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ANALYSIS OF PUBLIC PROVIDENT FUND (P.P.F.): A LONG TERM DEBT OF GOVERNMENT OF INDIA

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Introduction:

The Public Provident Fund (PPF) scheme is one of the most common and favorite investment classes for a large number of individuals today in their overall financial planning. The Public Provident Fund stands out tall and mighty amongst the fixed income instruments. Among all the assured returns small saving schemes, Public Provident Fund (P.P.F.) is one of the best. This is a government run fixed income instrument started in 1968 with the purpose of providing income security to workers in the unorganized sector and self-employed individuals. Unlike employees who are salaried and who save in the form of a Provident Fund, no individuals other than salary earners can get the benefit of putting away money into a Provident Fund. Public Provident Fund is a savings cum tax saving instrument which is available to every individual irrespective of their status of employment or source of income. Public Provident Fund account can be opened at designated post offices throughout the country and at designated branches of Public Sector Banks throughout the country. Recently the field is also opened for Private Sector Banks. The account can be opened by an individual in his own name, or on behalf of a minor of whom he is a guardian.

P.P.F is a well-known long term debt of Government of India which can be conveniently opened by an individual anywhere in the country to avail tax benefits under section 80C.The P.P.F. also allows tax free interest income where in an individual is not only exempted from the payment of tax on the interest earned by him but he is also exempted from wealth tax. Beside the amount to the credit of P.P.F. cannot be attached against any decree .This long term debt is also backed by Government security as a result need was felt to analyze the P.P.F. scheme of Government of India and also to know the opinion of investment and tax consultants and tax planners dealing with it.

Objectives of Study:

1. To analyze the change in the rate of interest and total interest paid on Public Provident Fund over the years.
2. To analyze the growth in gross deposits received in Public Provident Funds from 1999 to 2012.
3. To seek opinion of investment and tax consultant on investment in P.P.F

Research Methodology:

This study titled, "Analysis of Public Provident Fund (P.P.F.): A Long Term Debt of Government of India", is based on both Primary and Secondary data. The necessary secondary data for the period from 1999-00 to 2011-12 (13 Years) was collected from Government of India Ministry of Finance "Report of the Committee on Comprehensive Review of National Small Savings Fund June, 2011, giving details of Gross Deposit, Gross Interest paid and Rate of Interest on Public Provident Fund (P.P.F.). The required information was also gathered from the official websites on Public Provident Fund (P.P.F.), Statistics of Ministry of Finance, and Government of India. The necessary Primary data was obtained from the selected 50 respondents i.e. Investment and tax Consultants and tax planners.

Data Collection Instrument:

A Questionnaire method has been employed to generate opinions from 50 Investment and Tax Consultants and the Tax Planners from Vasco city of Goa with regard to Public Provident Fund (P.P.F.).

Analysis:

Table 1: Interest rates over time:

From	To	Interest Rate	From	To	Interest Rate
01/04/1986	14/01/2000	12%	01/03/2003	30/11/2011	8%
15/01/2000	28/02/2001	11%	01/12/2011	31/03/2012	8.6%
01/03/2001	28/02/2002	9.5%	01/04/2012	31/03/2013	8.8%
01/03/2002	28/02/2003	9%	01/04/2013	Present	8.7%

(**Source**: Report of the Committee on Comprehensive Review of National Small Savings Fund - Income and Expenditure)

Over the past few years, the interest rate on P.P.F accounts has been reduced and has come down from 12% to 8.7%.

Table 2: Interest Paid On P.P.F.:

Years	Amounts (in Crore)	Years	Amounts (in Crore)
1999-00	2247	2006-07	12458
2000-01	3480	2007-08	13130
2001-02	2674	2008-09	2619
2002-03	4612	2009-10	17174
2003-04	4130	2010-11	12800
2004-05	4530	2011-12	13440
2005-06	5961		

(**Source**: Report of the Committee on Comprehensive Review of National Small Savings Fund - Income and Expenditure)

Table 3: Gross Amount of P.P.F. collected:

Years	Amounts (in Crore)	Years	Amounts (in Crore)
1999-00	9658	2006-07	25945
2000-01	12053	2007-08	21057
2001-02	10747	2008-09	14847
2002-03	14795	2009-10	33449
2003-04	15482	2010-11	16800
2004-05	16484	2011-12	16800
2005-06	22313		

(**Source**: Report of the Committee on Comprehensive Review of National Small Savings Fund - Income and Expenditure)

The amount of interest paid is directly relates to the amount of gross deposits and also the rate of interest on the deposits during the year. The above table shows highest amount of interest was paid in 2009-10, but, in the previous year i.e. 2008-09, the amount of interest paid was Rs. 2,619, which is again directly relates to the gross amount of deposits and the gross deposits decreased in 2008-09.

Discussion:

Public Provident Fund is a savings cum tax saving instrument which is available to every individual irrespective of their status of employment or source of income. Public Provident Fund account can be opened conveniently by anybody at designated post offices throughout the country and at designated branches of Public Sector Banks located in different cities of the states throughout the country. Currently, private sector banks are also authorized to deal with and they too have entered in this field.

