



GOVERNMENT OF INDIA
MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)
CENTRAL BOARD OF DIRECT TAXES

**DEDUCTION OF TAX AT SOURCE —
INCOME-TAX DEDUCTION FROM SALARIES
UNDER SECTION 192 OF THE
INCOME-TAX ACT, 1961**

DURING THE FINANCIAL YEAR 2004-2005

CIRCULAR NO.6/2004 [F.No.275/192/2004-IT(B)]

NEW DELHI, the 6th December, 2004
15 Agrahayana, 1926 (Saka)

INDEX

Para No.	Page Nos.
1. General	1
2. Finance Act, 2004	1
3. Section 192 of Income-tax Act 1961	2
4. Persons responsible for deducting tax and their duties	5
5. Estimation of income under the head "Salaries"	9
5.1 <i>Income chargeable under the head "Salaries"</i>	9
5.2 <i>Incomes not included in the head "Salaries" (Exemptions)</i>	17
5.3 <i>Deductions u/s 16 of the Act (Standard Deduction)</i>	21
5.4 <i>Deductions under Chapter VI-A of the Act</i>	21
6. Tax Rebate	27
7. Calculation of Income-tax to be deducted	32
8. Miscellaneous	33
 Annexures	
I. Examples	36-45
II. Form 12C for sending particulars u/s 192(2B)	46
IIIA. Board's Notification dated 4.10.2002 {Form No. 12BA (as amended)}	47-49
IIIB. Form No. 16 as amended	50-52
IV. Board's Notification dated 12.1.2004 (Form No. 16AA)	53-58
V. Board's Notification dated 26.8.2003	59-62
VA. Deptt. of Eco. Affairs Notification dated 22.12.2003	63
VIA. Board's Notification dated 24.11.2000	64-65
VIB. Board's Notification dated 29.1.2001	66
VII. Form No. 10 B A	67

CIRCULAR NO. 6/2004

F.No. 275/192/2004-IT(B)
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes

New Delhi, the 6th December, 2004

SUBJECT: INCOME-TAX DEDUCTION FROM SALARIES DURING THE FINANCIAL YEAR 2004-2005 UNDER SECTION 192 OF THE INCOME-TAX ACT, 1961.

Reference is invited to Circular No.9/2003 dated 18.11.2003 wherein the rates of deduction of income-tax from the payment of income under the head "Salaries" under Section 192 of the Income-tax Act, 1961, during the financial year 2003-2004, were intimated. The present Circular contains the rates of deduction of income-tax from the payment of income chargeable under the head "Salaries" during the financial year 2004-2005 and explains certain related provisions of the Income-tax Act.

2. FINANCE (No.2) ACT, 2004

According to the Finance (No.2) Act, 2004, income-tax is required to be deducted under Section 192 of the Income-tax Act 1961 from income chargeable under the head "Salaries" for the financial year 2004-2005 (i.e. Assessment Year 2005-2006) at the following rates:

RATES OF INCOME-TAX

- | | |
|--|---|
| 1. Where the total income does not exceed Rs.50,000/-. | Nil |
| 2. Where the total income exceeds Rs.50,000 but does not exceed Rs.60,000/-. | 10 per cent, of the amount by which the total income exceeds Rs.50,000/- |
| 3. Where the total income exceeds Rs.60,000/- but does not exceed Rs.1,50,000/-. | Rs.1,000/- plus 20 per cent of the amount by which the total income exceeds Rs.60,000/-. |
| 4. Where the total income exceeds Rs.1,50,000/-. | Rs.19,000/- plus 30 per cent of the amount by which the total income exceeds Rs.1,50,000/-. |

(Please also refer to section 88D discussed in Para 7 of the Circular for special provisions in respect of individuals having total income not exceeding Rs.1,00,000.)

Surcharge on income tax:

The amount of income-tax computed in accordance with the preceding provisions of this paragraph shall be reduced by the amount of rebate of income tax calculated under Chapter VIII-A (Sections 88, 88B, 88C and 88D) and the income tax so reduced shall be increased by a surcharge at the rate of ten percent of such income tax where the total income exceeds eight hundred and fifty thousand rupees.

However, the total amount payable as income-tax and surcharge shall not exceed the total amount payable as income tax on a total income of Rs.8,50,000/- by more than the amount of income that exceeds Rs.8,50,000/-.

The amount of income-tax as increased by surcharge, if any, mentioned above shall be further increased by an additional surcharge (Education Cess on Income Tax) at the rate of two percent of the income-tax and surcharge.

Surcharge and Education Cess are payable by both resident and non-resident assesseees.

3. SECTION 192 OF THE INCOME-TAX ACT,1961: BROAD SCHEME OF TAX DEDUCTION AT SOURCE FROM "SALARIES" ETC.

Method of Tax Calculation:

3.1 Every person who is responsible for paying any income chargeable under the head "Salaries" shall deduct income-tax on the estimated income of the assessee under the head "Salaries" for the financial year 2004-2005. The income-tax is required to be calculated on the basis of the rates given above and shall be deducted on average at the time of each payment. No tax will, however, be required to be deducted at source in any case unless the estimated salary income including the value of perquisites, for the financial year exceeds Rs.1,00,000/-. (Some typical examples of computation of tax are given at **Annexure-I**).

Payment of Tax on Non-monetary Perquisites by Employer:

3.2 An option has been given to the employer to pay the tax on non-monetary perquisites given to an employee. The employer may, at his option, make payment of the tax on such perquisites himself without making any TDS from the salary of the employee. The employer will have to pay such tax at the time when such tax was otherwise deductible i.e. at the time of payment of income chargeable under the head salaries to the employee.

Computation of Average Income Tax:

3.3 For the purpose of making the payment of tax mentioned in para 3.2 above, tax is to be determined at the average of income tax computed on the basis of rate in force for the financial year, on the income chargeable under the head "salaries", including the value of perquisites for which tax has been paid by the employer himself.

ILLUSTRATION:

Suppose that the income chargeable under the head 'salary' of an employee for the year inclusive of all perquisites is Rs.2,40,000/-, out of which, Rs.40,000/- is on account of non-monetary perquisites and the employer opts to pay the tax on such perquisites as per the provisions discussed in para 3.2 above.

STEPS:

Income Chargeable under the head Salary inclusive of all perquisites:	Rs. 2,40,000
Tax on Total Salaries :	Rs. 37,000
Average Rate of Tax $[(37,000/2,40,000) \times 100]$:	15.41%
Tax payable on Rs.40,000/- (15.41% of 40,000) :	Rs. 6,167
Amount required to be deposited each month: (6,167 / 12)	Rs. 514

The tax so paid by the employer shall be deemed to be TDS made from the salary of the employee.

Salary From More Than One Employer:

3.4 Sub-section (2) of section 192 deals with situations where an individual is working under more than one employer or has changed from one employer to another. It provides for deduction of tax at source by such employer (as the tax payer may choose) from the aggregate salary of the employee who is or has been in receipt of salary from more than one employer. The employee is now required to furnish to the present/chosen employer details of the income under the head "Salary" due or received from the former/ other employer and also tax deducted at source therefrom, in writing and duly verified by him and by the former/ other employer. The present employer will be required to deduct tax at source on the aggregate amount of salary (including salary received from the former or other employer).

Relief When Salary Paid in Arrear or Advance:

3.5 Under sub-section (2A) of section 192 where the assessee, being a Government servant or an employee in a company, co-operative society, local authority, university, institution, association or body is entitled to the relief under Sub-section (1) of Section 89, he may furnish to the person responsible for making the payment referred to in Para (3.1), such particulars in Form No. 10E duly verified by him, and thereupon the person responsible as aforesaid shall compute the relief on the basis of such particulars and take the same into account in making the deduction under Para(3.1) above.

Explanation :- For this purpose "University means a University established or incorporated by or under a Central, State or Provincial Act, and includes an institution declared under section 3 of the University Grants Commission Act, 1956(3 of 1956), to be University for the purposes of the Act.

Furnishing of Declaration by Taxpayer in Form 12C

3.6 Sub-section (2B) of S 192 enables a taxpayer to furnish particulars of income under any head other than "Salaries" and of any tax deducted at source thereon in the prescribed form (No.12C) vide **Annexure II**. After an amendment made to the Income Tax Rules this year, the particulars may be furnished in a simple statement, which is properly verified by the taxpayer in the same manner as in Form 12C. Such income should not be a loss under any such head other than the loss under the head "Income from House Property" for the same financial

year. The person responsible for making payment (DDO) shall take such other income and tax, if any, deducted at source from such income, and the loss, if any, under the head "Income from House Property" into account for the purpose of computing tax deductible under section 192 of the Income-tax Act. It is, however, provided that this sub-section shall not in any case have the effect of reducing the tax deductible, except where the loss under the head "Income from House Property" has been taken into account, from income under the head "Salaries" below the amount that would be so deductible if the other income and the tax deducted thereon had not been taken into account'. In other words, the DDO can take into account only the loss from House Property for working out the amount of total tax to be deducted. While taking into the account the loss from House Property, the DDO shall ensure that the assessee files the declaration referred to above and encloses therewith a computation of such loss from House Property.

Sub-section (2C) lays down that a person responsible for paying any income chargeable under the head "salaries" shall furnish to the person to whom such payment is made a statement giving correct and complete particulars of perquisites or profits in lieu of salary provided to him and the value thereof in such form and manner as may be prescribed. **(Annexure-III A & B).** **These forms are required to be filed by the employee along with the Return of Income for the relevant year.**

Conditions for Claim of Deduction of Interest on Borrowed Capital for Computation of Income From House Property

3.7(i) For the purpose of computing income / loss under the head 'Income from House Property' in respect of a self-occupied residential house, a normal deduction of Rs.30,000/- is allowable in respect of Interest on borrowed capital. However, a deduction on account of interest up to a maximum limit of Rs.1,50,000/- is available if such loan has been taken on or after 1.4.1999 for constructing or acquiring the residential house and the construction or acquisition of the residential unit out of such loan has been completed within three years from the end of the Financial Year in which capital was borrowed. Such higher deduction is not allowable in respect of Interest on capital borrowed for the purposes of repairs or renovation of an existing residential house. To claim the higher deduction in respect of Interest upto Rs.1,50,000/-, the employee should furnish a certificate from the person to whom any Interest is payable on the capital borrowed, specifying the amount of Interest payable by such employee for the purpose of construction or acquisition of the residential house or for conversion of a part or whole of the capital borrowed, which remains to be repaid as a new loan.

