The Complete Guide

to

Public Provident Fund (PPF)

May 2012

Personal FN

Financial Planning. Simplified.

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 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 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** scheme is one of the most popular investments in India today. And that is no surprise since it provides tax deductions, your maturity (interest) is exempt from tax, and it is a perfectly 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 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 a nifty PPF Calculator that you can use to check the value of your own PPF corpus.

Let's start at the beginning.

What is PPF?

Public Provident Fund (PPF) is a scheme of the Central Government, framed under the PPF Act of 1968. Briefly, the PPF is a government backed, long term small savings scheme which was initially started by the Government because it wanted to provide retirement security to self employed individuals and workers in the unorganized sector.

Today the PPF is the Indian citizens' darling investment avenue.
If you are keen on a safe corpus, a decent rate of return, tax benefits (deduction on the money invested, tax free interest and a tax free maturity value) and have a long term investment horizon, then the PPF is for you.

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

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

What are the main features of the PPF account?

Let's see what the main features of the scheme are:

Interest rate	8.80% p.a. compounded annually*
Tenure	15 years (plus the first year of investment)
Minimum Investment	Rs. 500 p.a.
Maximum Investment	Rs. 100,000 p.a.
Tax Benefit	Under Section 80C, interest is tax exempt

*The interest rate is currently 8.80% p.a. This is subject to change.

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

11th November, 2011 turned out to be an interesting day for small savings schemes, and for the Public Provident Fund scheme in particular.
The earlier maximum investment of Rs. 70,000 per annum was increased to Rs. 1 lakh per annum, therefore making it the same as the maximum allowed Section 80C investment.

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% effective 1st April, 2012. Interest on the PPF is subject to change annually.

How has the PPF interest rate changed over the years? Can we expect it to remain around current levels?

To answer the second question first, probably not. In fact, the PPF interest rate has steadily dropped over the years, and can be expected to slowly fall as the years proceed. Here's a look at what rates used to be:

Period	Interest Rate p.a.
01 April 1986 - 14 Jan 2000	12%
15 Jan 2000 - 28 Feb 2001	11%
01 March 2001 - 28 Feb 2002	9.50%
01 March 2002 - 28 Feb 2003	9.00%
01 March 2003 - 30 Nov 2011	8.00%
01 Dec 2011 - 31 March 2012	8.60%
01 April 2012 till date	8.80%

What are the benefits of having a PPF account?

To reiterate, investments into your PPF account are deductible (up to Rs. 100,000 p.a.).
Interest earned on the investment is completely exempt from tax, so that's a return of 8.80% p.a. tax free.
One of the best features of the PPF is, the account cannot be attached to any claim in case of debt or liability, so the money is yours for life. Even if you go bankrupt, and as your friendly financial planning firm we are certain you will not, this money can never be claimed by any creditor to repay a debt.

There are more things to know about the PPF account, which we will go into ahead.

How do I open a PPF account? What should I keep in mind when opening my 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 the post office. Fill in the form, attach a photograph, state your PAN Number, 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 that will be the child's account, you will simply be the guardian. 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 when 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. 100,000 per annum. Any amount invested above Rs. 100,000 will not earn any interest and not be eligible for deduction u/s 80C.

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. making up to 12 installments 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 (i.e. your PPF account is credited with the investment amount) on or before the 5th of every month.

Remember, if you are investing from a different bank account (i.e. not SBI), it will take up to 3 working days for the amount to credit to your PPF, so the best thing to do would be to factor this in such that the lowest balance in your account includes the new investment, otherwise you will lose out on one month's interest.

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 is at your disposal.

Say you opened your PPF account in August 2011.
The end of the financial year when the initial subscription was made is March 31st, 2012.
The expiry of one year from the end of that financial year makes it 31st March, 2013.
So from this date onwards, i.e. from 31st March 2013, until 'before expiry of 5 years from the end of the year in which the initial subscription was made' i.e. 5 years from 31st March, 2012, that brings us to 31st March, 2017, you are entitled to apply for a loan against your PPF balance.

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 percent of amount that stood to his credit to 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 31st March, 2013 to 31st March, 2017. Suppose you apply for a loan in February 2015.

So the year of loan application is FY 14-15.

The second year preceding this year is 2012-13. Whatever the balance standing to your credit at the end of this FY 12-13, you can take a loan of up to 25% of this balance, rounded to the nearest whole rupee.

The loan must be repaid in a maximum of 36 EMIs.

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.

Remember to have loan exposure that is at least in line with general financial planning thumb rules.

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.
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.

