Should you dip into your EPF to purchase a home?

Due to the ongoing low interest rate regime, experts believe that it is better to fund your home through a home loan than to withdraw from EPF. Read on for an analysis

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When Saket Gaikwad (40), a working professional, was arranging money for the down payment of his home, he had three options – dip into his Employee Provident Fund (EPF), leverage some other asset, or opt for a home loan.

While the EPF money was quickly available, he resisted withdrawing it. "EPF is my retirement security and thus, I took all other factors into account before making a decision," says Gaikwad.

"The EPF corpus is meant to take care of the expenses when an individual retires. As the individual contributes towards the EPF account during the employed years without withdrawing money in the interim period, the compounding factor comes into play. This allows people to build a large corpus, which otherwise would have been difficult to accumulate," says Ravindra Sudhalkar, CEO, Reliance Home Finance.

WHEN CAN YOU WITHDRAW FROM EPF?

Employees who have the account for a minimum of five years can utilise up to 90 per cent of the total PF amount accumulated to buy a home.

"Under Section 68B of The Employees' Provident Funds Scheme, 1952 ('EPF Scheme'), an employee may withdraw from the EPF account balance for purchase of a house or construction of a house," says Suresh Surana, founder, RSM India, a tax, accounting and consulting group.

SHOULD YOU WITHDRAW FROM EPF?

"In the current scenario, home loan rates are less than PF, which means that taking a home loan instead of clawing into PF savings is more beneficial," says Niraj Bora, CA and founder, Surmount Business Advisors, a private equity firm.

"Your PF earns approx. eight per cent, plus it is tax-free. If you consider the tax benefits on a home loan, it may work out to be the same or cheaper. Also, with prepayment options available, you can close the housing loan early and become debt-free much faster. Your PF can remain intact for a rainy day," adds Manoj Viswanathan, MD and CEO, HomeFirst Finance, a technology-driven, affordable housing finance company.

"Tax is not levied or TDS isn't deducted if the withdrawal is less than Rs 50,000 before completion of five years. After five years, it is not taxable for any amount of withdrawal. In case of a job switch, no tax is levied during the shift from one account to another," says Bora.

> Remember that at 8.5 per cent, EPF delivers one of the highest returns among the various fixed income tools. It also offers tax-free returns as well as tax-free maturity. So, it is only after due-diligence and thorough calculations that one must think about prematurely withdrawing money from the EPF account.
>
> **— Ravindra Sudhalkar,**
> CEO, Reliance Home Finance

"Since buying a home is a big financial decision, it is always better to plan the finances well in advance. Pay approximately 20-25 per cent as down payment for the house. And try to secure the down payment via your savings or through sound financial planning, without compromising your retirement savings. This will help you sail through any financial emergencies," advises Ravi Subramanian, MD and CEO, Shriram Housing Finance, a housing finance company.