Money Simplified
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The Complete Guide To Public Provident Fund

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Prologue

Dear Friend,

If you are reading this guide – then Congratulations!

You already understand that the PPF account is a useful financial investment avenue that can really help you build wealth over the long term, and is not just a tax saving tool!

This Guide will help you to fully understand the features of the PPF account – those that work for you and also those that you need to watch out for!

You will learn the details about taxability benefits, interest rates – past and present, withdrawals, loans, documentation that you should know about, nomination procedure and much, much more!

We at *Personal*FN are pleased to present to you The Definitive PPF Guide – your one stop shop for all things about PPF, written in as simple and easy to understand a manner as possible.

Read on…

Warm regards,

Team *Personal* FN

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Introduction

The Public Provident Fund (PPF) scheme is one of the most popular investments in India today. And that is no surprise since it provides tax deductions, the maturity proceeds along with interest is exempt from tax, and it is a safe instrument which cannot be attached in case of debt or liability. This is money that will be yours forever.

Knowledge of the different features of the PPF account will help you when you want to take a loan against the account, withdraw from the account, re-activate a discontinued account… and much more!

This handy PPF Guide has been brought to you, to provide you with all the information that you will need on the PPF and to highlight the important points that you need to keep in mind to make the most of this very useful investment avenue. It even includes our PPF Calculator that you can use to check the value of your PPF corpus.

Alright, so let’s get started.

What is PPF?

Public Provident Fund (PPF) is a scheme of the Central Government, framed under the PPF Act of 1968. Briefly, PPF is a Government backed, long-term small savings scheme which was initially started by the Government in order to provide retirement security to self-employed individuals and workers in the unorganized sector. Today, PPF is every Indian citizens’ darling investment avenue.

So if you are keen on a safe corpus, earning a decent tax-free rate of return, enjoying tax benefit; then PPF is for you. The contributions (i.e. investments) made to the PPF account, will earn a tax-free interest and the maturity proceeds are exempt from income-tax. But while you invest, have a long-term investment horizon; it can help you in retirement planning.

Keep in mind, you need to be disciplined to make the most of the PPF investments, and also meet your liquidity needs elsewhere; because under this investment avenue your money is blocked for good 15 years.

PPF offers loans against the account which can also help you during occasions such as a wedding in the family, further studies of your children, etc. if need be. Above all, it gives you a peace of mind as your money is safe.

What are the main features of a PPF account?

The main features of the scheme are:

Eligibility	Applicant needs to be a Resident Indian
Entry Age	No age is specified (Minor is allowed through guardian)
Interest rate	7.80% p.a. compounded annually*
Tenure	15 financial years (plus the first year of investment) On completion of 15 years, the account can be extended in a block of 5 years
Minimum Investment	Rs 500 p.a.
Maximum Investment	Rs 1,50,000 p.a. (A maximum of 12 deposits allowed in a financial year)
Tax Benefit	Up to Rs 1,50,000 under Section 80C; Interest earned is exempt from tax and so are the maturity proceeds
Can be opened at	Any Post Office and some authorized branches of Banks
Who cannot invest	Hindu Undivided Family (HUF's); Non-resident Indians (NRIs); and Person of Foreign Origin
Mode of Payment	Cash / Crossed Cheque / Demand Draft / Pay Order / Online Transfer in favour of the Accounts Officer
Nomination	Nomination facility is available

*The interest rate is currently 7.8% p.a. as on July 1, 2017. This is subject to change.

What changes were made in the PPF when small savings schemes were revamped?

You see, November 11, 2011 turned out to be an interesting day for small savings schemes (SSS), and for the Public Provident Fund scheme in particular.

Earlier, one could invest a maximum of Rs 70,000 per annum in PPF, while seeking deduction under Section 80C of the Income Tax Act, 1961 (by investing in permissible investment instruments). But on the aforesaid date, the restriction of Rs 70,000 was eliminated facilitating PPF investors' to take a deductible exposure in PPF up to the maximum permissible limit under Section 80C of the Income Tax Act, 1961.

Not only that, but the interest rate of 8.00% was also hiked to 8.60% initially, followed by a further hike to 8.80% for the ensuing financial year i.e. 2012-13.

On March 18, 2016 the Department of Economic Affairs—Budget Division (under the Ministry of Finance, Government of India) issued an office memorandum revising the interest rates for SSS, effective April 1, 2016.

