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NEWS

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CBDT notified manner to compute annual accretion related to excess contribution made by employer to welfare funds:

Contribution by employer over and above 12% of salary to recognized provident fund (RPF) is treated as salary under section 17(1)(vi) in the hand of employee. Further as amendment brought by Finance Act 2020 (Applicable from Assessment Year 2021-22), if the aggregate of the contribution to RPF, National Pension Scheme and Superannuation Fund made by the employer exceeds 7.5 lacs in a financial year, such excess shall be deemed as perquisites under section 17(2)(vii) in the hand of employee.

Consequent to the above amendment, Finance Act, 2020 also inserts sub-clause (viiia) in clause (2) of the said section to provide that annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of aforesaid fund/scheme to the extent it relates to the perquisite under section 17(2)(vii) (i.e. amount in excess of Rs. 7,50,000), shall also be treated as perquisite. Further it was also prescribed that CBDT will provides rules for the purpose of computation of such perquisite u/s 17(2)(viiia) of the Act.

Now, in exercise of the power vested in section 17(2)(viiia), CBDT has prescribed manner for computation of such annual accretion by inserting a new rule **“3B: Annual accretion referred to in the section 17(2)(viiia)”** under the Income Tax Rules, 1962 vide Notification No. 11/2021 Dated 05-03-2021. The same is discussed hereunder: -

For the purposes of section 17(2)(viiia) of the Act, annual accretion by way of interest, dividend or any other amount of similar nature during the previous year (hereinafter referred to as the current previous year) to balance to the credit of the fund or scheme referred to in section 17(2)(vii) of the Act shall be the amount or aggregate of amounts computed in accordance with the following formula, namely:—

$$TP = (PC/2)*R + (PC1 + TP1)*R$$

Where,

- TP = Taxable perquisite under section 17(2)(viiia) of the Act for the current previous year;
- TP1 = Aggregate of taxable perquisite under section 17(2)(viiia) of the Act for the previous year or years commencing on or after 1st day April, 2020 other than the current previous year (See Note);
- PC = Amount or aggregate of amounts of principal contribution made by the employer in excess of Rs. 7.5 lakh to the specified fund or scheme during the previous year;
- PC1 = Amount or aggregate of amounts of principal contribution made by the employer in excess of Rs. 7.5 lakh to the specified fund or scheme for the previous year or years commencing on or after 1st day April, 2020 other than the current previous year (See Note);
- $R = I / F_{avg}$;
- I = Amount or aggregate of amounts of income accrued during the current previous year in the specified fund or scheme account;
- $F_{avg} = (\text{Amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the first day of the current previous Year} + \text{Amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the last day of the current previous year})/2$.

Note: Where the amount or aggregate of amounts of TP1 and PC1 exceeds the amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the first day of the current previous year, then the amount in excess of the amount or aggregate of amounts of the said balance shall be ignored for the purpose of computing the amount or aggregate of amounts of TP1 and PC1.”.

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