The Seven Must-Know Facts about PPF

The key to wealth creation lies in the practice of saving regularly and systematically. The public provident fund (PPF) is one such long-term investment option that would suit investors of all types. Scoring high on safety, by virtue of it being government backed, this wonderful option comes with tax benefits, loan options and a low maintenance cost. Investment Yogi explains seven must-know facts of a PPF account to make it more profitable for you.

1. **It requires just Rs. 100 to start a PPF account:** PPF accounts could be opened by individuals, whether salaried or self-employed, with a minimum initial deposit of just Rs. 100. Accounts could be opened at any branch of the State Bank of India (SBI) or branches of its associated banks. Other nationalised banks which offer this service are Bank of India, Central Bank of India and Bank of Baroda. The general post office too allows opening of a PPF account. Individuals may also open a PPF account on behalf of a minor child of whom they are the guardian.
2. **PPF accounts have a minimum and maximum deposit limit:** A minimum deposit of Rs. 500 must be made during one whole financial year. The maximum that could be deposited is Rs. 1,00,000 in a financial year. Deposits could be in either one go, or in flexible instalments (in multiples of Rs. 10). You could vary the amount and the number of instalments, as per your convenience, provided you do not exceed 12 instalments in one financial year. Failing to deposit the minimum requirement would lead to your account being discontinued. Interest would, however, continue to accrue. You could regularize the account again on paying the prescribed default fee along with subscription arrears.
3. **Interest calculation in PPF account:** The interest rate in your PPF account is calculated on the lowest balance between the fifth and the last day of the month. So to maximise your earnings, try making deposits between the 1st and the 5th of the month. Interest is compounded annually and credited on March 31 each year.
4. **Premature withdrawal from PPF:** The entire amount in your account could be withdrawn only on maturity. However, in times of financial crises partial withdrawals are permitted subject to certain ceiling limits. You could withdraw once a year, from the 7th year onwards. Such withdrawals must not exceed 50 per cent of the balance at the end of the fourth year, or 50 per cent of the balance at the end of the immediate preceding year, whichever is lower. Premature closure of a PPF account is permissible only in case of death.
5. **PPF offers multiple tax benefits:** Deposits in a PPF account qualify for a deduction under section 80C. Furthermore, the entire maturity amount including the interest is non-taxable. Not only is the interest earned tax free, PPF deposits are exempt from wealth tax too.
6. **Need a loan? Use your PPF:** You could take a loan on your PPF deposit, subject to certain terms and conditions. Loans could be taken from the third year onwards till the sixth year. Up to a maximum of 25 per cent of the balance at the end of the 2nd immediately preceding year would be allowed

as loan. Such withdrawals are to be repaid within 24 months. Rate of interest charged on the loan would be 2 per cent more than the PPF interest rate prevailing then.

A second loan could be availed as long as you are within the 3rd and the 6th year, and only if the first one is fully repaid. Also note that once you become eligible for withdrawals, no loans would be permitted. Inactive accounts or discontinued accounts are not eligible for loan.

7. **Continuing PPF after the 15-year period:** PPF account holders have an option of extending their accounts after the 15 year tenure with or without further subscription, for any period in a block of five years. The balance in the account will continue to earn interest at normal rate as admissible on PPF account till the account is closed. In case the account is extended without contribution, any amount can be withdrawn without restrictions. However, only one withdrawal is allowed per year.

   If you continue the account after 15 years, with continued deposit, withdrawal up to 60 per cent of the balance at the beginning of each extended period (block of five years) is permitted.