27.5 crore, against Malaysia's 3.25 crore) as well as its ambitious bio-fuel programme (Malaysia is still to fully implement even 20% palm oil admixture in diesel). To that extent, the world – more so, the bigger importer India – will have to get used to lower supplies from Indonesia.
- Meanwhile, import prices of edible oils have eased from their last month peaks, although higher than one year back. That should provide some relief, both for households and industrial consumers (including soap and cosmetic makers) in India.
- Landed prices of CPO (cost plus freight, Mumbai) are currently ruling around $1,750 per tonne, as against $2,000 and $1,175 at this time last month and a year ago, respectively. The corresponding import prices (current versus month-ago and year-ago) stood at $1,690 ($1,960 and $1,115) for RBD palmolein and $1,800 ($1,925 and $1,290) for crude de-gummed soyabean oil.