Government to Contribute towards Provident Fund: A Welcome Move

The Ministry of Labour & Employment, Government of India, on April 10, 2020 notified a special scheme wherein the government will contribute 24% (12% each for employer and employee) of the employee and employer provident fund (PF) share per month for three months to the PF accounts of the employees earning less than Rs.15,000/- per month.

The contribution shall be given by way of a credit of Employees' Pension Scheme (EPS) & EPF contributions of upto 24% of wages to the Universal Account Number (UAN) linked to the Aadhar of EPF members who are employed in establishments/factories registered under the Employees' Provident Funds & Misc. Provisions Act, 1952 ("EPF Act") employing upto 100 employees in which 90% percent of the employees have a monthly income of less than Rs. 15,000/-.

As per the current scheme, the employee contributes 12% of his/her basic salary and dearness allowance every month. The employer also contributes an equivalent amount i.e. 12% (8.33% towards EPS and 3.67% towards EPF) in the employee's account.

Electronic Challan cum Return (ECR):

The Employees Provident Fund Organisation (EPFO) has put in a place an electronic mechanism to enable the establishments to avail the benefits in respect of their eligible employees. The employer upon payment of monthly wages would be required to file the ECR with the required certificate and declaration.

After the ECR has been uploaded and the contents of the certificate and declaration are verified, the challan will reflect the amounts of employee and employer contributions due from the central government under the special scheme. The amount shall thereafter be credited by or at the instance of the government to the benefit of the employees and employers.

Comments:

In the wake of COVID-19, the scheme provides a much needed respite for the small and medium establishments which contribute significantly to the Indian economy. Under the scheme, the central government shall bear the entire liability towards EPF and EPS contributions for all eligible employees. Therefore, there will be no deduction from the wages of an eligible employee thereby increasing his/her disposable (in hand) income during these difficult times.

From the employer's perspective, a 12% relief from the EPF/EPS contributions per month per employee will lessen the burden on capital reserves and ensure greater liquidity leading to a significant reduction in cases of lay-offs and retrenchments thereby preventing disruption in employment of low-income wage earners.