3.7(ii) The essential conditions necessary for availing higher deduction of interest of Rs.1,50,000/- are that the amount of capital must have been borrowed on or after 01.4.1999 and the acquisition or construction of residential house must have been completed within three years from the end of the financial year in which capital was borrowed. There is no stipulation regarding the date of commencement of construction. Consequently, the construction of the residential house could have commenced before 01.4.1999 but, as long as its construction/acquisition is completed within three years, from the end of the financial year in which capital was borrowed the higher deduction would be available in respect of the capital borrowed after 1.4.1999. It may also be noted that there is no stipulation regarding the construction/ acquisition of the residential unit being entirely financed by capital borrowed on or

after 01.4.1999. The loan taken prior to 01.4.1999 will carry deduction of interest upto Rs.30,000/ only. However, in any case the total amount of deduction of Interest on borrowed capital will not exceed Rs.1,50,000/- in a year.

Adjustement for Excess or Shortfall of Deduction:

3.8 The provisions of sub-section (3) of Section 192 allow the deductor to make adjustments for any excess or shortfall in the deduction of tax already made during the financial year, in subsequent deductions for that employee within that financial year itself.

TDS on Payment of Balance Under Provident Fund and Supperannuation Fund:

3.9 The trustees of a Recognized Provident Fund, or any person authorized by the regulations of the Fund to make payment of accumulated balances due to employees, shall, in cases where sub-rule(1) of rule 9 of Part A of the Fourth Schedule to the Act applies, at the time when the accumulated balance due to an employee is paid, make therefrom the deduction specified in rule 10 of Part A of the Fourth Schedule.

3.10 Where any contribution made by an employer, including interest on such contributions, if any, in an approved Superannuation Fund is paid to the employee, tax on the amount so paid shall be deducted by the trustees of the Fund to the extent provided in rule 6 of Part B of the Fourth Schedule to the Act.

Salary Paid in Foreign Currency:

3.11 For the purposes of deduction of tax on salary payable in foreign currency, the value in rupees of such salary shall be calculated at the prescribed rate of exchange.

4. PERSONS RESPONSIBLE FOR DEDUCTING TAX AND THEIR DUTIES:

4.1. Under clause (i) of Section 204 of the Act the "persons responsible for paying" for the purpose of Section 192 means the employer himself or if the employer is a Company, the Company itself including the Principal Officer thereof.

4.2. The tax determined as per para 7 should be deducted from the salary u/s 192 of the Act.

Deduction of Tax at Lower Rate:

4.3. Section 197 enables the tax-payer to make an application in form No.13 to his Assessing Officer, and, if the Assessing Officer is satisfied that the total income of the tax-payer justifies the deduction of income-tax at any lower rate or no deduction of income tax, he may issue an appropriate certificate to that effect which should be taken into account by the Drawing and Disbursing Officer while deducting tax at source. In the absence of such a certificate furnished by the employee, the employer should deduct income tax on the salary payable at the normal rates: **(Circular No. 147 dated 28.10.1974.)**

Deposit of Tax Deducted:

4.4. According to the provisions of section 200, any person deducting any sum in accordance with the provisions of Section 192 or paying tax on non-monetary perquisites on behalf of the employee under Section 192(1A), shall pay the sum so deducted or tax so calculated on the said non-monetary perquisites, as the case may be, to the credit of the Central Government in prescribed manner (vide Rule 30 of the Income-tax Rules, 1962). In the case of deductions made by, or, on

behalf of the Government, the payment has to be made on the day of the tax-deduction itself. In other cases, the payment has to be normally made within one week of the deduction.

Penalty for Failure to Deposit Tax Deducted:

4.5 If a person fails to deduct the whole or any part of the tax at source, or, after deducting, fails to pay the whole or any part of the tax to the credit of the Central Government within the prescribed time, he shall be liable to action in accordance with the provisions of section 201. Sub-section (1A) of section 201 lays down that such person shall be liable to pay simple interest at twelve per cent per annum w.e.f. 08.9.2003 on the amount of such tax from the date on which such tax was deductible to the date on which the tax is actually paid. Section 271C lays down that if any person fails to deduct tax at source, he shall be liable to pay, by way of penalty, a sum equal to the amount of tax not deducted by him. Further, section 276B lays down that if a person fails to pay to the credit of the Central Government within the prescribed time the tax deducted at source by him, he shall be punishable with rigorous imprisonment for a term which shall be between 3 months and 7 years, and with fine.

Furnishing of Certificate for Tax Deducted:

4.6 According to the provisions of section 203, every person responsible for deducting tax at source is required to furnish a certificate to the payee to the effect that tax has been deducted and to specify therein the amount deducted and certain other particulars. This certificate, usually called the "TDS certificate", has to be furnished within a period of one month from the end of the relevant financial year. Even the banks deducting tax at the time of payment of pension are required to issue such certificates. In the case of employees receiving salary income including pension, the certificate has to be issued in Form No.16 (Specimen form 16 enclosed as **ANNEXURE-III-B**). However, in the case of an employee who is resident in India and whose income from salaries, before allowing standard deduction, does not exceed Rs.1,50,000/-, the certificate of deduction of tax shall be issued in Form No. 16AA (Specimen form 16AA enclosed as **ANNEXURE-IV**). It is, however, clarified that there is no obligation to issue the TDS certificate (Form 16 or Form 16AA) in case tax at source is not deductible/deducted by virtue of claims of exemptions and deductions. As per the amended section 192, the responsibility of providing correct and complete particulars of perquisites or profits in lieu of salary given to an employee is placed on the person responsible for paying such income i.e., the person responsible for deducting tax at source. The form and manner of such particulars are prescribed in Rule 26A, Form 12BA, Form 16 and Form 16AA of the Income-tax Rules (**copy enclosed as Annexure IIIA , IIIB and IV**).

Information relating to the nature and value of perquisites is to be provided by the employer in Form no. 12BA in case of salary above Rs.1,50,000/-. In other cases, the information would have to be provided by the employer in the amended Form 16 itself. In either case, Form 16 with Form 12BA or Form 16 by itself will have to be furnished within a period of one month from the end of relevant financial year.

An employer, who has paid the tax on perquisites on behalf of the employee as per the provisions discussed in paras 3.2 and 3.3, shall furnish to the employee concerned a certificate to the effect that tax has been paid to the Central Government and specify the amount so paid, the rate at which tax has been paid and certain other particulars in the amended Form 16.

The obligation cast on the employer under Section 192(2C) for furnishing a statement showing the value of perquisites provided to the employee is a serious responsibility of the employer, which is expected to be discharged in accordance with law and rules of valuation framed thereunder. Any false information, fabricated documentation or suppression of requisite information will entail consequences therefore provided under the law. A specimen of these certificates is enclosed at **Annexure III A**. These certificates are to be issued on tax-deductor's own stationery within one month from the close of the financial year i.e. by April 30 of every year. If he fails to issue these certificates to the person concerned as required by section 203, he will be liable to pay, by way of penalty, under section 272A, a sum which shall be Rs.100/- for every day during which the failure continues.

Mandatory Quoting of PAN and TAN:

4.7 According to the provisions of section 203A of the Income-tax Act, it is obligatory for all persons responsible for deducting tax at source to obtain and quote the Tax-deduction Account No. (TAN) in the Challans, TDS-certificates, returns etc. Detailed instructions in this regard are available in this Department's Circular No.497 (F.No.275/118/87-IT(B) dated 9.10.1987). If a person fails to comply with the provisions of section 203A, he will be liable to pay, by way of penalty, under section 272BB, a sum of ten thousand rupees. Similarly, as per Section 139A(5B), it is obligatory for persons deducting tax at source to quote PAN of the persons from whose income tax has been deducted in the statement furnished u/s 192(2C), certificates furnished u/s 203 and all returns prepared and delivered as per the provisions of Section 206 of the Income Tax Act, 1961.

Annual Return of TDS:

4.8. According to the provisions of section 206 of the Income-tax Act, read with rules 36A and 37 of the Income-tax Rules, the prescribed person in the case of every office of Government, the principal officer in the case of every company, the prescribed person in the case of every local authority or other public body or association, every private employer and every other person responsible for deducting tax under section 192, from "Salaries" shall, after the end of each financial year, prepare and deliver, by 30th June following the financial year, an annual return of deduction of tax to the designated/concerned Assessing Officer. **The Finance(No.2) Act 2004 has made it mandatory for all offices of the Government to file the annual return of TDS on computer media only in accordance with the "Electronic Filing of Returns of Tax Deducted at Source Scheme, 2003" as notified vide Notification No. S.O. 974 (E) dated 26.8.2003. (ANNEXURE-V) . Accordingly, the annual TDS return for financial year 2004-05, which would be required to be filed by 30.6.2005, would be filed by the Government deductors in electronic format only with the e-TDS Intermediary at any of the TIN Facilitation Centres, particulars of which are available at www.incometaxindia.gov.in and at <http://tin.nsdl.com> .** If a person fails to furnish the annual return in due time, he shall be liable to pay by way of penalty under section 272A, a sum which shall be Rs.100/- for every day during which the failure continues, so, however, that this sum shall not exceed the amount of tax which was deductible at source.

4.9. A return filed on a floppy, diskette, magnetic cartridge tape, CD-ROM or any other computer readable media as may be specified by the Board shall be deemed to be a return for the purposes of section 206 and the Rules made thereunder, and shall be admissible in any

proceeding thereunder, without further proof of production of the original, as evidence of any contents of the original or of any fact stated therein. While receiving such returns on computer media, necessary checks by scanning the documents filed on computer media will be carried out and the media may be duly authenticated by the Assessing Officer.

Challans for Deposit of TDS:

4.10. While making the payment of tax deducted at source to the credit of the Central Government, it may be ensured that the correct amount of income-tax is recorded in the relevant *challan*. It may also be ensured that the right type of *challan* is used. The relevant *challan* for making payment of tax deducted at source from salaries is No.9 with "Blue colour Band". Where the amount of tax deducted at source is credited to the Central Government through book adjustment, care should be taken to ensure that the correct amount of income-tax is reflected therein.