The Government honoured the recommendations of Shyamala Gopinath Committee, where interest rates on SSS will now move in sync with money market rates and reviewed every quarter, based on the G-Sec yield of the previous three months vis-à-vis the erstwhile practice of reviewing annually.

Through a press release, the Government has affirmed that it plans to maintain the interest rate spreads across SSS as under:

- 25 basis points (bps) for PPF;
- 100 bps for Senior Citizen Savings Scheme (SCSS);
- 75 bps for Sukanya Samridhi Scheme;
- 25 bps for 5-year Post Office Time Deposit;
- 25 bps for National Savings Certificate (NSC); and
- 25 bps for Post office Monthly Income Scheme (POMIS)

How has interest rate on PPF changed over the years?

The interest rate on PPF has steadily dropped over the years…

Period	Interest Rate p.a.
01 Apr 1986 – 14 Jan 2000	12%
15 Jan 2000 – 28 Feb 2001	11%
01 Mar 2001 – 28 Feb 2002	9.50%
01 Mar 2002 – 28 Feb 2003	9.00%
01 Mar 2003 – 30 Nov 2011	8.00%
01 Dec 2011 – 31 Mar 2012	8.60%
01 Apr 2012 – 31 Mar 2013	8.80%
01 Apr 2013 – 31 Mar 2016	8.70%
01 Apr 2016 – 30 Sep 2016	8.10%
01 Oct 2016 – 31 Mar 2017	8.00%
01 Apr 2017 – 30 Jun 2017	7.90%
01 Jul 2017 – 30 Sep 2017	7.80%

It is noteworthy that the interest rate on PPF is benchmarked against the 10-year G-Sec yield and is usually 0.25% higher than the average yield on G-Secs.

What are the benefits of having a PPF account?

To reiterate, investments into your PPF account are deductible under Section 80C of the Income Tax Act, 1961 subject to the maximum permissible limit of Rs 1,50,000 in the financial year.

Moreover, the interest earned on the investment is completely exempt from tax. So, that’s a return of 7.80% p.a. tax-free.

Likewise at maturity, the proceeds are exempt from tax.

And one of the best features of the PPF is, the account cannot be attached to any claim in case of debt or liability. The money is yours for life. Even if you go bankrupt, this money can never be claimed by any creditor to repay a debt.

How do I open a PPF account? What should I keep in mind while opening my PPF account?

To open a PPF account, head over to your nearest State Bank of India branch, or a branch of any of State Bank's subsidiaries. You can also open an account in select nationalized banks and post offices. Today, some private banks such as ICICI bank also offer you the facility to open a PPF account.

All you got to do is: fill in the form, attach a photograph, state your Permanent Account Number (PAN), and you're done. Once your formalities are completed, you will receive a pass book which will record all your PPF transactions.

At any point in your life, you are allowed to have only 1 PPF account in your name.

You can also have an account in the name of a minor child of whom you are the parent / guardian. However, please remember that this will be the child's account and you will simply be the guardian. Also, please note that you can never have a joint account.

If at any time it is seen that you have more than 1 account in your own name, the second account will be deactivated, and only your principal will be returned to you.

If you have a General Provident Fund account or an Employees Provident Fund account, you can still have a PPF account – there is no restriction.

What do I need to keep in mind while making deposits into my PPF account?

Firstly, you can invest in multiples of Rs 5 with a minimum investment of Rs 500 per annum, and a maximum of Rs 1,50,000 per annum. Any amount invested above Rs 1,50,000 will not earn any interest and will not be eligible for deduction u/s 80C of the Income Tax Act, 1961.

You don't need to invest it all in one shot; you can invest into your PPF the same way you would invest by way of a Systematic Investment Plan (SIP), i.e. by making up to 12 instalments in a year of different amounts, but not more than 12 investments in a year.

Your interest will be calculated on the minimum balance in your account between the 5th and the last day of every month. So if you were planning on investing into it monthly, make sure you invest on or before the 5th of every month (i.e. your PPF account is credited with the investment amount on or before the 5th of every month).

While investing via cheques, sometimes it might take up to 3 working days for the amount to get credited into your PPF account. So the best thing to do would be to factor this in such a way, that the lowest balance in your account includes the new investment on or before 5th of the month, otherwise you will lose out on the additional interest in the month.

