

The tax department has warned taxpayers against sharing their user ID and password with any unauthorised person, saying they too will be liable to face consequences for misuse of their confidential information. PTI

## FIXED INCOME

# EPF rate low, but still in the best interest

A look at the interest earnings on other such instruments in the last one year shows a decline in rates, making a case to stay put with the EPFO investments. Its rate is far better in comparison with the fixed deposits, offered by private and govt-run banks, as well as small savings schemes

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THE CENTRAL Board of Trustees (CBT) of the Employees' Provident Fund Organisation (EPFO) on Monday announced a 15-basis point (bp) cut in its interest offering for the financial year 2016-17, bringing it down to 8.65 per cent as against the rate of 8.8 per cent set for the previous year.

Despite the cut in rates and it being the lowest offering by EPFO in last four years, the instrument continues to be the most favourable fixed income instrument as of now as all other debt instruments, including PPF, senior citizen savings scheme and bank deposits have witnessed a sharp decline in their offerings over the last one year. Experts say that as interest rates continue to move downwards in line with softening inflation and a cut in repo rates by the Reserve Bank of India (RBI), the bond yield and interest earning on bank deposits will go down and in such a scenario, if an instrument provides a post-tax return of 8.65 per cent then it is worth sticking to and investors can also go for voluntary contribution to EPF for the debt component of their asset allocation.

**"It continues to be a good option as interest rates on most of the other instruments have fallen more sharply. Investors should continue to use EPF and voluntary provident fund in order to benefit from the higher interest offering,"** said Vishal Dhawan, CFP and founder, Plan Ahead Wealth Advisors.

Surya Bhatia, CFP and promoter of Asset Managers, a financial advisory firm, said: "EPF is the best instrument as of now in the fixed income category especially if one plans to hold the investment for the long term."

## How the rates have fallen

In line with the 175-bps cut in repo rate (at which the RBI lends to commercial banks) in nearly two years, banks have significantly brought down their interest offering on fixed deposits (FDs). While the coupon rate on 1-year fixed deposits currently stands at around 7 per cent, in March 2016 the government slashed the interest rate payable on 1-year time deposit from 8.4 per cent to 7.1 per cent. It also cut the interest rate on PPF scheme to 8.1 per cent for the period April 1 to June 30, from 8.7 per cent for 2015-16. While rate of interest on Kisan Vikas Patra were lowered to 7.8 per cent from 8.7 per cent, the interest on Sukanya Samridhi Account Scheme, which was launched by Prime Minister Narendra Modi, especially for the girl child, too were reduced to 8.6 per cent from 9.2 per cent. The interest rate on five-year National Savings Certificates were reduced from 8.5 per cent to 8.1 per cent and the rate on five-year monthly income scheme were set at 7.8 per cent as opposed to 8.4 per cent.

The EPF rate is far better in comparison with the FD rates, offered by private and state-owned banks, as well as small savings schemes of similar maturity. The rates on small savings instruments were revised again in September and the finance ministry had reduced the rates on various small savings instruments marginally by 10 bps for the October-December quarter of 2016-17. Rates

## HOW THE RETURNS ARE PLACED

TYPES OF DEPOSIT	RATE (%)	RESET FREQUENCY
EPF*	8.65	Annually
HDFC Bank 1-year term deposit	6.25-6.90	
SBI 1-year term deposit	6.9	
ICICI Bank 1-year term deposit	6.25-7.00	
SMALL SAVING SCHEMES	RATE (%) OCT-DEC	
Savings deposit	4	Quarterly
1-year term deposits	7	Quarterly
2-year term deposit	7.1	Quarterly
PPF*	8	Annually
Sukanya Samridhi Account Scheme*	8.5	Annually
Kisan Vikas Patra	7.7	Annually

\*The three schemes enjoy tax exemption at all stages

## In line with the 175 bps cut in repo rate in nearly two years, banks have significantly brought down their interest offering on fixed deposits

on Public Provident Fund (PPF) scheme, which had already come down to 8.1 per cent in April 2016 from 8.7 per cent in 2015-16, were further reduced to 8 per cent for the October-December quarter.

Currently, while the one-year term deposit with post office offers 7 per cent, both private and state-owned banks are quoting a rate anywhere between 6.9 per cent and 7 per cent pre-tax on such deposits not exceeding Rs 1 crore and 6.25 per cent for deposits above Rs 1 crore. The post-tax return comes much lower on fixed deposits. So, if the pre-tax return on a 1-year term deposit is 7 per cent then the post-tax return for an individual falling in the 10 per cent tax bracket stands at 6.3 per cent; for the one falling in 20 per cent tax bracket the post-tax return will stand at 5.55 per cent; and for an individual falling in the highest tax bracket of 30 per cent (taxable income less than Rs 1 crore) will stand at 4.83 per cent.

"FDs are not recommended as the tax adjusted return are very low," said Bhatia, CFP and promoter of Asset Managers, a financial advisory firm. In fact, even for small savings schemes, since the rates are linked to yields on government securities of similar maturity and have to be reset quarterly, experts say that these are likely to dip faster than EPF rates. The government has made rates on small savings schemes market linked since April 1 this year, and moved away from annual reset of rates to quarterly reset.

## Rate scenario going forward

While the rates on these deposits have

fallen, there is a sense in the market that RBI may bring them down further in 2017 in line with the softening in CPI inflation and an increased inflow of deposits to banks following the government's decision to scrap old Rs 500 and Rs 1,000 notes on November 8, 2016.

A Kotak Institutional report in November had said that a favourable base effect and mean reversion of the seasonal pressure on food prices would likely keep the average inflation benign at around 4.1 per cent in second half of FY17 and that should provide the RBI with the comfort to cut rates going forward. On the other hand, bankers feel that a sharp jump in deposits with banks will bring their cost of deposits down and will improve their ability to cut rates.

If the rates go down, it will not only lead to a decline in bank deposit rates, but would also result into a dip in G-Sec yields. This will, in turn, lead to a revision in small savings rate.

## Why EPF is the best bet

While the EPF rates will also go down in line with the decline in overall interest rates in the economy, experts say that since the rates are determined by the Central Board of Trustees that also has employees' representatives, they would look into the interest of the employees'. **A financial planner said that the rate cut for EPF may not be as sharp as it would be for fixed deposits and other small saving instruments.** PPF is also a good option providing decent tax-free return, but there is a limitation to the amount one can put in it. Investors can also consider contributing over and above their mandatory component into EPF as it is likely to fetch more. However, that should be in line with their overall asset allocation and only the debt portion of the asset should be routed towards EPF," said Dhawan.

He added that investors who have not invested in NPS can also go for it as it provides an additional tax-break on investments of up to Rs 50,000.



Illustration: Subrata Dhar