TDS on Income from Pension:

4.11. In the case of pensioners who receive their pension from a nationalized bank, the instructions contained in this circular shall apply in the same manner as they apply to salary-income. The deductions from the amount of pension on account of standard deduction under section 16 and the tax rebate under section 88B (in the case of pensioners, resident in India, who are 65 years of age or more : refer Para 6(18)) will be allowed by the concerned bank at the time of deduction of tax at source from the pension, before making payment to the concerned pensioner. As regards the tax rebate under section 88 on account of contribution to Life Insurance, Provident Fund, NSC etc., if the pensioners furnish the relevant details to the banks, the tax rebate at the specified rate may also be allowed. Necessary instructions in this regard were issued by the Reserve Bank of India to the State Bank of India and other nationalized Banks vide RBI's Pension Circular(Central Series) No.7/C.D.R./1992 (Ref. CO: DGBA: GA (NBS) No.60/GA.64(11CVL)/92) dated the 27th April, 1992, and, these instructions should be followed by all the branches of the Banks, which have been entrusted with the task of payment of pensions. Further all branches of the banks are bound u/s 203 to issue certificate of tax deducted in Form 16 to the pensioners also vide CDBT **Circular no. 761 dated 13.1.98.**

Important Circulars:

4.12. Where Non-Residents are deputed to work in India and taxes are borne by the employer, if any refund becomes due to the employee after he has already left India and has no bank account in India by the time the assessment orders are passed, the refund can be issued to the employer as the tax has been borne by it : **Circular No. 707 dated 11.7.1995.**

4.13. TDS certificates issued by Central Government departments which are making payments by book adjustment, should be accepted by the Assessing Officers if they indicate that credit has been effected to the Income Tax Department by book adjustment and the date of such adjustment is given therein. In such cases, the Assessing Officers may not insist on details like *challan* numbers, dates of payment into Government Account etc., but they should in any case satisfy themselves regarding the genuineness of the certificates produced before them : **Circular No. 747 dated 27.12.1996.**

4.14 There is a specific procedure laid down for refund of payments made by the deductor in excess of taxes deducted at source, vide **Circular No. 285 dated 21.10.1980.**

4.15 In respect of non-residents, the salary paid for services rendered in India shall be regarded as income earned in India. It has been specifically provided in the Act that any salary payable for rest period or leave period which is both preceded or succeeded by service in India and forms part of the service contract of employment will also be regarded as income earned in India.

New Procedure for TDS Returns and TDS Statements with effect from 1st of April, 2005:

4.16 With a view to computerize the TDS functions and dematerialize the TDS certificates, a new procedure for filing of TDS returns and issue of TDS statements has been introduced, which shall come into effect from 1.4.2005.

- a) Under the new procedure, where the tax is deducted on or after 1.4.2005 and is paid to the credit of the Central Government and specified in the statement referred to in section 203AA of the Income-tax Act, such tax shall be treated as tax paid on behalf of the person from whose income such tax has been deducted and credit for such tax would be given to such person without production of a TDS certificate. Consequently, the return filed by such person in respect of the income of financial year 2005-06 onwards would not be accompanied by any TDS certificate.
- b) The person deducting the tax (employer in case of salary income), shall be required to file Quarterly Statements for the periods ending on 30th June, 30th September, 31st December and 31st March in each such financial year and shall file these statements, duly verified, to the prescribed income-tax authority or the person authorized by such authority. The Quarterly Statements would be filed on computer media only in accordance with the Scheme to be notified in this regard by the Central Government. In case of failure in filing of the Quarterly Statement, the person deducting the tax shall be liable for a penalty under section 272A(2)(k) of Rs.100 for each day of default. **These Quarterly Statements would compulsorily require quoting of the Tax Deduction Account Number (TAN) of the tax deductor and the Permanent Account Number(PAN) of the employees whose tax has been deducted. Therefore, all Drawing and Disbursing Officers of the Central and State Governments/ Departments, who have not yet obtained TAN, must immediately apply for and obtain TAN before the new procedure comes to effect. Similarly, all employees (including non-resident employees) from whose income, tax is to be deducted may be advised to obtain PAN, if not already obtained, and to quote the same correctly, as otherwise the credit for the tax deducted cannot be given. A penalty under section 272B of Rs.10,000/- has been prescribed for willfully intimating a false PAN.**
- c) Under the new procedure, the person deducting the tax would not be responsible for issuing any certificate for tax deducted. An annual statement of tax deducted would now be issued by the prescribed income-tax authority or the person authorized by such authority (to whom the Quarterly Statements would be furnished), within the prescribed time after the end of each financial year.

5. ESTIMATION OF INCOME UNDER THE HEAD "SALARIES"

5.1 Income chargeable under the head "Salaries".

- (1) The following income shall be chargeable to income-tax under the head "Salaries" :
 - (a) any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not;

(b) any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him.

(c) any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year.

(2) For the removal of doubts, it is clarified that where any salary paid in advance is included in the total income of any person for any previous year it shall not be included again in the total income of the person when the salary becomes due. Any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a partner of a firm from the firm shall not be regarded as "Salary".

Definition of Salary:

(3) "Salary" includes wages, fees, commissions, perquisites, profits in lieu of, or, in addition to salary, advance of salary, annuity or pension, gratuity, payments in respect of encashment of leave etc. It also includes the annual accretion to the employee's account in a recognized provident fund to the extent it is chargeable to tax under rule 6 of Part A of the Fourth Schedule of the Income-tax Act. Contributions made by the employer to the account of the employee in a recognized provident fund in excess of 12% of the salary of the employee, along with interest applicable, shall be included in the income of the assessee for the previous year. **Any contribution made by the Central Government to the account of the employee under the New Pension Scheme as notified vide Notification No. F.N. 5/7/2003- ECB&PR dated 22.12.2003 (copy enclosed as Annexure-VA) and referred to in section 80CCD (para 5.4(2) of this Circular) shall also be included in the salary income.** Other items included in salary, profits in lieu of salary and perquisites are described in Section 17 of the Income-tax Act. The scope of the term profit in lieu of salary has been amended so as not to include interest on contributions or any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy. For the purposes of this sub-clause, the expression Keyman insurance policy shall have the meaning assigned to it in clause (10D) of section 10. It may be noted that, since salary includes pensions, tax at source would have to be deducted from pension also, if otherwise called for. However, no tax is required to be deducted from the commuted portion of pension as explained in clause (3) of para 5.2 of this Circular.

(4) Section 17 defines the terms "salary", "perquisite" and "profits in lieu of salary".

Perquisite includes:

- a) The value of rent free accommodation provided to the employee by his employer;
- b) The value of any concession in the matter of rent in respect of any accommodation provided to the employee by his employer;
- c) The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases:
 - i) By a company to an employee who is a director of such company;
 - ii) By a company to an employee who has a substantial interest in the company;

- iii) By an employer (including a company) to an employee, who is not covered by (i) or (ii) above and whose income under the head Salaries (whether due from or paid or allowed by one or more employers), exclusive of the value of all benefits and amenities not provided by way of monetary payment, exceeds Rs.50,000/._.

The rules relating to valuation of such benefits and amenities have been prescribed in Rule 3. It is further provided that 'profits in lieu of salary' shall include amounts received in lump sum or otherwise, prior to employment or after cessation of employment for the purposes of taxation. The rules for valuation of perquisite are as under : -

I. Accommodation :- For purpose of valuation of the perquisite of unfurnished accommodation, all employees are divided into two categories: I) Govt. & State Govt. employees; and ii) Others.

For employees of the Central and State government the value of perquisite shall be equal to the licence fee charged for such accommodation as reduced by the rent actually paid by the employee.

For all others, i.e., those salaried taxpayers not in employment of the Central government and the State government, the valuation of perquisite in respect of accommodation would be at prescribed rates. The rate is 10% of 'salary' in cities having population exceeding four lakhs as per the 1991 census. For other places, the perquisite value would be 7.5.% of salary.

The scope of the word "accommodation" has been widened by clarifying that it includes a house, flat, farm house, hotel accommodation, motel, service apartment guest house, a caravan, mobile home, ship etc. However, the value of any accommodation located in a remote area provided to an employee working at a mining site or an on-shore oil exploration site or a project execution site or an accommodation provided in an off-shore site will not be treated as a perquisite. A project site for the purposes of this sub-rule means a site of project upto the stage of its commissioning. A "remote area" means an area located at least 40 kilometers away from a town having a population not exceeding 20,000 as per the latest published all India census. Off-shore sites of similar nature do not have to meet any requirement of distance.

The definition of "salary" for calculating perquisite value is the same as per earlier Rules. The only change is that medical allowances and reimbursement for treatment of serious illness as prescribed in the proviso below Section 17(2)(vi) have now been excluded from the definition of salary for this purpose. For furnished accommodation, the provision of valuation of perquisite of furnishings, fittings and furniture at 10% of original cost per annum or actual hire charges is continued.

In case of employer other than Central and State Govt., where accommodation is taken on lease or rent by employer, actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower, as reduced by the rent, if any, actually paid by the employee, is taken as perquisite.

If an accommodation is provided by an employer in a hotel the value of the benefit in such a case shall be 24% of the annual salary or the actual charges paid or payable to such hotel, whichever is lower, for the period during which such accommodation is provided as reduced by any rent actually paid or payable by the employee. However, where in cases the employee is provided such accommodation for a period not exceeding in aggregate fifteen days on transfer from one place to another, no perquisite value for such accommodation provided in a hotel shall be charged. It may be clarified that while services provided as an integral part of the accommodation, need not be valued separately as perquisite, any other services over and above that for which the employer makes payment or reimburses the employee shall be valued as a perquisite as per the residual clause. In other words, composite tariff for accommodation will be valued as per these Rules and any other charges for other facilities provided by the hotel will be separately valued under the residual clause. Also, if on account of an employee's transfer from one place to another, the employee is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value as per the table prescribed in Rule 3 of the Income Tax Rules, for a period upto 90 days. However, after that the value of perquisite shall be charged for both accommodations as prescribed.

II. Motor Car:

- (a) Where the motor car is owned or hired by the employer and is used wholly and exclusively in the performance of his official duties, no perquisite arises in the hands of the employee, subject to maintenance of documents as prescribed in sub-para (f) below. No perquisite arises even if the motor car is owned by the employee himself but the actual running and maintenance charges (including remuneration of the chauffer, if any) are reimbursed to him by the employer, provided that the motor car is used wholly and exclusively for official purposes and the documents as prescribed in sub-para (f) below are maintained.
- (b) Where the motor car is owned or hired by the employer and is used exclusively for the private or personal purpose of the employee, the value of perquisite would be equal to the actual amount of expenditure incurred by the employer on the running and maintenance of the motor car (including remuneration of the chauffer, if any), as increased by the amount representing 10% of the actual cost of the motor car on account of normal wear and tear and as reduced by any amount charged from the employee for such use.
- (c) Where the motor car is owned by the employee but the actual running and maintenance charges (including remuneration of the chauffer, if any) are reimbursed to him by the employer and such reimbursement is for the use of the vehicle partly for official and partly for personal or private purposes, the value of perquisite shall be the actual amount of expenditure incurred by the employer as reduced by the amounts specified in **column (I)** of the Table below.
- (d) Where the motor car is owned or hired by the employer and is used partly in the performance of his duties and partly for personal or private purposes, the value of perquisite shall be determined as per the Table below:

	Small car (upto 1.6ltrs engine capacity)	Large car (above 1.6 ltrs engine capacity)	If Chauffeur provided by employer to run the motor car, an additional amount as below is also charged
(I) Car owned/hired by employer and expenses on maintenance and running are met or reimbursed by the employer	Rs. 1200 per month	Rs.1600 per month	Rs.600 per month
(II) Car owned /hired by employer but the expenses on running and maintenance for such private or personal use are fully met by the employee.	Rs.400 per month	Rs.600 per month	Rs.600 per month

- (e) However, where a second or additional cars are provided, such other cars shall be deemed to be for exclusively personal use and the value of perquisite shall be computed accordingly.
- (f) In a situation described in para(c) above, if it is claimed that the expenses on running and maintenance of the motor car for official purposes are higher than the amount mentioned in Column I of the Table above, such higher amount can be claimed as a deduction from the actual amount of expenditure incurred by the employer, subject to the fulfillment of the following conditions:
- (i) the employer has maintained complete details of journeys undertaken for official purpose which may include date of journey, destination, mileage and the amount of expenditure incurred thereon; and
 - (ii) the employer gives a certificate that the expenditure was incurred wholly and exclusively for the performance of his official duties.

