

Superannuation Fund: How It Works and Tax Treatment (Tax Year 2026-27)

Description

Last updated: 01 October 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Quick summary

- A superannuation fund is a trust set up by an employer to pay annuities or pensions to employees on retirement, incapacity or death; only an approved fund gets the tax benefits.
- The employer's contribution to an approved fund, together with the employer's PF and NPS contributions, is tax free up to ?7.5 lakh a year; anything above it is a taxable perquisite (section 17(1)(h)).
- An employee's own contribution is a section 123 deduction within the ?1.5 lakh limit, in the old regime only.
- Payments on death, and in commutation of an annuity on retirement or incapacity, are exempt (Schedule II, serial 8). A lump sum on leaving the job is taxed, with tax deducted at the average rate of the last three years.

A superannuation fund is a company pension arrangement. The employer sets up a trust, puts money into it each year, and the fund pays an annuity or pension to the employee after retirement. It is part of the cost to company (CTC) for many employees, so it matters to know what is taxed and what is not.

What the law requires of the fund

The Income-tax Act, 2025 gives benefits only to an **approved superannuation fund**. Under Schedule XI, Part B, the approving authority (a Commissioner) approves a fund that meets these conditions:

- it is established under an **irrevocable trust** in connection with a trade or undertaking carried on in India, with at least 90% of the employees employed in India;
- its **sole purpose** is to provide annuities for employees on retirement at or after a specified age, on incapacity before retirement, or for the widows, children or dependants on death;
- the **employer contributes** to the fund; and
- all annuities, pensions and other benefits are **payable only in India**.

The trustees apply to the Assessing Officer in **Form 188** (Rule 313 of the Income-tax Rules, 2026). The income

of an approved superannuation fund is itself exempt (Schedule VII, serial 23).

Types of plans

- **Defined benefit:** the benefit is fixed by a formula (service, salary, age) and the employer carries the investment risk.
- **Defined contribution:** the contribution is fixed and the benefit depends on what the fund earns, so the employee carries the investment risk.

At retirement the fund buys an annuity from an insurer. Common options are an annuity for life, for life with a guaranteed period of 5, 10 or 15 years, for life with return of the purchase price, or jointly for husband and wife.

Tax on the employer's contribution

The employer's contribution to an approved fund is not taxed in the employee's hands, up to a combined limit. Under section 17(1)(h) the **total** of the employer's contributions in a tax year to:

1. a recognised provident fund,
2. the pension scheme referred to in section 124(1) (the notified scheme, NPS), and
3. an approved superannuation fund

is a perquisite only to the extent it is **more than ?7,50,000**. The yearly interest, dividend or similar accretion on that excess is also a perquisite (section 17(1)(i), worked out under Rule 16).

Example: the employer pays ?4,00,000 into the provident fund, ?2,50,000 into NPS and ?2,00,000 into the superannuation fund in the year. The total is ?8,50,000. **?1,00,000** is taxable as a perquisite.

If the employer instead pays a life insurance premium or buys an annuity for you, it is taxable as a perquisite, except where it goes to an approved superannuation fund, a recognised provident fund or the deposit-linked insurance fund (section 17(1)(g)).

Tax on the employee's contribution

The employee's own contribution to an approved superannuation fund is one of the items that qualify under **section 123** (paragraph 1(g) of Schedule XV). With the other qualifying items such as provident fund and life insurance it must stay within **?1,50,000**. Section 202(2) bars Chapter VIII deductions in the new regime, so this deduction is available **only in the old regime**.

Tax on the money paid out

Payment	Treatment
Paid on the death of a member	Exempt
Lump sum in lieu of or in commutation of an annuity on retirement at or after the specified age, or on incapacity before retirement	Exempt

Payment	Treatment
Refund of contributions on the death of a member	Exempt
Refund of contributions to an employee leaving service otherwise than by retirement or incapacity	Exempt only up to contributions made before the Act's commencement and interest on them, so in practice taxable
Transfer to the employee's account in the notified pension scheme (NPS)	Exempt
Annuity or pension received later	Taxable as salary (section 16(b))
Employer's contribution and interest paid to the employee on leaving service	Taxable as profits in lieu of salary (section 18(1)(c)(ii)), with tax deducted by the trustees at the average rate of the previous three years (Schedule XI, Part B, paragraph 7)

The exempt payments are listed at serial 8 of Schedule II.

The trustees must report to the tax department each such payment made during an employee's lifetime, within two months of the end of the financial year, giving the contribution repaid and the tax deducted.

What the employer gets

The employer's contribution to an approved superannuation fund is deductible as an expense of business (section 29(1)(a)), subject to the limits the rules set for approval. The employer also reports its payments to the fund in the salary statement (Schedule XI, Part B, paragraph 8).

Superannuation or retirement

They are not the same thing. Retirement is leaving work at a certain age. Superannuation is a fund that helps pay for life after that.

Before you rely on this

- Whether a payout is "in commutation of an annuity" depends on the fund rules and the insurer's documents. Ask for a written note of how the payment is described.
- The refund of contributions on leaving service (serial 8(d)) is exempt only up to contributions made before the Act's commencement, so check how your fund's payout is split between your own and the employer's money.

Frequently asked questions

What is a superannuation fund?

A trust set up by an employer, usually with an insurer, to provide annuities or pensions to employees on retirement at a specified age, on incapacity before retirement, and to dependants on death. The employer must contribute to it.

Is the employer’s contribution taxable for the employee?

Not up to ?7.5 lakh in a tax year. That limit covers the employer’s contributions to a recognised provident fund, the notified pension scheme (NPS) and the approved superannuation fund together. The excess, and the yearly interest or dividend on it, is a taxable perquisite.

Can I claim the employee’s contribution as a deduction?

Yes, under section 123 (Schedule XV, paragraph 1(g)) within the overall limit of ?1,50,000 with the other qualifying items, but only in the old tax regime.

Is the pension from a superannuation fund taxable?

An annuity or pension is salary (section 16(b)) and is taxed when received. The lump sum paid in commutation of an annuity on retirement at or after the specified age, or on incapacity, is exempt.

What if I leave the job and withdraw the money?

The employer’s contribution and interest paid to you during your lifetime on leaving service is taxable, and the trustees deduct tax at the average rate you paid over the previous three years (or your period in the fund if shorter). Your own contribution is not taxed again.

Is a fund approved automatically?

No. The trustees apply to the Assessing Officer in Form 188 and the approving authority (a Commissioner) grants approval if the fund satisfies the conditions in Schedule XI, Part B of the Act. Only

an approved fund gets the benefits described here.

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 17, 18, 29, 123; Schedules II, VII, XI and XV)
- Income Tax Department: Income-tax Rules, 2026 (Rule 16 and the superannuation fund rules, Form 188)

Related reading

- Gratuity: Rules, Formula and Income Tax Exemption (Tax Year 2026-27)
- Perquisites in Income Tax: Types, Valuation and Taxability for Tax Year 2026-27
- Tax-Free Income in India: Complete List for Tax Year 2026-27

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Author
meetsoni