

Retrograde change in EOBI law

For establishments set up on or after 1 July 2006, the Finance Act, 2006, has raised the thresh-hold for joining the Employees' Old-Age Benefits scheme (EOBI) to 20 employees, instead of 10. This will in time deprive tens of thousands of poor people of pensions. Where there are 10 to 19 employees, the employees' loss will be the employer's gain: a zero-sum game resulting in the relatively rich winning over the poor.

Various Commissions and Working Groups have unanimously recommended the phased extension of the EOBI scheme. The change made by the Finance Act, 2006, is retrograde. It should be reviewed urgently.

With all its faults, EOBI is the only system that has delivered pensions to the poor. There are over 250,000 retirees and widows who get EOBI pensions. Had EOBI not existed, not one of them would have got a pension.

EOBI is costed as an "open group". It needs new entrants. Reducing this flow is not a good thing for the finances of the scheme.

Effective 1 July 2006, the Finance Act, 2006:

(a) Increased the minimum EOBI pension to Rs 1,300 pm. The previous minimum was Rs 1,000 pm, effective 1 Jan 2005.

(b) Raised the minimum wage under the Minimum Wages for Unskilled Workers Ordinance, 1969, to Rs 4,000 pm. This is the basis for EOBI benefits and contributions. The previous figure was Rs 3,000 pm effective 1 Jul 2005.

From 1 July 2006, employers will contribute 6% of Rs 4,000 = Rs 240 pm to EOBI.

Employees' contributions @ 1% will be Rs 40 pm. If contributions are made for 20 years, the pension would be Rs 1,600 pm.

NSS yields increased from 5 June 06

Yields on new investments from 5 June 06 in National Savings Schemes have been increased, as follows:

	Term (yrs)	Nominal pre-tax yield % pa	
		To 4 Jun 06	From 5 Jun 06
1.Savings A/cs	N/A	5.00	6.00
2.Special Savings	3	8.60	9.17
3.Regular Income	5	8.88	9.24
4.Defence Savings	10	9.46	10.03
5.Pensioners'/ Behbood	10	11.04	11.52

10% with-holding tax is deductible on the first four items, except where the deposit does not exceed Rs 150,000. From 1 Jul 2006, with-holding tax deducted from a person (other than a company) on any of these items shall be a final tax. Expert tax opinion should be taken where no tax is with-held.

NSS should be re-opened to Retirement Funds, to prevent the Stock Market from being flooded.

Stock market ups and down are in the news. At a macro level, the decision on 25 March 2000 to close NSS for fresh investment by Provident, Pension and Gratuity Funds (Retirement Funds) may have contributed to the problems.

Was any study done of whether the market in shares and corporate debt can absorb Retirement Funds? We doubt it. Forcing Retirement Funds into shares and corporate debt, either by direct investment or through mutual funds, is like trying to put a gallon into a pint-pot.

Yields on NSS are now re-aligned with market yields on Government Securities.

Government should re-open NSS to Retirement Funds. This would stop the force-feeding of the stock market.

NSS should be used for development and infra-structure, not current expenditure. One reads of highways being mortgaged to banks to raise maintenance money. This indicates the scope for constructive use of NSS money.

Illustrations mandatory from 1 Jul 06 for life policies financed by Prov Funds

SECP's Circular of 6 Feb 2006 has become effective from 1 July 2006. (Please see The Akhtar & Hasan Letter No 75 of Feb 2006). Life insurers now have to give illustrations to the prospective policyholder, with a copy to the Provident Fund Trustees, comparing benefits under the policy, with the benefits if the money is left in the Provident Fund.

Amendments in taxation of Voluntary Pension Scheme (VPS)

The Finance Act, 2006, amended the VPS provisions of the Finance Act, 2005. On a plain reading, the effects are as follows:

(a) The previous limit of Rs 500,000 pa on VPS contributions has been removed as such. But tax relief to individuals at average rate under S.63 will continue to be limited to VPS contributions up to Rs 500,000 pa.

(b) Previously, individuals entitled to benefit under any other approved employment pension or annuity scheme could not contribute to VPS. This restriction has been removed. But it is now provided "that the total credit available for the contribution made to approved employment pension or annuity scheme and approved pension fund under Voluntary Pension Rules, 2005, should not exceed the limit prescribed or specified under Section 63." Expert tax advice should be obtained on the effect of this proviso.

The Sixth Schedule, which governs Provident, Superannuation and Gratuity Funds, has not been amended. Employers'

contributions to such Funds, will be governed by the Income Tax Rules, 2002.

(c) The 10 years, during which individuals aged 41 + may contribute more than 20%, will start on 1 July 2006, not 27 Jan 2005.

(d) If transfers are made from Provident, Superannuation and Gratuity Funds to the VPS, they will not attract tax relief.

We stress the "if". Whether such transfers are practicable, and in the interest of the beneficiaries of the trust, requires study.

(e) Previously, with-holding tax applied to the VPS Fund, if withdrawn before retirement. Now, with-holding tax will not apply if such withdrawal is caused by disability (as defined) or death.

Previously, with-holding tax applied if the withdrawal on retirement exceeded 25%, unless the balance was invested in an approved income payment plan, or in an annuity, or transferred to the individual's account with another Pension Fund Manager. Now, on death, the with-holding tax exemption will also apply if the balance exceeding 25% is transferred to the survivor's pension account.

(f) Previously, although 25% of the VPS Fund paid at retirement was exempt from with-holding tax, there was no substantive exemption from tax. Now 25% is tax-exempt if paid at retirement, disability or death.

The biter bit: Indian Supreme Court's strikes at political strikes

The Bharatiya Janata Party and the Shiv Sena called a political strike in 2003, which caused losses to the Maharashtra Government. The Bombay High Court awarded damages of Rs 2 million against each party. The Supreme Court upheld this.

"In the name of the *bandh*", asked the bench, "how can you hold a whole society to ransom? Trains and buses don't run. Several people die".