III. Personal attendants etc. : The old rules provided for valuation of perquisite of free services of a sweeper, a gardener and a watchman at Rs.120 per month. Under the new rules, the value of free service of all personal attendants including a sweeper, gardener, and a watchman is to be at actual cost to the employer. Where the attendant is provided at the residence of the employee, full cost will be taxed as perquisite in the hands of the employee irrespective of the degree of personal service rendered to him. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

IV. Gas, electricity & water: For free supply of gas, electricity and water for household consumption, the rules provide that the amount paid by the employer to the agency supplying the amenity shall be the value of perquisite. However, when the supply is made from employer's own resources, under the old rules the value of perquisite was taken as Nil. There was also a separate provision in the old rules for valuation at 6.25% of salary of the taxpayer for part official use. This has been discontinued. Under the new rules even where the supply is made from the employer's own resources, the manufacturing cost per unit incurred by the employer

would be the value of perquisite. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

V. Free or concessional education: The old rules already provide that value of free education facility would be the expenditure incurred by the employer. Under the new rules free or concessional education shall be valued in a manner assuming that such expenses are borne by the employee, and would cover cases where an employer may be running, maintaining or directly or indirectly financing the educational institution. Any amount paid by the employee for such facilities or services shall be reduced from the above amount. However, where such educational institution itself is maintained and owned by the employer or where such free educational facilities are provided in any institution by reason of his being in employment of that employer, the value of the perquisite to the employee shall be determined with reference to the cost of such education in a similar institution in or near the locality if the cost of such education or such benefit per child exceeds Rs.1000/- p.m.

VI. Free or concessional journeys: The Perquisite value of free or concessional journeys provided by an employer engaged in carriage of passengers or goods shall be taken as the value at which such benefit or amenity is offered by such undertaking to the public, as reduced by any amount actually paid by the employee. The conveyance may be owned, leased or made available by any other arrangement by the employer. However, no perquisite on account of free or concessional journeys arises in the case of the employees of an airline or the Railways. Journey tickets for leave travel, tours and transfers which are already exempt under sections 10(5) and 10(14) would continue to be exempt.

VII. Interest free or concessional loans - It is common practice, particularly in financial institutions, to provide interest free or concessional loans to employees or any member of his household. The value of perquisite arising from such loans would be the excess of interest payable at prescribed interest rate over interest, if any, actually paid by the employee. The prescribed interest rate would now be the rate charged per annum by the State Bank of India as on the 1st day of the relevant financial year in respect of loans of same type and for the same purpose advanced by it to the general public. Perquisite value would be calculated on the basis of the maximum outstanding monthly balance by the simple interest method. For valuing perquisites under this rule, any other method of calculation and adjustment otherwise adopted by the employer shall not be relevant. The concessional rate of interest of 10% is applicable only in respect of such housing or conveyance loans which have been used for "acquiring capital assets" i.e., house or conveyance, as the case may be, and not for repairs thereof. In case of loans taken for repairs, renovations etc, the higher interest rate of 13% would be applicable for calculation of perquisite.

Small loans upto Rs. 20,000/- in the aggregate are exempt. Loans for medical treatment specified in Rule 3A are also exempt, provided the amount of loan for medical reimbursement is not reimbursed under any medical insurance scheme. Where any medical insurance reimbursement is received, the perquisite value at the rate of 13% shall be charged from the date of reimbursement on the amount reimbursed, but not repaid against the outstanding loan taken specifically for this purpose.

VIII. Travelling, touring, accommodation and other holiday expenses - It is increasingly common for employees to be provided with vacation and holiday facilities. The value of such perquisite shall be the expenditure incurred by the employer. This would also apply to official tours extended as a vacation and family members accompanying taxpayers on official tours. However, leave travel as per section 10(5) and enjoyment of holiday home facilities available uniformly to all classes of employees would remain exempt.

IX. Free meals - The provision of free meals varies widely from uniform canteen food, coupons etc. to lavish hotel meals. The scheme of free meals as a staff welfare measure had been recognized and was admissible upto Rs.35 for each meal. The new rule does not treat as perquisite free food and non-alcoholic beverages to the extent the value thereof does not exceed Rs.50/-. Where any amount is recovered from the employee, such amount shall be reduced from the value of perquisite. Such free or subsidized food or non-alcoholic beverages should however be provided at office premises or through non-transferable vouchers meant only for meals during working hours. These vouchers provided by employers should be usable only at an eatery, a restaurant or a cafe. Tea or similar non-alcoholic beverages and snacks - in the form of light refreshments during working hours are not charged as perquisite. Also, arrangements for meals in 'remote areas' as prescribed in para 5.1(I) of this Circular and similar off-shore sites as specified, shall be exempt. However, expenditure on provision of free meals by the employer in excess of Rs.50/- should be treated as perquisite, as reduced by recoveries made from the employee.

X. Gift, voucher or token in lieu of gift - The value of any gift, or voucher, or token in lieu of which such gift may be received by the employee or by member of his household on ceremonial occasions or otherwise shall be determined as the sum equal to the amount of such gift. However, where the value of such gift, voucher or token, as the case may be, is below Rs.5,000/- in the aggregate during the previous year, the value of perquisite shall be taken as nil.

XI. Credit card & Club expenses - Credit card expenses of employees both business and personal, are often borne by employers. Such credit card payments would ordinarily be chargeable to tax as a perquisite. However, these expenses are often incurred to entertain customers and clients for the purposes of business. Therefore where such expenses on entertainment including meals are for purposes of business and proper records for the same are maintained no perquisite would arise.

Club expenses of employees borne by employers are charged as perquisite in terms of section 17(2)(iv). It has been specifically provided in the rules that annual and periodical club fees paid by the employer will be chargeable as perquisite. However, to ensure that basic facilities for the health and recreation of employees are not hit, health clubs, sports facilities etc provided uniformly to all classes of employees by the employer at the employer's premises are exempt. The initial one time deposit or fees for corporate or institutional membership, where the benefit does not remain with the employee after cessation of employment, are exempt. Where such expenses on entertainment including meals are for purposes of business and proper records for the same are maintained no perquisite would arise.

For credit card and club expenses to be exempt for business purposes, the following documentation needs to be maintained by the employer:

- (a) complete details in respect of such expenditure including the date of expenditure and the nature of expenditure;
- (b) a certificate by employer to the employee to the effect that the same was incurred wholly and exclusively for the performance of official duties.

XII. Use of assets: It is common practice for an asset owned by the employer to be used by the employee. This perquisite is to be charged at the rate of 10% of the original cost of the asset as reduced by any charges recovered from the employee for such use. However, the user of Computers and Laptops would not give rise to any perquisite.

XIII. Transfer of assets: Often an employee or member of his household benefits from the transfer of movable asset (not being shares or securities) at no cost or at a cost less than its market value from the employer. The difference between the original cost of the movable asset (not being shares or securities) and the sum, if any, paid by the employee, shall be taken as the value of perquisite. In case of a movable asset, which has already been put to use, the original cost shall be reduced by a sum of 10% of such original cost for every completed year of use of the asset. Owing to a higher degree of obsolescence, in case of computers and electronic gadgets, however, the value of perquisite shall be worked out by reducing 50% of the actual cost by the reducing balance method for each completed year of use. Electronic gadgets in this case means data storage and handling devices like computer, digital diaries and printers. They do not include household appliance (i.e. white goods) like washing machines, microwave ovens, mixers, hot plates, ovens etc. Similarly, in case of cars, the value of perquisite shall be worked out by reducing 20% of its actual cost by the reducing balance method for each completed year of use.

XIV. Employee Stock Option Plan: Prior to Finance Act, 2000, stock options were taxed at two stages i.e., as perquisite (on the amount representing the difference between the exercise price and the fair market value on the date of exercise), and as capital gains at the time of transfer of the same. With effect from 1.4.2001 (relevant to assessment year 2001-2002) onward, stock options issued as per guidelines of the Central Government are to be taxed only once, at the time of sale, as capital gains. In cases, where perquisite has been assessed with reference to exercise of the option by the employee under Section 17(2), the fair market value at the time of exercise of the option shall be the cost of acquisition of share for working out the capital gains. The relevant guidelines of the Central Government have been issued vide Notification No.1021(E) dt.11.10.2001. Stock options not in conformity with the above guidelines (non-qualified stock options) shall continue to be taxed at both the stages.

XV. Residual Clause: A benefit or amenity not included in the rules shall be valued at the cost under an arm's-length transaction to the employer where the employer pays for the benefit or amenity. However, the benefit of conveyance to and from residence to place of work, periodicals and journals required for discharge of work and expenses on telephones including a mobile phone shall not be included in calculating perquisite value.

It is pertinent to mention that benefits specifically exempt u/s 10(13A), 10(5), 10(14), 17 etc. would continue to be exempt. These include benefits like travel on tour and transfer, leave travel, daily allowance to meet tour expenses as prescribed, medical facilities subject to conditions.

5.2 Incomes not included in the Head “Salaries”(Exemptions)

Any income falling within any of the following clauses shall not be included in computing the income from salaries for the purpose of Section 192 of the Act :-

(1) The value of any **travel concession or assistance** received by or due to an employee from his employer or former employer for himself and his family, in connection with his proceeding (a) on leave to any place in India or (b) on retirement from service, or, after termination of service to any place in India is exempt under clause (5) of Section 10 subject, however, to the conditions prescribed in rule 2B of the Income-tax Rules, 1962.

For the purpose of this clause, “family” in relation to an individual means :

- (i) The spouse and children of the individual; and
- (ii) the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.

It may also be noted that the amount exempt under this clause shall in no case exceed the amount of expenses actually incurred for the purpose of such travel.

