
NRI's having investments in PPF/ NSC will no longer earn higher rates of interest

October 30, 2017

In brief

In a recent notification¹, the Central Government of India (CGI) amended the Public Provident Fund (PPF) Scheme, 1968 whereby, the PPF account of resident Indians shall be deemed to be closed with effect from the date they become non-residents of India (NRI). A similar amendment has been made in the National Savings Certificate (NSC) (VIII-Issue) Rules, 1989, and accordingly, such certificates shall be deemed to be encashed on the day when the resident individuals become NR.

In both the above cases, the interest shall be paid at the rate applicable to the Post Office Saving Account (POSA), from the date of deemed closure/ encashment upto the last day of the month preceding the month in which the same is actually closed/ encashed.

Currently, both instruments (PPF and NSC) carry interest at 7.8% per annum and the rate applicable to the POSA is 4% per annum.

In detail

Background

PPF and NSC are the most popular and common long-term saving instruments in which Indians invest for long-term financial planning. The amount invested in these instruments is eligible for deduction up to INR 150,000 under section 80C along with other eligible investments. The interest earned on PPF accounts is tax free and NSC interest is eligible for deduction under section 80C. Besides the tax break, investments in these instruments are safe as they are guaranteed by the CGI. Presently, these instruments earn interest at 7.8% and such

rate of interest is notified every quarter by the CGI.

The amendment

The CGI has now made amendments in the PPF scheme and NSC rules, whereby the benefit of investment in such instruments is restricted to resident Indians only. Where such individuals become NR, anytime during the holding period of such instruments, the PPF account will deem to be closed and/ or NSC certificate shall encashed or deem to be encashed on the day when such individual becomes a NR. Until the time the PPF account is actually closed or NSC certificate actually encashed, the accumulated money will earn interest at a lower rate, as

applicable to POSA (which is presently 4% per annum)

The takeaways

The amendment is likely to impact a large number of outbound assignees who become NR when they go on overseas secondment. If their family members also accompany them, they too will get impacted as they too become NR. If such individuals have parked their funds in PPF accounts/ NSC certificates, they may need to liquidate them. The amendment indicates that such accounts may need to be closed and/ or NSC encashed and when such individuals come back into India and become residents, they may have to

¹ Notification No. GSR 1237(E) dated 3rd October 2017

open a fresh PPF account, unless the CGI provides some mechanism to revive such accounts for such categories of individuals or provides any clarifications

It is unclear whether residency to be determined under the tax laws, i.e., Income-tax Act, 1961 (Act) or

under the exchange regulations, i.e., Foreign Exchange Management Act, 1999 (FEMA). While residency under the Act is determined based on physical presence of the individual in India, residency under the FEMA is determined also on the basis of intention to stay in India. It

would be helpful if the CGI provides clarification in this regard.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact your local PwC advisor

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