If you would like to know the rulebook paragraph, here it is:

"Any time after the expiry of five years from the end of the year in which the initial subscription was made , a subscriber may, if he so desires, apply in **Form C** or as near thereto as possible, together with his pass book to the Accounts Office withdrawing from the balance to his credit, an amount not exceeding fifty per cent of the amount that stood to his credit at the end of the forth year immediately preceding the year of withdrawal or at the end of preceding year, whichever is lower, less the amount of loan, if any, drawn by him under paragraph 10 and which remains to be repaid:

Provided that not more than one withdrawal shall be permissible during any one year."

What are my options once my PPF account matures?

This is an interesting fact that not a lot of people, 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.

Either you can withdraw your maturity amount, or you can extend your account by a 5 year block, *as many times as you want and make fresh contributions*, or you can extend the account without making any further contributions, and continue to earn interest on it every year.

If you decide to withdraw your money, your maturity value is exempt from tax.

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. Just remember, if you choose to extend your account, submit the necessary documentation that is **Form H**, for extension before one year passes from the maturity date.

If you choose to extend your account without making any fresh contributions, you can do this too.

In this case, any amount can be withdrawn without any restriction, however you can only withdraw once per year. The balance will continue to earn interest till it is withdrawn.

As per the PPF rulebook:

"Subject to the provisions of sub-paragraph (3) a subscriber may, on the expiry of 15 years from the end of the year in which the initial subscription was made but before then expiry of one year thereafter, may exercise an option with the Accounts Office in **Form H,** or as near thereto as possible, that he would continue to subscribe for a further block period of 5 years according to the limits of subscription specified in paragraph 3."

And also regarding withdrawals during these extension periods, here is the rule:

"In the event of a subscriber opting to subscribe for the aforesaid block period he shall be eligible to make partial withdrawals not exceeding one every year by applying to the Accounts Office in **Form C**, or as near thereto as possible, subject to the condition that the total of the withdrawals, during the 5 year block period, shall not exceed 60 percent of the balance at his credit at the commencement of the said period."

On a separate but important note, the bank that you open your PPF account with is acting only as a collection center. Bank officials are not supposed to know the PPF rules, you are. Surprising, but true.

In fact, many customers receive inaccurate advice on the PPF from the bank officials themselves. The best way to safeguard your money is to know the rules yourself.

What happens if I forget to invest one year?

Your account is considered de-activated. In order to re-active 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 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 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.

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. 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 of 25th July, 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 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.

The rule states is as follows: 'Provided that if a resident who subsequently becomes a Non Resident during the currency of the maturity period prescribed under the PPF scheme, may continue to subscribe to the Fund till its maturity, on a Non Repatriation Basis.'

So if you open it as an RI, and during the 15 year tenure become an NRI, you can continue to invest, 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, that I am only eligible for Rs. 1 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. 2 lakhs, the exemption limit remains at Rs. 1 lakh for a minor child. However, if you open an account in your spouse's name, you are eligible for a secondary 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, 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 Account 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 Account Office.

Submit the Annexure to Form G and all the above documentation to receive the balance in the PPF account *up to Rs. 1 lakh*.

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 on the deduction, this has now been stopped.

The 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:

The position of PPF accounts opened in the name of HUF prior to 13.5.2005 will be 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 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 31st March, 2011 after which no further interest shall be admissible.

So unfortunately, existing HUF PPF accounts will continue to operate normally until maturity, but cannot be extended beyond maturity, and no new HUF PPF accounts can be opened. This being said, a lot of banks themselves are unaware of this rule, but that doesn't mean you should try to take advantage of their lack of awareness.

In fact, there is an interesting true case of a person who wrote to a personal finance website with this query:

"I have a Public Provident Fund (PPF) account with State Bank of India (SBI) in the names of two HUFs (Hindu Undivided Family) of which I am the karta. The account has been operative for over 25 years and was renewed in April 2007 for a five-year period. Since then, the Bank accepted the maximum investible amount of Rs70, 000 every year until March 2010 and also credited interest on the amount for three years until March 2010. Now, the branch manager says that I cannot get interest as per a government notification issued in May 2005. Why then did the Bank renew my account in 2007 and accept my deposits every year?"

You would think that since the customer and also the bank were both ignorant of the changed rule, the customer would not be penalized and would receive his interest, but this is not the case. It is the customer's prerogative to know the PPF rules. The RBI does not hold banks liable for any mistakes carried out on the bank's part by not educating the customer. The bank is only the facilitator; it is your duty to know the rules.

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 center, 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 because *the RBI does not hold the bank liable* for any error on the PPF account side.

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

3. Don't withdraw from your PPF account to simply deposit the same funds back in 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. Don't bother with depositing more than Rs. 1 lakh each year in a single account, as you won't get any tax benefit on the additional corpus invested.

Do you have a PPF Calculator I can use to see maturity amount, loans, withdrawals and all things 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 the keeping – it cannot be attached by 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 goal time horizon and risk appetite in mind when investing.

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