(2) **Death-cum-retirement gratuity** or any other gratuity which is exempt to the extent specified from inclusion in computing the total income under clause (10) of Section 10.

(3) Any payment in **commutation of pension** received under the Civil Pension (Commutation) Rules of the Central Government or under any similar scheme applicable to the members of the civil services of the Union, or holders of civil posts/posts connected with defence, under the Union, or civil posts under a State, or to the members of the all India services/Defence Services, or, to the employees of a local authority or a corporation established by a Central, State or Provincial Act, is exempt under sub-clause (i) of clause (10A) of Section 10. As regards payments in commutation of pension received under any scheme of any other employer, exemption will be governed by the provisions of sub-clause (ii) of clause (10A) of section 10.

(4) Any payment received by an employee of the Central Government or a State Government, as **cash-equivalent of the leave salary** in respect of the period of earned leave at his credit at the time of his retirement on superannuation or otherwise, is exempt under sub-clause(i) of clause (10AA) of Section 10. In the case of other employees, this exemption will be determined with reference to the leave to their credit at the time of retirement on superannuation, or otherwise, subject to a maximum of ten months' leave. This exemption will be further limited to the maximum amount specified by the Government of India Notification No.S.O.588(E) dated 31.05.2002 at Rs. 3,00,000/- in relation to such employees who retire, whether on superannuation or otherwise, after 1.4.1998.

(5) Under Section 10(10B), the **retrenchment compensation** received by a workman is exempt from income-tax subject to certain limits. The maximum amount of retrenchment compensation exempt is the sum calculated on the basis provided in section 25F(b) of the Industrial Disputes Act, 1947 or any amount not less than Rs.50,000/- as the Central Government may by notification specify in the official gazette, whichever is less. These limits shall not apply in the case where the compensation is paid under any scheme which is approved in this behalf by the Central Government, having regard to the need for extending special protection to the workmen

in the undertaking to which the scheme applies and other relevant circumstances. The maximum limit of such payment is Rs. 5,00,000 where retrenchment is on or after 1.1.1977.

(6) Under Section 10(10C), any payment received or receivable (even if received in instalments) by an employee of the following bodies at the time of his voluntary retirement or termination of his service, in accordance with any scheme or **schemes of voluntary retirement** or in the case of public sector company, a scheme of voluntary separation, is exempted from income-tax to the extent that such amount does not exceed five lakh rupees:

- a) A public sector company;
- b) Any other company;
- c) An Authority established under a Central, State or Provincial Act;
- d) A Local Authority;
- e) A Cooperative Society;
- f) A university established or incorporated or under a Central, State or Provincial Act, or, an Institution declared to be a University under section 3 of the University Grants Commission Act, 1956;
- g) Any Indian Institute of Technology within the meaning of Clause (g) of Section 3 of the Institute of Technology Act, 1961;
- h) Such Institute of Management as the Central Government may by notification in the Official Gazette, specify in this behalf.

It may also be noted that where this exemption has been allowed to any employee for any assessment year, it shall not be allowed to him for any other assessment year. The exemption of amount received under VRS has been extended to employees of the Central Government and State Government employees and employees of notified institutions having importance throughout India or any State or States.

(7) Any **sum received under a Life Insurance Policy**, including the sum allocated by way of bonus on such policy other than:

- i) any sum received under sub-section (3) of section 80DD or sub-section (3) of section 80DDA or,
- ii) any sum received under Keyman insurance policy or,
- iii) any sum received under an insurance policy issued on or after 1.4.2003 in respect of which the premium payable for any of the years during the term of the policy exceeds 20 percent of the actual capital sum assured. However, any sum received under such policy on the death of a person would still be exempt.

(8) any **payment from a Provident Fund** to which the Provident Funds Act, 1925 (19 of 1925), applies (or from any other provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette).

(9) Under Section 10(13A) of the Income-tax Act, 1961, any special allowance specifically granted to an assessee by his employer to meet **expenditure incurred on payment of rent** (by whatever name called) in respect of residential accommodation occupied by the assessee is exempt from Income-tax to the extent as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations. According to rule 2A of the Income-tax Rules, 1962, the quantum of exemption allowable on account of grant of special allowance to meet expenditure on payment of rent shall be:

- (a) The actual amount of such allowance received by an employer in respect of the relevant period; or
- (b) The actual expenditure incurred in payment of rent in excess of 1/10 of the salary due for the relevant period; or
- (c) Where such accommodation is situated in Bombay, Calcutta, Delhi or Madras, 50% of the salary due to the employee for the relevant period; or
- (d) Where such accommodation is situated in any other place, 40% of the salary due to the employee for the relevant period, whichever is the least.

For this purpose, "Salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

It has to be noted that only the expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee subject to the limits laid down in Rule 2A, qualifies for exemption from income-tax. Thus, house rent allowance granted to an employee who is residing in a house/flat owned by him is not exempt from income-tax. The disbursing authorities should satisfy themselves in this regard by insisting on production of evidence of actual payment of rent before excluding the House Rent Allowance or any portion thereof from the total income of the employee.

Though incurring actual expenditure on payment of rent is a pre-requisite for claiming deduction under section 10(13A), it has been decided as an administrative measure that salaried employees drawing house rent allowance upto Rs.3000/- per month will be exempted from production of rent receipt. It may, however, be noted that this concession is only for the purpose of tax-deduction at source, and, in the regular assessment of the employee, the Assessing Officer will be free to make such enquiry as he deems fit for the purpose of satisfying himself that the employee has incurred actual expenditure on payment of rent.

(10) Clause (14) of section 10 provides for exemption of the following allowances :-

- (i) Any special allowance or benefit granted to an employee to meet the **expenses incurred in the performance of his duties** as prescribed under Rule 2BB subject to the extent to which such expenses are actually incurred for that purpose.
- (ii) Any allowance granted to an employee either to meet his personal expenses at the place of his posting or at the place he ordinarily resides or to **compensate him for the increased cost of living**, which may be prescribed and to the extent as may be prescribed.

However, the allowance referred to in (ii) above should not be in the nature of a personal

allowance granted to the assessee to remunerate or compensate him for performing duties of a special nature relating to his office or employment unless such allowance is related to his place of posting or residence.

The CBDT has prescribed guidelines for the purpose of clauses (i) and (ii) of Section 10(14) vide notification No.SO617(E) dated 7th July, 1995 (F.No.142/9/95-TPL) which has been amended vide notification SO No.403(E) dt 24.4.2000 (F.No.142/34/99-TPL). The transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of duty is exempt to the extent of Rs.800 per month vide notification S.O.No. 395(E) dated 13.5.98.

(11) Under Section 10(15)(iv)(i) of the Income-tax Act, interest payable by the Government on deposits made by an employee of the Central Government or a State Government or a public sector company from out of his retirement benefits, in accordance with such scheme framed in this behalf by the Central Government and notified in the Official Gazette is exempt from income-tax. By notification No.F.2/14/89-NS-II dated 7.6.89, as amended by notification No.F.2/14/89-NS-II dated 12.10.89, the Central Government has notified a scheme called **Deposit Scheme for Retiring Government Employees, 1989** for the purpose of the said clause.

(12) Clause (18) of Section 10 provides for exemption of any income by way of pension received by an individual or **family pension** received by any member of the family of an individual who has been in the service of the Central Government or State Government and has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as may be specifically notified by the Central Government. Such notification has been made vide Notifications No.S.O.1948(E) dated 24.11.2000 and 81(E) dated 29.1.2001 which are enclosed as per **Annexure VIA&VIB**

(13) Under Section 17 of the Act, exemption from tax will also be available in respect of:-

- (a) the value of any **medical treatment** provided to an employee or any member of his family, in any hospital maintained by the employer;
- (b) any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or of any member of his family:
 - (i) in any hospital maintained by the Government or any local authority or any other hospital approved by the Government for the purposes of medical treatment of its employees;
 - (ii) in respect of the prescribed diseases or ailments as provided in Rule 3A(2) of I.T. Rules 1962, in any hospital approved by the Chief Commissioner having regard to the prescribed guidelines as provided in Rule 3(A)(1) of I.T. Rule, 1962 :

In a case falling in sub-clause (ii) above, the employee shall attach with his return of income a certificate from the hospital specifying the disease or ailment for which medical treatment was required and the receipt for the amount paid to the hospital.

- (c) premium paid by the employer in respect of medical insurance taken for his employees (under any scheme approved by the Central Government) or reimbursement of insurance premium to the employees who take medical insurance for themselves or for their family members (under any scheme approved by the Central Government);

- (d) reimbursement, by the employer, of the amount spent by an employee in obtaining medical treatment for himself or any member of his family from any doctor, not exceeding in the aggregate Rs.15,000/- in an year.
- (e) As regards medical treatment abroad, the actual expenditure on stay and treatment abroad of the employee or any member of his family, or, on stay abroad of one attendant who accompanies the patient, in connection with such treatment, will be excluded from perquisites to the extent permitted by the Reserve Bank of India. It may be noted that the expenditure incurred on travel abroad by the patient/attendant, it shall be excluded from perquisites only if the employee's gross total income, as computed before including the said expenditure, does not exceed Rs.2 lakhs.

For the purpose of availing exemption on expenditure incurred on medical treatment "hospital" includes a dispensary or clinic or nursing home. "Family" in relation to an individual means the spouse and children of the individual. Family also includes parents, brothers and sisters of the individual if they are wholly or mainly dependant on the individual.

5.3 Deductions u/s 16 of the Act (Standard Deduction)

Under Section 16 of the Income Tax Act, the standard deduction available is as under:

In the case of an assessee whose income from salary, before allowing a deduction under this clause:

- (a) does not exceed five lakh rupees, a deduction of a sum equal to forty percent of the salary or thirty thousand rupees, whichever is less;
- (b) exceeds five lakh rupees, a deduction of a sum of twenty thousand rupees.

It is clarified that where salary is due from, or paid or allowed by, more than one employer, the deduction under this clause shall be computed with reference to the aggregate salary due, paid or allowed to the assessee and shall, in no case, exceed the amount specified under this clause.

Entertainment Allowance: A deduction is also allowed under clause (ii) of section 16 in respect of any allowance in the nature of an entertainment allowance specifically granted to the assessee by an employer, who is in receipt of a salary from the Government, a sum equal to one-fifth of his salary(exclusive of any allowance, benefit or other perquisite) or five thousand rupees whichever is less. The deduction hitherto available to non-government employees has been withdrawn.

Tax On Employment: The tax on employment within the meaning of clause (2) of Article 276 of the Constitution of India, leviable by or under any law, shall also be allowed as a deduction in computing the income under the head "Salaries".