Businessmen who don't get an opportunity to contribute in a provident fund can use this avenue to save wealth. This can be an ideal retirement planning avenue if used properly – it is essentially a long term investment avenue. Anyone looking to take an exposure to debt instruments must invest in the PPF as one will not get an investment class that doesn't tax the investor on the investments made, on the interest that one earns on such investments and on withdrawals as well. Income Tax rebate is available "on the deposits made" under Section 80C of Income Tax Act, as amended from time to time and interest credited every year is tax-free.

Features of the Scheme:

- Ina financial year aminimum deposit of Rs.500 can be made in a P.P.F. account. Deposits can be made monthly, quarterly, half yearly or annually.
- Maximum deposit which can be made in P.P.F. Account in a financial year isRs.1, 00,000.
- The account matures for closure after 15 years. Account can be continued with or without subscriptions after maturity for a block periods of five years.
- Premature withdrawal is permissible every year after completion of 5 years from the end of the year of opening the account.
- Loans from the amount at credit in P.P.F. Account can be taken after completion of one year from the end of the financial year of opening the account and before completion of the 5th year.
- Benefit under Section 80C is available for the maximum investment of Rs.100000 made in P.P.F. Account.
- Any individual in India can invest in this scheme and can earn a tax- free return on the same. This return is usually higher than the return offered by banks on fixed deposits.
- Interest at the rate notified by the Central Government from time to time, is calculated and credited to the accounts at the end of each financial year.

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- The funds accumulated under P.P.F is exempt from all types of Wealth Taxes.
- The balance amount in the PPF account is not subject to attachment under any order or decree of court in respect of any debt or liability.
- It serves as a retirement planning tool for those who are not covered by any structure pension plan, as it has a long term maturity.
- The popularity of P.P.F. as an investment avenue has been because of various reasons seldom found in other saving instruments- high rate of returns, compounded interest, complete safety, no wealth tax and tax- free interest.This is because investment in P.P.F scheme falls under triple E regime i.e. Principal, Interest and outflow all are tax exempted.
- P.P.F. is an excellent tool for long- term investment.
- The P.P.F. offers the highest post tax returns among all fixed income options since no tax is levied on the investment, income and withdrawals.
- There are benefits in store if one opens a P.P.F. Account in the name of the spouse or child. Tax law says that if any money gifted to a spouse is invested, the income from that investment is clubbed with the income of the giver. But since P.P.F. income is tax free, it will not push up his tax liability. This way one can invest more than
- Rs.1, 00,000 a year in this tax- free haven and benefit from its various advantages.

Summary of Findings of the present study:

This is the lowest risk investment than any other Government or private sector schemes in India. It is risk free because of the government-backing. It is also hassle free as can be opened very conveniently.

From secondary data:

1. Over the past few years, the interest rate on P.P.F accounts has been reduced and has come down from 12% to 8.7%. Still, considering the other Instruments available in the market, P.P.F is among the best options. Considering the tax advantages on the interest income, the effective rate of return is quite high as compared to other saving instruments.
2. The amount of interest paid is directly related to the amount of gross deposits and also the rate of interest on the deposits during the year. The study shows highest amount of interest was paid in 2009-10 and least in 2008-09.
3. This investment at present enables interest @ 8.7% Compounded Annually, which is fully exempted from the tax. This perhaps is the great feature, unlike other Schemes, the Tax on Interest earned from P.P.F.is nil.

From primary data:

1. The 90% of Tax and Investment Consultants favored the investment in PPF and opined that they advise their clients to make investment in PPF.
2. 92.86% of the Tax Consultants revealed that there is relevance of age factor to the amount of investment in the PPF.
3. Though P.P.F. was planned by the Government of India for unorganized sector, study shows that many people from organized sector and salary earners make huge investment in P.P.F. because of its benefits.
4. 78.57% of the Investment Consultants believed that 25-30 years is the advisable age for PPF investment.
5. 35.71% of Consultants said that they advise salaried class to make investment in P.P.F., 21.42% of Consultants said they advise Self-employed also whereas 42.85% of Consultants said they advise all client to make investment in P.P.F.
6. 71.42% consultants said there is no link between rate of tax/ tax bracket and investment in P.P.F And 28.58% said there is a link between the tax bracket and the investment in P.P.F. It depends on the amount of money at the disposal of the individual.
7. 64.28% of the investment consultants are of the opinion that P.P.F. is the best investment when compared with other investments because of its benefits.

Conclusion:

P.P.F possesses lowest risk than any other Government or private sector schemes in India. From the analysis of the data, it can be concluded that P.P.F is a good investment scheme for an investor and it is also advised by Tax and Investment Consultants.

Presently an individual gets an interest rate of 8.7% which is higher than the rate of interest on any other investment. P.P.F is also a long term security of government as it provides retirement and old age benefit to the investor.

As compared to other small saving schemes introduced by government and non- government institutions, Public Provident Fund scheme stands out in terms of benefits offered. Thus Public Provident Fund Scheme is a small savings with big wonders.

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