Can I take a loan against my PPF account? What are the rules and how much loan can I take?

Yes, you can take a loan from the fund in case of need. You don't have to wait till you become eligible for withdrawals from the account.

The PPF rulebook states it as follows:

"Notwithstanding the provisions of paragraph 9, any time after the expiry of one year from the end of the year in which the initial subscription was made but before expiry of five years from the end of the year in which the initial subscription was made, a subscriber may, he so desires, apply in **Form D** or as near thereto as possible, together with his pass book to the Accounts Office for obtaining loan…"

In simple terms, the following are the steps to see how much loan you can avail. Say you opened your PPF account in August 2015.The end of the financial year when the initial subscription was made is March 31, 2016.The expiry of one year from the end of that financial year makes it March 31, 2017.

So from this date onwards, i.e. from March 31, 2017, until 'before expiry of 5 years from the end of the year in which the initial subscription was made i.e. 5 years from March 31, 2016, that brings us to March 31, 2021, you are entitled to apply for a loan against your PPF balance. Therefore to simply put, from the second year of opening the PPF account to the sixth year, as a PPF account holder you can take a loan.

How much loan you can take is defined as follows:

"… A subscriber may, he so desires, apply in **Form D** or as near thereto as possible, together with his pass book to the Accounts Office for obtaining loan consisting of a sum of whole rupees not exceeding twenty five per cent of amount that stood to his credit at the ends of the second year immediately preceding the year in which the loan is applied for."

So, following the example given earlier, you are eligible to apply for a loan from March 31, 2017 to March 31, 2021.

Suppose you apply for a loan in February 2018, the financial year of loan application is FY 2018-19.

The second year preceding this year is 2016-17. Whatever is the balance standing to your credit at the end of this FY 16-17, you can take a loan of up to 25% of that balance, rounded to the nearest whole rupee.

However, the loan has to be repaid with interest at 2% per annum within 36 months, either in lump-sum or in instalments. If the principal is fully repaid, the balance for the interest should be defrayed in two monthly instalments.

In case you fail to repay after 36 months, penalty will be charged at the rate of 6% over your PPF rate. So, with the current rate of interest of 7.8% on PPF, the loan repayments after a period of 36 months will cost you 13.8% p.a. on your loan amount —which is very close to the rate charged on personal loans.

Further, if you fail to repay your interest entirely in next two months post the end of your loan term then the same will be deducted from your PPF account balance.

You can take a second loan against your PPF account before the end of your sixth financial year, but your second loan can be taken only once your first loan is fully settled.

Please note the PPF money is technically illiquid until the 7th year of your account opening; meaning, you can't 'withdraw'. Only starting from your seventh year you're eligible for partial withdrawals (vide application in Form C) every year. But before that, you can avail for loan against your PPF balance.

But mind you, you should avail such loans only when you are falling short of your finances and do not have any other option to achieve an important life goal such as child's higher education or daughter's marriage etc. Such loans should not be availed to improve your life style or to buy a costly gadget. After all, this is the money that you have kept aside for your retirement.

Can I make withdrawals from my PPF account? What is the schedule?

Yes, you can make one withdrawal per year starting from your seventh year (through an application vide Form C). The first withdrawal can be done after the expiry of 5 full financial years from the end of the year in which your initial subscription was made.

The amount of withdrawal will be limited to 50% of the balance at credit at the end of the fourth year immediately preceding the year in which the amount is to be withdrawn, or the balance at the end of the preceding year, whichever is lower, as per the PPF rulebook. Thereafter, you can make one withdrawal per year. The withdrawal amounts are not repayable. So, for example, if you opened your PPF account on April 1, 2014, you can make your first withdrawal after April 1, 2020, and the amount of withdrawal will be limited to 50% of the balance as on - March 31, 2016, or the balance as on - March 31, 2019, whichever is lower; subject to loan taken on your PPF account.

It is important to note that; if you have taken any loan on your PPF account (which is possible!), this also gets factored in and reduces your balance.

What are my options once my PPF account matures?

This is an interesting fact that not a lot of people know, and in fact not a lot of banks know. And at PersonalFN, we have some clients who have actually informed their banks of what the correct PPF rules are.

Once your account matures, you have 3 choices.