5.4 Deductions under chapter VI-A of the Act

The following deductions under Chapter VI-A of the Act are available:

- (1) As per **section 80CCC**, where an assessee being an individual has in the previous year paid or deposited any amount out of his income chargeable to tax to effect or keep in force a

contract for any **annuity plan of Life Insurance Corporation of India or any other insurer for receiving pension** from the Fund referred to in clause (23AAB) of section 10, he shall, in accordance with, and subject to the provisions of this section, be allowed a deduction in the computation of his total income, of the whole of the amount paid or deposited (excluding interest or bonus accrued or credited to the assessee's account, if any) as does not exceed the amount of ten thousand rupees in the previous year.

Where any amount paid or deposited by the assessee has been taken into account for the purposes of this section, a rebate with reference to such amount shall not be allowed under section 88.

(2) As per the provisions of **section 80CCD**, where an assessee, being an **individual employed by the Central Government** on or after the 1st day of January, 2004, has in the previous year **paid or deposited any amount in his account under a pension scheme** as notified **vide Notification No. F.N. 5/7/2003- ECB&PR dated 22.12.2003 (copy enclosed as Annexure-VA)**, he shall be allowed a deduction in the computation of his total income, of the whole of the amount so paid or deposited as does not exceed ten per cent of his salary in the previous year.

Where, in the case of such an employee, the Central Government makes any contribution to his account under such pension scheme, the employee shall be allowed a deduction in the computation of his total income, of the whole of the amount contributed by the Central Government as does not exceed ten per cent of his salary in the previous year.

Where any amount standing to the credit of the assessee in his account under such pension scheme, in respect of which a deduction has been allowed as per the provisions discussed above, together with the amount accrued thereon, if any, is received by the assessee or his nominee, in whole or in part, in any financial year,—

- (a) on account of closure or his opting out of such pension scheme; or
- b) as pension received from the annuity plan purchased or taken on such closure or opting out,

the whole of the amount referred to in clause (a) or clause (b) above shall be deemed to be the income of the assessee or his nominee, as the case may be, in the financial year in which such amount is received, and shall accordingly be charged to tax as income of that financial year.

Where any amount paid or deposited by the assessee has been allowed as a deduction under this section, no rebate with reference to such amount shall be allowed under section 88.

For the purposes of deduction under section 80CCD, "salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

(3) Under **section 80D**, in the case of the following categories of persons, a deduction can be allowed for a sum not exceeding Rs.10,000/- per annum to the extent payment is made by cheque out of their income chargeable to tax to keep in force **an insurance on the health** of the categories of persons mentioned below provided that such insurance shall be in accordance with a scheme framed in this behalf by -

- (a) the General Insurance Corporation of India formed under Section 9 of the General Insurance Business (Nationalization) Act, 1972 and approved by the Central Government in this behalf; or
- (b) any other insurer and approved by the Insurance Regulatory and Development Authority established under sub-section (1) of Section 3 of the Insurance Regulatory and Development Authority Act, 1999.

The categories of persons are :

- (i) where the assessee is an individual, any sum paid to effect or to keep in force an insurance on the health of the assessee or on the health of the wife or husband, dependent parents or dependent children of the assessee.
- (ii) where the assessee is a Hindu Undivided Family, any sum paid to effect or to keep in force an insurance on the health of any member of the family.

However, the deduction can be allowed for a sum not exceeding Rs. 15,000/- per annum where the assessee or his wife or husband, or dependent parents or any member of the family (in case the assessee is a Hindu Undivided Family) is a senior citizen which means an individual resident in India who is of the age of sixty-five years or more at any time during the relevant previous year.

(4) Under **section 80DD**, where an assessee, who is a resident in India, has, during the previous year, -

- (a) incurred any **expenditure for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability**; or
- (b) paid or deposited any amount under a scheme framed in this behalf by the Life Insurance Corporation or any other insurer or the Administrator or the specified company subject to the conditions specified in this regard and approved by the Board in this behalf for the maintenance of a dependant, being a person with disability,

the assessee shall be allowed a deduction of a sum of fifty thousand rupees from his gross total income of that year, subject to the conditions listed below:

However, where such dependant is a person with severe disability, an amount of seventy-five thousand rupees shall be allowed as deduction subject to the specified conditions.

The deduction under this section shall be allowed only if the following conditions are fulfilled:-

- A. (i) the scheme referred to in clause (b) above provides for payment of annuity or lump sum amount for the benefit of a dependant, being a person with disability, in the event of the death of the individual in whose name subscription to the scheme has been made;
- (ii) the assessee nominates either the dependant, being a person with disability, or any other person or a trust to receive the payment on his behalf, for the benefit of the dependant, being a person with disability.

However, if the dependant, being a person with disability, predeceases the assessee, an amount equal to the amount paid or deposited under sub-para (3)(b) above shall be deemed to be the income of the assessee of the previous year in which such amount is received by the assessee and shall accordingly be chargeable to tax as the income of that previous year.

B. The assessee, claiming a deduction under this section, shall furnish a copy of the certificate issued by the medical authority in the prescribed form and manner, along with the return of income under section 139, in respect of the assessment year for which the deduction is claimed:

In cases where the condition of disability requires reassessment of its extent after a period stipulated in the aforesaid certificate, no deduction under this section shall be allowed for any subsequent period unless a new certificate is obtained from the medical authority in the prescribed form and manner and a copy thereof is furnished along with the return of income.

For the purposes of section 80DD,—

- (a) “Administrator” means the Administrator as referred to in clause (a) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 (58 of 2002) ;
- (b) “dependant” means—
 - (i) in the case of an individual, the spouse, children, parents, brothers and sisters of the individual or any of them;
 - (ii) in the case of a Hindu undivided family, a member of the Hindu undivided family, dependant wholly or mainly on such individual or Hindu undivided family for his support and maintenance, and who has not claimed any deduction under section 80U in computing his total income for the assessment year relating to the previous year;
- (c) “disability” shall have the meaning assigned to it in clause (i) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (1 of 1996) and includes “autism”, “cerebral palsy” and “multiple disability” referred to in clauses (a), (c) and (h) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999);
- (d) “Life Insurance Corporation” shall have the same meaning as in clause (iii) of sub-section (8) of section 88;
- (e) “medical authority” means the medical authority as referred to in clause (p) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (1 of 1996) or such other medical authority as may, by notification, be specified by the Central Government for certifying “autism”, “cerebral palsy”, “multiple disabilities”, “person with disability” and “severe disability” referred to in clauses (a), (c), (h), (j) and (o) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999);
- (f) “person with disability” means a person as referred to in clause (t) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation)

Act, 1995 (1 of 1996) or clause (j) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999);

(g) “person with severe disability” means—

- (i) a person with eighty per cent or more of one or more disabilities, as referred to in sub-section (4) of section 56 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (1 of 1996); or
- (ii) a person with severe disability referred to in clause (o) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999);

(h) “specified company” means a company as referred to in clause (h) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 (58 of 2002).]

(5) Under **Section 80E** of the Act a deduction will be allowed in respect of **repayment of loan taken for higher education**, subject to the following conditions:

- (i) In computing the total income of an assessee, being an individual, there shall be deducted, in accordance with and subject to the provisions of this section, any amount paid by him in the previous year, out of his income chargeable to tax, by way of repayment of loan, taken by him from any financial institution or any approved charitable institution for the purpose of pursuing his higher education, or interest on such loan.

Provided that the amount which may be so deducted shall not exceed forty thousand rupees.

- (ii) The deduction specified above shall be allowed in computing the total income in respect of the initial assessment year and seven assessment years immediately succeeding the initial assessment year or until the loan referred to above together with interest thereon is paid by the assessee in full, whichever is earlier.

For this purpose -

- (a) “approved charitable institution” means an institution established for charitable purposes and notified by the Central Government under clause (2C) of section 10, or, an institution referred to in clause (a) of sub-section (2) of Section 80G.
 - (b) “financial institution” means a banking company to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act); or any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf;
 - (c) “higher education” means full-time studies for any graduate or post-graduate course in engineering medicine, management, or, for post-graduate course in applied sciences or pure sciences, including mathematics and statistics;
 - (d) “initial assessment year” means the assessment year relevant to the previous year, in which the assessee starts repaying the loan or interest thereon.
- (6) **No deduction should be allowed by the D.D.O. from the salary income in respect**

of any donations made for charitable purposes. The tax relief on such donations as admissible under section 80G of the Act, will have to be claimed by the tax payer in the return of income. However, D.D.O. on due verification may allow donations to following bodies to the extent of **50%** of the contribution:

- i) Jawaharlal Nehru Memorial Fund.
- ii) The Prime Minister's Drought Relief Fund
- iii) The National Children's Fund,
- iv) The Indira Gandhi Memorial Trust,
- v) The Rajiv Gandhi Foundation.

and to the following bodies to the extent of **100%** of the contribution:

- i. National Defence Fund or The Prime Minister's National Relief Fund.
- ii. The Prime Minister's Armenia Earthquake Relief Fund.
- iii. The Africa (Public Contributions - India) Fund.
- iv. The National Foundation for Communal Harmony.
- v. Chief Minister's Earthquake Relief Fund - Maharashtra.
- vi. National Blood Transfusion Council.
- vii. State Blood Transfusion Council.
- viii. Army Central Welfare Fund.
- ix. Indian Naval Benevolent Fund.
- x. Air Force Central Welfare Fund.
- xi. The Andhra Pradesh Chief Minister's Cyclone Relief Fund - 1996.
- xii. The National Illness Assistance Fund.
- xiii. The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory as the case may be, subject to certain conditions.
- xiv. The University or Educational Institution of national eminence approved by the Prescribed Authority.
- xv. The National Sports Fund to be set up by Central Government.
- xvi. The National Cultural Fund Set up by the Central Government.
- xvii. The Fund for Technology Development and Application set by the Central Govt.
- xviii. The National Trust for Welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple disabilities.

(7) Under **Section 80GG** of the Act an assessee is entitled to a deduction in respect of **house rent paid by him for his own residence**. Such deduction is permissible subject to the following conditions :-

- (a) the assessee has not been in receipt of any House Rent Allowance specifically granted to him which qualifies for exemption under section 10(13A) of the Act;
- (b) the assessee files the declaration in Form No.10 BA. (Annexure-VII)
- (c) He will be entitled to a deduction in respect of house rent paid by him in excess of 10 per cent of his total income, subject to a ceiling of 25 per cent thereof or Rs. 2,000/- per month, whichever is less. The total income for working out these percentages will be computed before making any deduction under section 80GG.

