

Ministry of Labour & Employment



EPFO Welcomes Rationalisation of Income Tax Regime for Provident Funds

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Recognized Provident Funds are governed by Schedule XI of the Income Tax Act, 2025. At present, there is a divergence in eligibility for exemption under Income-tax provisions and Section 17 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. Further, the pattern of investment notified under the Income Tax provisions and EPFO also varies. The limits of the employer's contribution have not been aligned in the two enactments. These differences create confusion and give rise to avoidable litigation.

The Union Budget (2026-2027) has aligned the income-tax framework governing recognized provident funds with the statutory and administrative provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 and the Employees' Provident Funds Scheme, 1952.

Exemption

Recognition under the Income Tax Act, 2025, shall be available only to provident funds that have obtained exemption under Section 17 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

Investment

Investment norms shall continue to be regulated under the applicable EPF framework and subordinate legislation. The rigid statutory ceiling restricting investment in Government securities to 50% has been removed.

Employer's Contribution

The employer's contribution shall be governed by the monetary ceiling of Rupees 7.5 Lakhs. Once this monetary ceiling is crossed, the contributions will be taxed as perquisites.

The rationalisation of the Income-tax regime in the Union Budget (2026-2027) will go a long way in serving the interests of its stakeholders by convergence and harmonisation with the Provident Fund enactment. Now, it clearly reflects that EPF exemption is governed by Employees' Provident Funds and Miscellaneous Provisions Act, 1952. The investment norms have now been aligned with the EPF investment norms and the limits on employer's contribution with the monetary ceiling under the Income-tax Act.

Further details available here: **Finance Bill & FAQs on Budget by CBDT.**

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