

Questions on PPF account

Q: On my last visit to SBI's Bandgarden branch, I was informed by their official that a PPF account comes to an end after a total extension period of 15 years, i.e. 3 blocks of five years. After this period the account holder or nominee must close the account and withdraw the balance.

As per year book 'How to Convert a Taxpayer into a Tax-saver', the block period of five years continues beyond three years till the account is closed or the account holder dies. Please clarify.

—Mr Jimmy Cooper, Pune

A: I wish the authorities bring in a legislation to punish the executives of account offices who are not well informed about the schemes they are handling.

I reproduce hereunder note under Section 9(3B) of the PPF Scheme.

"A subscriber may at his option (to be exercised before the expiry of the first year of every extended block period) avail of this facility for a further block of five years on expiry of 20 years or on expiry of 25 years and so on from the end of the year in which the initial subscription was made."

Please note carefully the words, 'and so on'.

Incidentally, I have repeatedly said that on expiry of the initial term of 16 years, it is much beneficial, irrespective of the age of the account holder, to close the old account and open a new one.

Q: There is always some arguments with the post office and the SBI officials regarding withdrawals and maturity payments of the PPF accounts. I request you to answer the following questions for the benefit of lakhs of PPF account holders:

1. After the end of which financial year can both make their first withdrawal?
2. Fifty per cent withdrawal of which year balance?
3. After which financial year will the accounts mature, i.e.

when can they may close the accounts?

4. Will the rules differ for accounts opened on 1-4-90 and 31-3-91? In other words, what would be the difference between accounts opened during the same financial year, one on the first day and the other on the last day?

—Mr Taxpayer

A: The various dates depend upon the financial year and not on the date of its opening. The amount of withdrawal is 50 per cent of the balance to the credit at the end of the language of the rules is quite complicated and naturally, the bank officers find great difficulty in interpreting these rules correctly.

I shall simplify the rule for you. The first withdrawal can be made during the seventh year after opening of the account and each year thereafter. The preceding fourth or first year,

31-3-91.

If the right is not exercised before the year-end i.e., before 31-3-97 you lose the right. The amount of withdrawal next year, does not depend on the withdrawals of the preceding year.

Now, 1997 — 4=1993 (FY 1992-93) and 1997 — 1=1996 (1995-96).

The amount withdrawable in FY ending on 31-3-97 is fifty per cent of the balance to the credit as on 31-3-93 or 31-3-96, whichever is lower. This being the first withdrawal, you may start wondering as to how the balance to credit on 31-3-96 will ever be less than the balance as on 31-3-93.

Such a situation may arise depending upon the amounts of contributions and withdrawals made from year to year.

Loans: Add 2 to 1991.

The first loan can be taken in 1991 — 12=1993 (FY 92-93) up to 25 per cent of the amount to the credit on 31-3-91. Further loans can be taken provided earlier loans have been repaid in full with interest at the rate of one per cent per annum. Thus, if one takes loan in the 4th or 5th or 6th year, the amount would be 25 per cent of the balance at the end of 2nd or 3rd or 4th year respectively.

For reasons known only to the authors of the legislation, contributions to any of the avenues covered by Section 88 must flow from assessee's income which is chargeable to tax. Only then the rebate can be claimed. This unreasonable requirement creates several problems. For instance, if the contributions are made during the early part of the year, the ITO may scrutinise your account to ascertain that you have actually earned as much as Rs 60,000 during the short period. If he finds that there were capital receipts and part of the contribution has been effected out of these proceeds, he may deny proportionate rebate.

INVESTMENT

By A. N Shanbhag

whichever is lower. Even this is complicated.

You may apply the following simple method:

The account was opened in FY 1990-91.

Maturity: Add 15 to 1991. Matures on 1-4-2006.

The term is 15 years. Actually, it is 16 years. The 16th contribution can be made in FY-2005-06, even on 31-3-2006, the last date of the year. The entire amount can be withdrawn on 1-4-2006 or any time thereafter, unless you desire to opt for post-maturity continuation. The 20 per cent tax-rebate can be claimed for a lock-in of only one day!!

First withdrawal: Add 5 to 1991. Withdrawals eligible from FY 1996-97 and every year thereafter. The first withdrawal can be effected on 1-4-96, irrespective of the actual date of opening the account, whether on 1-4-90 or on