(d) The assessee does not own:

- (i) any residential accommodation himself or by his spouse or minor child or where such assessee is a member of a Hindu Undivided Family, by such family, at the place where he ordinarily resides or performs duties of his office or carries on his business or profession; or
- (ii) at any other place, any residential accommodation being accommodation in the occupation of the assessee, the value of which is to be determined under sub-clause (i) of clause (a), or as the case may be, clause (b) of sub section (2) of section 23: The Drawing and Disbursing Authorities should satisfy themselves that all the conditions mentioned above are satisfied before such deduction is allowed by them to the assessee. They should also satisfy themselves in this regard by insisting on production of evidence of actual payment of rent.

(8) **Section 80L** of the Income-tax Act allows **deduction of interest** from certain specified investments including interest on bank deposits and certain securities. A normal deduction of upto Rs. 12,000/- may be allowed. An additional deduction of Rs.3000/- for interest on Government Securities is separately available.

(9) Under **section 80U**, in computing the total income of an individual, being a resident, who, at any time during the previous year, is certified by the medical authority to be a **person with disability**, there shall be allowed a deduction of a sum of fifty thousand rupees.

However, where such individual is a person with severe disability, a higher deduction of seventy-five thousand rupees shall be allowable.

Every individual claiming a deduction under this section shall furnish a copy of the certificate issued by the medical authority in the prescribed form and manner along with the return of income, in respect of the assessment year for which the deduction is claimed.

In cases where the condition of disability requires reassessment of its extent after a period stipulated in the aforesaid certificate, no deduction under this section shall be allowed for any subsequent period unless a new certificate is obtained from the medical authority in the prescribed form and manner and a copy thereof is furnished along with the return of income.

For the purposes of this section, the expressions “disability”, “medical authority”, “person with disability” and “person with severe disability” shall have the same meaning as given in section 80DD (sub-para (4) of para 5.4 of this Circular).

6. TAX REBATE

An assessee, being an individual, will be entitled to tax rebates under Chapter VIII of the Income-tax Act as given below:

(1) Payment of **insurance premium** to effect or to keep in force an insurance on the life of the individual, the wife or husband or any child of the individual.

(2) Any payment made to effect or to keep in force a contract for a **deferred annuity**, not

being an annuity plan as is referred to in item (8) herein below on the life of the individual, the wife or husband or any child of the individual, provided that such contract does not contain a provision for the exercise by the insured of an option to receive a cash payment in lieu of the payment of the annuity;

(3) Any sum deducted from the salary payable by, or, on behalf of the Government to any individual, being a sum deducted in accordance with the conditions of his service for the purpose of securing to him a **deferred annuity** or making provision for his wife or children, in so far as the sum deducted does not exceed 1/5th of the salary;

(4) Any contribution made :

- (a) by an individual to any **Provident Fund** to which the Provident Fund Act, 1925 applies;
- (b) to any provident fund set up by the Central Government, and notified by it in this behalf in the Official Gazette, where such contribution is to an account standing in the name of an individual, or a minor, or of whom he is a guardian;
- (c) by an employee to a Recognized Provident Fund;
- (d) by an employee to an approved **superannuation fund**;

It may be noted that "contribution" to any Fund shall not include any sums in repayment of loan;

(5) Any deposit in a ten year account or a fifteen year account under the Post Office Savings Bank (**Cumulative Time Deposit**) Rules, 1959, as amended from time to time, where such sums are deposited in an account standing in the name of an individual, or a minor, or of whom he is the guardian.

(6) Any subscription :-

- (a) to any such **security of the Central Government** or any such **deposit scheme** as the Central Government may, by notification in the Official Gazette, specify in this behalf;
- (b) to any such **saving certificates** as defined under section 2(c) of the Government Saving Certificate Act, 1959 as the Government may, by notification in the Official Gazette, specify in this behalf. Interest on NSC(VI Issue) and NSC(VIII Issue) which is deemed investment also qualifies for the rebate.

(7) Any sum paid as contribution in the case of an individual, for himself, spouse or any child,

- (a) for participation in the **Unit Linked Insurance Plan, 1971** of the Unit Trust of India;
- (b) for participation in any **unit-linked insurance plan of the LIC Mutual Fund** notified by the Central Government under clause (23D) of section 10.

(8) Any subscription made to effect or keep in force a contract for such **annuity plan of the Life Insurance Corporation** as the Central Government may by notification in the Official Gazette, specify;

(9) Any subscription not exceeding rupees ten thousand, made to any **units of any Mutual Fund**, notified under clause (23D) of section 10, by the Unit Trust of India established under the Unit Trust of India Act, 1963, under any plan formulated in accordance with any scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(10). Any contribution made by an individual to any **pension fund** set up by any Mutual Fund notified under clause (23D) of section 10, or, by the Unit Trust of India established under the Unit Trust of India Act, 1963, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(11) Any subscription made to any such deposit scheme of, or, any contribution made to any such pension fund set up by, the **National Housing Bank**, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(12) Any subscription made to any such deposit scheme (not being a scheme the interest on **deposits** whereunder qualifies for deduction under section 80L), as the Central Government may, by notification in the Official Gazette, specify for the purpose of being floated by (a) **public sector companies** engaged in providing long-term finance for construction or purchase of houses in India for residential purposes, or, (b) any authority constituted in India by, or, under any law, enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both.

(13) Any sums paid by an assessee for the purpose of **purchase or construction of a residential house property**, the income from which is chargeable to tax under the head "Income from house property" (or which would, if it has not been used for assessee's own residence, have been chargeable to tax under that head) where such payments are made towards or by way of any instalment or part payment of the amount due under any self-financing or other scheme of any Development Authority, Housing Board etc. The deduction will also be allowable in respect of re-payment of loans borrowed by an assessee from the Government, or any bank or Life Insurance Corporation, or National Housing Bank, or certain other categories of institutions engaged in the business of providing long term finance for construction or purchase of houses in India. Any repayment of loan borrowed from the employer will also be covered, if the employer happens to be a public company, public sector company or a university established by law or a college affiliated to such university, or a local authority or a cooperative society. The stamp duty, registration fee and other expenses incurred for the purpose of transfer shall also be covered. Payment towards the cost of house property, however, will not include, admission fee or cost of share or initial deposit or the cost of any addition or alteration to, or, renovation or repair of the house property which is carried out after the issue of the completion certificate by competent authority, or after the occupation of the house by the assessee or after it has been let out. Payments towards any expenditure in respect of which the deduction is allowable under the provisions of section 24 of the Income-tax Act will also not be included in payments towards the cost of purchase or construction of a house property. Where the house property in respect of which deduction has been allowed under these provisions is transferred by the tax-payer at any time before the expiry of five years from the end of the financial year in which possession of such property is obtained by him or he receives back, by way of refund or otherwise, any sum specified in section 88(2)(xv), no deduction under these provisions shall be allowed in respect of such sums paid in such previous year in which the transfer is made and the aggregate amount of deduction of income tax

so allowed in the earlier years shall be added to the tax on the total income of the assessee with which he is chargeable for such assessment year. It may be noted that the amount which will qualify for tax rebate in respect of this item will not exceed **Rs.20,000/-**.

(14) **Tuition fees**, whether at the time of admission or thereafter, paid to any university, college, school or other educational institution situated in India, for the purpose of full-time education of any two children of the employee.

It is clarified that any payment towards any development fees or donation or payment of similar nature does not qualify for rebate under these provisions.

(15) subscription to **equity shares or debentures forming part of any eligible issue of capital** made by a public company or by any public finance institution, which is approved by the Board.

(16) Subscription to any **units of any mutual fund** referred to in clause (23D) of Section 10 and approved by the Board for this purpose.

Total Amount Qualifying for Rebate Under Section 88:

(17) There is an overall limit of **Rs. 1,00,000/-** invested in various items mentioned in sub-paras (1) to (16) of para 6, which qualifies for rebate under section 88. Out of this, amounts invested in items mentioned in sub-paras (1) to (14) can be up to a maximum of **Rs.70,000/-**. Further, installments paid towards purchase or construction of a residential house, as discussed in sub-para (13) would qualify for rebate only with respect to a maximum amount of **Rs.20,000/-**. Moreover, the qualifying amount for rebate for tuition fees paid, as discussed in sub-para (14) would not exceed an amount of **Rs. 12,000/- per child**.

It is further provided that the amount of premium or other payment made on an insurance policy (other than a contract for deferred annuity mentioned in sub-para (2)) shall be eligible for rebate only to the extent of 20 percent of the actual capital sum assured. In calculating any such actual capital sum, the following shall not be taken into account:

- i) the value of any premiums agreed to be returned, or
- ii) any benefit by way of bonus or otherwise over and above the sum actually assured which may be received under the policy.

Investments in various items mentioned under para 6 can be made at any time during the year. The rebate under section 88 would be allowed on such aggregate amount, which does not exceed the total income of the relevant financial year.

Rate of Rebate Under Section 88:

(18) A graded system of tax-rebate under section 88 has been introduced by the Finance Act, 2002. The tax-rebate on the qualifying amount shall now be computed at the following rates:-

Nature and level of Income	%age of sums invested to be allowed as rebate
1. Where the gross total income does not exceed Rs.1,50,000/-	20%

- | | |
|--|-----|
| 2. Where the gross total income exceeds RS. 1,50,000/- but does not exceed RS. 5,00,000/- | 15% |
| 3. Where the gross total income exceeds Rs. 5,00,000/- | Nil |
| 4. In case of an individual , where the income under the head "salaries" does not exceed RS. 1,00,000/- (before allowing standard deduction) and is at least 90% of his gross total income. | 30% |

'Gross Total Income' means the total of incomes under all heads before allowing deductions under Chapter VIA of the Income Tax Act, 1961.

It is further clarified that the income under the head "Salaries" is derived after allowing Standard Deduction.

The above rates shall be applicable to all individuals including sportsmen, artists, authors, playwrights, etc. Higher rebate earlier allowed to such special category individuals has been withdrawn by the Finance Act, 2002.

Rebate to Senior Citizens:

(19) Under Section 88B, an assessee, being an individual resident in India, who is of the age of sixty five years or more at any time during the previous year shall be entitled to a deduction from the amount of income tax (as computed before allowing the rebate under Chapter VIII of the Income-tax Act) on his total income, with which he is chargeable for any assessment year, of an amount equal to One hundred percent of such income tax or an amount of twenty thousand rupees, whichever is less.

Rebate to Women Residents:

(20) Under Section 88C, as inserted by Finance Act, 2000, an assessee, being a woman resident in India, and below the age of sixty-five years, at any time during the previous year, shall be entitled to a deduction from the amount of income-tax (as computed before allowing the rebate under Chapter VIII of the Income-tax Act) on her total income, with which she is chargeable for any assessment year, of an amount equal to hundred percent, of such income tax or an amount of five thousand rupees, whichever is less.

