**Wage ceiling under EPF Act increased to INR 15,000**

Miscellaneous Provisions Act, 1952 (**EPF Act**) and the Employees' Provident Fund and Miscellaneous Provisions Scheme, 1952 (**EPF Scheme**) from INR 6,500 to INR 15,000, with effect from 1 September 2014. The Employees' Provident Fund Organisation (**EPFO**) has, by its circular dated 28 August 2014, asked all additional Central Provident Fund Commissioners and Regional Provident Fund Commissioners to ensure implementation of this amendment.  
  
In preparation for this change, by an earlier circular dated 14 July 2014, the EPFO had directed its enforcement officers to visit establishments and gather information on employees who are drawing salary between INR 6,500 and INR 15,000, per month and who are not already enrolled as members.  
   
The key provisions of the EPF Scheme which have been impacted by the amendment are:  
   
-  Paragraph 2(f) which sets out the definition of 'excluded employee' and excludes an employee whose pay exceeds INR 6,500 per month from the applicability of the EPF Act and the EPF Scheme; and  
   
-  Paragraph 26 A which provides that where the monthly pay of a member exceeds INR 6,500, the *contribution payable* can be limited to the amounts payable on INR 6,500.  
   
- The threshold has now been increased in both these provisions, the impact of which is two fold   
   
**(a) More employees are now covered**  
   
The change from INR 6,500 to INR 15,000 in paragraph 2(f) of the EPF Scheme means that the employer is now obliged to make contributions for a larger workforce.  Earlier, employers had the discretion to only cover employees who earn up to INR 6,500 per month (and who are not already members of the EPFO). However, with this increase in the wage ceiling, all employees who earn up to INR 15,000 have to be covered.

   
**(b) Higher contributions may be payable for each employee (including employees who are already covered)**  
   
Since the limit on contributions set out in paragraph 26A of the EPF Scheme has also been increased from INR 6,500 to INR 15,000, this will have a greater monetary impact on companies. Prior to this increase, many companies used to limit their contributions to amounts payable on a monthly pay of INR 6500 (i.e. the existing legal threshold) and accordingly, the employer contribution was about INR 780 per month (12% of INR 6,500). Now that the threshold in paragraph 26 A has been increased, this limit on the monthly contribution will increase to INR 1,800 per month (12% of INR 15,000).  
   
Courts have held that any allowance which is ordinarily, necessarily and uniformly paid to all employees forms a part of the basic wages. In this context, it is relevant to note that the obligation under the EPF Act is to make a contribution of 12% on the basic wages, dearness allowance and retaining allowance. There is still some ambiguity around whether allowances such as special allowance, which is usually a guaranteed amount and paid to all employees, would need to be included when calculating PF contributions. Given that the contribution amount will increase since the limit in paragraph 26A of the EPF Scheme is increased, the question of whether 'basic wages' under the EPF Act also includes other allowances would take on added importance.

A more detailed analysis on the impact of this amendment to the EPF Act and the various schemes formulated thereunder will follow.

The Central Government has amended the ceiling for contributions under the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 (**EPF Act**) and the Employees' Provident Fund and Miscellaneous Provisions Scheme, 1952 (**EPF Scheme**) from INR 6,500 to INR 15,000, with effect from 1 September 2014. The Employees' Provident Fund Organisation (**EPFO**) has, by its circular dated 28 August 2014, asked all additional Central Provident Fund Commissioners and Regional Provident Fund Commissioners to ensure implementation of this amendment.  
  
In preparation for this change, by an earlier circular dated 14 July 2014, the EPFO had directed its enforcement officers to visit establishments and gather information on employees who are drawing salary between INR 6,500 and INR 15,000, per month and who are not already enrolled as members.  
   
The key provisions of the EPF Scheme which have been impacted by the amendment are:  
   
-  Paragraph 2(f) which sets out the definition of *'excluded employee*' and excludes an employee whose pay exceeds INR 6,500 per month from the applicability of the EPF Act and the EPF Scheme; and  
   
-  Paragraph 26 A which provides that where the monthly pay of a member exceeds INR 6,500, the contribution payable can be limited to the amounts payable on INR 6,500.  
   
- The threshold has now been increased in both these provisions, the impact of which is two fold  
   
**(a) More employees are now covered**  
   
The change from INR 6,500 to INR 15,000 in paragraph 2(f) of the EPF Scheme means that the employer is now obliged to make contributions for a larger workforce.  Earlier, employers had the discretion to only cover employees who earn up to INR 6,500 per month (and who are not already members of the EPFO). However, with this increase in the wage ceiling, all employees who earn up to INR 15,000 have to be covered.  
   
**(b) Higher contributions may be payable for each employee (including employees who are already covered)**  
   
Since the limit on contributions set out in paragraph 26A of the EPF Scheme has also been increased from INR 6,500 to INR 15,000, this will have a greater monetary impact on companies. Prior to this increase, many companies used to limit their contributions to amounts payable on a monthly pay of INR 6500 (i.e. the existing legal threshold) and accordingly, the employer contribution was about INR 780 per month (12% of INR 6,500). Now that the threshold in paragraph 26 A has been increased, this limit on the monthly contribution will increase to INR 1,800 per month (12% of INR 15,000).  
   
Courts have held that any allowance which is ordinarily, necessarily and uniformly paid to all employees forms a part of the basic wages. In this context, it is relevant to note that the obligation under the EPF Act is to make a contribution of 12% on the basic wages, dearness allowance and retaining allowance. There is still some ambiguity around whether allowances such as special allowance, which is usually a guaranteed amount and paid to all employees, would need to be included when calculating PF contributions. Given that the contribution amount will increase since the limit in paragraph 26A of the EPF Scheme is increased, the question of whether 'basic wages' under the EPF Act also includes other allowances would take on added importance.