1. You can withdraw the maturity amount
   - If you decide to withdraw your money, the maturity value is exempt from tax.

2. You can extend your account by a block of 5 years, as many times as you want and make fresh contributions into it
   - If you decide to extend your account and continue making fresh contributions, you can extend it for a block of 5 years at a time, as many times as you want
   - You can also make withdrawals from the account, up to 60% of the account balance that was there at the beginning of the extended period. So your PPF account can act as an important source of inflow during your retirement years.
   - Just remember, if you choose to extend your account, submit the necessary documentation i.e. Form H, for extension within one year from the maturity date.

3. You can even extend the account without making any further contributions
   - If you choose this option, you would continue to earn interest on the balance in your PPF account.
   - You are also permitted to withdraw without any restrictions; however you can withdraw only once per year. The balance will continue to earn interest until it is withdrawn.

On withdrawal, the PPF proceeds can be used to fund your life goals, such as your retirement, children's higher education or marriage and so on.

What happens if I forget to invest one year?

Your account is considered de-activated. In order to re-activate your account, you need to pay a fine of Rs 50 for each year that you have not made any subscription, and also make a minimum subscription of Rs 500 for each year that you have missed. Then your account will be reactivated and you will re-start earning interest.

The account will only be closed after maturity and will continue to earn interest till it is closed. The facility of loan or withdrawal will not be allowed from such account.

However, the account can be regularized by remitting a penalty of Rs 50 per financial year and this should be credited to the Government of India / Reserve Bank of India.

How do I close, transfer or extend my PPF account?

You can close the account after completion of 15 years or the expiry of 15 years from the close of the financial year in which the initial subscription was made. The whole amount in this account can be withdrawn at the time of closure. For closure of account, you should apply in **'Form C'** and also furnish the Pass book of your PPF account.

In case of death of the account holder, the balance amount in the account of the deceased account holder will be paid to his nominee or legal heir, as the case may be, even before expiry of 15 years. The nominee or legal heir cannot continue the account by making fresh subscriptions to it. If the balance in the amount is more than Rs 1 lakh, then the legal heir or nominee has to prove identity and provide the relevant documentation to claim the amount in the PPF account.

Your PPF account can be transferred at the request of the subscriber from one office of SBI or its associates to the Head Post Office or vice versa. However, a PPF account cannot be transferred from one person to another.

Is it true that as an NRI, I can't open a PPF account?

Yes, this is true. The rule pronounced on July 25, 2003 states that 'Non Resident Indians are not eligible to open an account under the PPF Scheme'. But there is a silver lining for some NRIs. If you already had a PPF account, when you were resident in India, and during the 15 year tenure of the PPF account you became an NRI, then you are eligible to continue investing in the account until it matures, but on a non-repatriable basis.

Is it true that if I open an account in my minor child's name and I also have my own PPF account, then I am only eligible for Rs 1.5 lakh exemption totally for both accounts?

Yes, this is true. Considering that your child is a minor, you as the parent / guardian are not entitled to dual exemption of up to Rs 3 lakh. The exemption limit remains at Rs 1.5 lakh for a minor child.

However, if you open an account in your spouse's name, your spouse will also be eligible for a deduction on the amount invested in her name.

As the PPF interest earned is tax-free, there is no concern of clubbing of income as there is no tax to be paid on the PPF interest.

What about nominations?

It's very important to ensure that you have a nominee on your PPF account, who in the event of your death will receive the PPF corpus. You can nominate one or more persons to receive the amount standing to your credit in the event of your death. Use **Form E** to make initial nominations, and if you wish to later change them, use **Form F**.

If you nominate a minor, then you should also appoint somebody to receive and hold the PPF funds until the nominee attains majority.

For nominees to apply for funds in case of the death of the PPF account holder, they have to apply to the Accounts Office using **Form G**, and provide a death certificate to the Accounts Officer. Once this is done, the PPF amount, less any loans (and interest on loans) that may be pending against the account, will be repaid to the nominee(s).

If there are multiple nominees and one of them has passed away, the remaining nominees have to furnish the death certificate of the nominee in question, post which the Accounts Officer will repay the PPF funds to the surviving nominee(s).

If there are no nominees, then the legal heirs have to furnish an indemnity letter, an affidavit, the death certificate of the subscriber, a disclaimer letter on affidavit on stamped paper to the Accounts Office.

