

## **DEFINITION:**

A fund which is maintained by the employer for the retirement benefit of his employees in which contribution is made by both employer and employee.

## **CHARACTERISTICS:**

Some characteristics of provident fund are as under:

- (a) It is an old age benefit.
- (b) In this fund employer and employee both contribute.
- (c) It is given to the employee at the time of his retirement on lump sum basis.
- (d) In case of death of employee, the amount of fund is given to his family.

## **TYPES OF PROVIDENT FUND**

### **(i) Government Provident Fund:**

Any provident fund maintained by the government or semi government organization is known as Government Provident Fund.

### **Examples:**

Provident fund maintained by:

- (a) Pak Army Forces.
- (b) Central / Federal Government and Provincial Government.
- (c) Railway.
- (d) WAPDA etc.



**(ii) Recognized Provident Fund:**

Provident fund maintained by Private Organization which is recognized by the Commissioner. The following process is followed / adopted for the recognition of provident fund.

**(a) Submission of Application:**

Application shall be submitted to the Commissioner of that area. The employer who maintained the fund shall make the application. The application shall contain the following information:

- Name and particulars of employer.
- Nature of business.
- Place of business.
- Name of employees.
- Place where the fund has been kept or shall be kept.
- A copy of trust deed.
- Verification of all particulars.
- The rules of the fund.

**(b) Conditions for Approval:**

- At least 90% employees of the organization should be employed in Pakistan.
- The employer should deduct every month a definite portion from the salary of the employees.
- The employer contribution should not exceed the contribution of employee.
- The accumulated balance shall be payable to the employee on the day he ceases to be an employee.
- Commissioner Inland Revenue is the authority to grant the approval. If the Commissioner refuses then appeal can be made to the Board.

**(iii) Unrecognized Provident Fund:**

Provident fund maintained by a private organization and not recognized by the Commissioner is called unrecognized provident fund because:

- The conditions in the law have not been fulfilled.

**OR**

- No application for recognition has been made.

**OR**

- Application has been returned on technical grounds.



## WORKING OF PROVIDENT FUND

**(a) Employee's Contribution:**

All the employees of an organization contribute a certain amount to this fund out of their monthly salaries.

**(b) Employer's Contribution:**

The employer of the organization also contributes a certain amount to this fund monthly or annually.

**(c) Investment of Contributions:**

The contribution of employee and employer is invested in some profitable business for some return on original investment.

**(d) Profit (Interest) Credited:**

A certain rate of interest is credited to the provident fund of each employee every year, this amount is known as interest/profit credited on provident fund.

**(e) Receipt of Accumulated Balance:**

The amount so collected in respect of every employee (consisting of employee's contribution, employer's contribution and interest credited) throughout the years of his service is paid to him when he retires, leaves or discharged from the service of organization. In case of death of employee, the amount is paid to his family. This final payment of the amount to the employee / his family is known as receipt of accumulated balance.

## TAX TREATMENT OF PROVIDENT FUND

Items	Govt. Provident Fund	Recognized Provident Fund	Unrecognized Provident Fund
<b>Employee's Contribution</b>	Taxable but already included in salary	Taxable but already included in salary	Taxable but already included in salary
<b>Employer's Contribution</b>	Not included	Exempt up to 10% of salary (OR) Rs. 150,000 whichever is less	Not included
<b>Interest (Profit) Credited</b>	Not included	Exempt up to 16% or the 1/3 <sup>rd</sup> of salary whichever is less	Not included
<b>Receipt of Accumulated Balance</b>	Not included	Not included	Included to the extent of employer's contribution and interest thereon.