What about PPF for HUFs?

The rules applying to HUF's PPF accounts have been modified with effect from May 2005. While earlier an HUF could open a PPF account and save tax through a deduction, this has now been stopped.

The modified rule states that:
"As per GSR 286(E) dated 13.5.2005 circulated vide SB Order 10/2004 dated 23.6.2005, only individuals can open PPF account from 13.5.2005. A further clarification was issued vide then DDG (FS) D.O. letter No. 113-10/2004-SB dated 5.9.2005 and again reiterated vide SB Order No.20/2005 dated 14.11.2005 vide which it was conveyed that existing PPF accounts opened in the name of HUF would continue till maturity and enjoy all facilities available under earlier rules but their maturity period cannot be extended further after 13.5.2005."

Therefore the present position of PPF (HUF) accounts is:

→ PPF accounts opened in the name of HUF prior to 13.5.2005 cannot be further extended after maturity and no further deposit can be accepted in such accounts after maturity. As per MOF(DEA) vide GSR(E) dated 7.12.2010 (F. No. 7/4/2010-NS-II dated 7.12.2010), Paragraph 9 of PPF Scheme rules stands amended as follows:

→ PPF accounts opened in the name of HUF prior to 13.5.2005 will be closed on maturity i.e. 31st March of the 16th Financial Year from the year in which the account was opened. No further interest will be admissible.

→ PPF accounts opened in the name of HUF prior to 13.5.2005 but have already been matured but not yet closed, shall be closed on March 31, 2011, after which no further interest shall be admissible.

So, existing HUF PPF accounts will continue to operate normally until maturity, but unfortunately cannot be extended beyond maturity, and **no new HUF PPF accounts can be opened**.

In summary, is there anything I need to watch out for?

Yes, there are some points you need to keep in mind; here they are:

1. As indicated earlier, you need to know the PPF rules yourself. The bank that you have your account with is operating only as a collection centre, nothing more. Very often, bank officials don’t know the rules themselves, and when you present them with the PPF rulebook to back your case, only then will they rectify the problem or escalate you to somebody who can. Banks have no access to your PPF funds and can't even use them as a float. They earn only very little for holding the money and also don’t really need to be concerned about what happens to it.

2. Remember to make your PPF deposits well in time as the date the funds are credited to your PPF account is considered as the date of deposit, for interest calculation purposes.

3. Don't withdraw from your PPF account to simply deposit the same funds back into your PPF account to get the tax deduction. This defeats the purpose of having a PPF account in the first place, that is: safe wealth creation and tax saving to achieve your life goals.

4. If, on maturity of your PPF account, you choose to extend without further deposits, you can't go back and change your mind. It is safer to choose 'continue with deposits', because even if you don't want to invest a large amount, you can invest as low as Rs 500 over the entire year. This gives you the flexibility to invest a bigger amount later, if you want.

5. It is vital to have a nominee or preferably more than one.

6. If you deposit more than Rs 1.5 lakh each financial year in a single account, you won't get any tax benefit on the additional corpus invested, but it can certainly help you build a sizable corpus for your golden years.

Do you have a PPF Calculator that I can use to see maturity amount, loans, withdrawals and all things about PPF?

Yes we do. Here it is. Remember, if you like it, do share it.

Conclusion: From a Financial Planning perspective…

Broadly, the PPF account is a good thing to have, especially for those individuals who do not work in the corporate sector and hence don't have an EPF account, but even for salaried individuals nonetheless. From a tax perspective, this is a very sound avenue, giving you tax deductions on investment as well as tax exemption at the time of maturity. This money is yours for keeping – it cannot be attached by the order of a court to any debt or liability you may have.

However, it is important to note that from a liquidity point of view, your funds are locked in for 15 years, and withdrawals are limited. Given that it is such a long term investment (16 years from beginning to end); the rate of return might be considered low by some for this tenure. But keep in mind, this is guaranteed, backed by the Government and cannot be attached to any debt.

To conclude, when choosing your tax saving avenue, be sure to choose according to your risk appetite. If you are a conservative to moderate investor, the PPF is a very good investment avenue. Even if you are an aggressive investor, the PPF can be a safe hedge against your more risky investments. Keep your liquidity needs, life goals, time horizon and risk appetite in mind while investing.

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