Rebate to Certain Individuals:

(21) Section 88D, as inserted by the Finance (No.2) Act, 2004 provides that an assessee, being an individual resident in India:

- a) whose total income for the financial year does not exceed Rs.1,00,000/-, shall be entitled to a deduction from the amount of income-tax chargeable on his total income (as computed before allowing the rebate under Chapter VIII of the Income-tax Act) of an amount equal to hundred percent of such income-tax;
- b) whose total income exceeds Rs. 1,00,000/- and the income-tax chargeable on such total income (as computed before allowing the rebate under Chapter VIII of the Income-tax Act) is more than the excess of such total income over Rs.1,00,000/-, shall be entitled to a deduction from such income-tax chargeable of an amount equal to the excess of such

income-tax over the amount by which such total income exceeds Rs.1,00,000/-. An illustrative table showing the amount of deduction from tax (rebate) allowable under this section for different income levels is given below for ready reference:

TOTAL INCOME	AMOUNT OF INCOME-TAX	REBATE UNDER SECTION 88D	INCOME AFTER TAX
Rs.60,000	Rs.1,000	Rs.1,000	Rs.60,000
Rs.70,000	Rs.3,000	Rs.3,000	Rs.70,000
Rs.80,000	Rs.5,000	Rs.5,000	Rs.80,000
Rs.90,000	Rs.7,000	Rs.7,000	Rs.90,000
Rs.1,00,000	Rs.9,000	Rs.9,000	Rs.1,00,000
Rs.1,01,000	Rs.9,200	Rs.8,200	Rs.1,00,000
Rs.1,02,000	Rs.9,400	Rs.7,400	Rs.1,00,000
Rs.1,03,000	Rs.9,600	Rs.6,600	Rs.1,00,000
Rs.1,04,000	Rs.9,800	Rs.5,800	Rs.1,00,000
Rs.1,05,000	Rs.10,000	Rs.5,000	Rs.1,00,000
Rs.1,06,000	Rs.10,200	Rs.4,200	Rs.1,00,000
Rs.1,07,000	Rs.10,400	Rs.3,400	Rs.1,00,000
Rs.1,08,000	Rs.10,600	Rs.2,600	Rs.1,00,000
Rs.1,09,000	Rs.10,800	Rs.1,800	Rs.1,00,000
Rs.1,10,000	Rs.11,000	Rs.1,000	Rs.1,00,000
Rs.1,11,000	Rs.11,200	Rs.200	Rs.1,00,000
Rs.1,11,100	Rs.11,220	Rs.120	Rs.1,00,000
Rs.1,11,200	Rs.11,240	Rs.40	Rs.1,00,000

It may be clarified that in order to be eligible for a rebate under section 88D, the total income of the employee after allowing deductions under Chapter VIA of the Income-tax Act and after setting off any loss from house property should be up to Rs.1,00,000/- or up to Rs.1,11,200/-, as the case may be.

DDOs to satisfy themselves of the genuineness of claim:

(21) The Drawing and Disbursing Officers should satisfy themselves about the actual deposits/subscriptions / payments made by the employees, by calling for such particulars/ information as they deem necessary before allowing the aforesaid rebate. In case the DDO is not satisfied about the genuineness of the employee's claim regarding any deposit/subscription/payment made by the employee, he should not allow the same, and the employee would be free to claim the rebate on such amount by filing his return of income and furnishing the necessary proof etc., therewith, to the satisfaction of the Assessing Officer.

7. CALCULATION OF INCOME-TAX TO BE DEDUCTED:

7.1 Salary income for the purpose of Section 192 shall be estimated as follow:-

- First compute the gross salary as mentioned in para 5.1 excluding all the incomes mentioned in para 5.2;
- Allow deductions mentioned in para 5.3 from the figure arrived at (a) above.

- (c) Allow deductions mentioned in para 5.4 from the figure arrived at (b) above ensuring that aggregate of the deductions mentioned in para 5.4 does not exceed the figure of (b) and if it exceeds, it should be restricted to that amount.

This will be the amount of income under the head "Salaries" on which income tax would be required to be deducted. This income should be rounded off to the nearest multiple of ten rupees.

7.2 Income-tax on the estimated income from salary as shown in para 7.1 shall be calculated at the rates given in para 2 of this Circular.

7.3 The amount of tax rebates computed under para 6 shall be deducted from the income-tax calculated according to para 7.2. Further, tax payable so arrived at shall be increased by surcharge and additional surcharge (Education Cess) at the prescribed rate to arrive at the total tax payable.

However, it is to be ensured that the tax rebates given as per para 6 is restricted to the income-tax calculated as per para 7.2.

7.4 It is also to be noted that deductions under Chapter VIA of the Act as mentioned in para 5.4 of this Circular are allowed only if the investments or the payments have been made out of the income chargeable to tax during the financial year 2004-05.

7.5 The amount of tax as arrived at para 7.3 should be deducted every month in equal installments. The net amount of tax deductible should be rounded off to the nearest rupee.

8. MISCELLANEOUS:

8.1 These instructions are not exhaustive and are issued only with a view to helping the employers to understand the various provisions relating to deduction of tax from salaries. Wherever there is any doubt, reference may be made to the provisions of the Income-tax Act, 1961, the Income-tax Rules, 1962 the Finance Act 2004 and the Finance (No.2) Act 2004.

8.2 In case any assistance is required, the Assessing Officer/the local Public Relation Officer of the Income-tax Department may be contacted.

8.3 These instructions may be brought to the notice of all Disbursing Officers and Undertakings including those under the control of the Central/State Governments.

8.4 Copies of this Circular are available with the Director of Income-tax (Research, Statistics & Publications and Public Relations) 6th Floor, Mayur Bhavan, Indira Chowk, New Delhi-110 001 and at the following websites:

www.finmin.nic.in

www.incometaxindia.gov.in



(R.K. SAGAR)
Under Secretary (IT-B)
Central Board of Direct Taxes

1. All State Governments(including Administration of Union Territories)
2. All Ministries/Departments of Government of India etc.
3. President's Secretariat
4. Vice-President's Secretariat
5. Prime Minister's Office
6. Lok Sabha Secretariat
7. Rajya Sabha Secretariat
8. Cabinet Secretariat
9. Secretary, U.P.S.C., Dholpur House, New Delhi
10. Secretary, Staff Selection Commission, Lodhi Complex, New Delhi
11. Supreme Court of India, New Delhi
12. Election Commission, New Delhi
13. Planning Commission, New Delhi
14. Secretariat of Governors/Lt.Governors of all States/Union Territories
15. All Integrated Financial Advisors to Ministries/Departments of Government of India
16. All Heads of Departments & Offices subordinate to the Department of Revenue CBDT, CBEC etc.
17. Army Headquarters, New Delhi
18. Air Headquarters, New Delhi
19. Naval Headquarters, New Delhi
20. Director-General of Posts & Telegraphs, New Delhi(10 copies)
21. Comptroller & Auditor General of India (50 copies)
22. Accountant General - I, Andhra Pradesh, Hyderabad
23. Accountant General-II, Andhra Pradesh, Hyderabad
24. Accountant General, Assam, Shillong
25. Accountant General-I, Bihar, Ranchi
26. Accountant General-II, Bihar, Patna
27. Accountant General-I, Gujarat, Ahmedabad
28. Accountant General-II, Gujarat, Rajkot
29. Accountant General, Kerala, Trivandrum
30. Accountant General, Madhya Pradesh, Gwalior
31. Accountant General, Tamil Nadu, Chennai
32. Accountant General-I, Maharashtra, Mumbai
33. Accountant General-II, Maharashtra, Nagpur
34. Accountant General, Karnataka, Bangalore
35. Accountant General, Orissa, Bhubneshwar
36. Accountant General, Punjab, Chandigarh
37. Accountant General, Himachal Pradesh, Simla
38. Accountant General, Rajasthan, Jaipur
39. Accountant General-I, II & III, Uttar Pradesh, Allahabad
40. Accountant General, West Bengal, Calcutta
41. Accountant General, Haryana, Chandigarh
42. Accountant General, Jammu & Kashmir, Srinagar
43. Accountant General, Manipur, Imphal
44. Accountant General, Tripura, Agartala
45. Accountant General, Nagaland, Kohima
46. Director of Audit(Central)Kolkatta
47. Director of Audit(Central Revenue), New Delhi
48. Director of Audit (Central), Mumbai
49. Director of Audit, Scientific & Commercial Department, Mumbai
50. All Banks (Public Sector, Nationalised including State Bank of India)
51. Secretary, Reserve Bank of India Central Office P.B.No.406, Mumbai-400001(25 copies for distribution to its Branches).
52. Accounts Officer, Inspector General of Assam Rifles,(Hqrs), Shillong
53. All Chambers of Commerce & Industry
54. Lok Sabha /Rajya Sabha Secretariat Libraries(15 copies each)
55. All Officers and Sections in Technical Wing of CBDT
56. Controller of Accounts, Department of Economic Affairs, New Delhi
57. Manager, Reserve Bank of India, Public Debt Office, Ahmedabad/Bangalore/Bhubneshwar/Mumbai(Fort)/Mumbai(Central)/Mumbai-8, Kolkatta/Hyderabad/Kanpur/Jaipur/Chennai/Nagpur/NewDelhi/Patna/Guwahati/ Trivandrum
58. Asst.Chief Inspector, R.B.I. Inspection Department Regional audit Cell/Mumbai/Kolkatta/Chennai/New Delhi/Kanpur
59. Accountant General, Post & Telegraph, Simla
60. Controller General of Defence Accounts, New Delhi

61. Dir.of Audit, Defence Services, New Delhi
62. World Health Organisation, New Delhi
63. International Labour Office, India Branch, New Delhi
64. Secretary, Indian Red Cross Society, India, New Delhi
65. Atomic Energy Department, Mumbai
66. Secretary, Development Board, Ministry of Commerce & Industry, New Delhi
67. National Savings Organisation, Nagpur
68. Deputy Accountant General, Post & Telegraph, Kolkatta
69. The Legal Adviser, Export - Import Bank of India, Post Box No.19969, Nariman Point, Mumbai-400021
70. The Deputy Finance Manager (Head-quarters), Indian Airlines(H) - Airlines House, 11, Gurudwara Rakabganj Road, New Delhi-110001
71. Manager, State Bank of India, Local Head Office:-
 - i) Jeevan Deep Building, 1,Middleton Street, Kolkatta
 - ii) Circle Top House, Rajaji Salai, Chennai-600001
 - iii) Lucknow, Uttar Pradesh
 - iv) Bank Street, Hyderabad-500001
 - v) Hamida Road, Bhopal-462001
 - vi) Shop Nos.101 to 105, Sector 17-B, Chandigarh
 - vii) New Amn.Building, Madam Cama Road, Mumbai-400021
 - viii) 9, Parliament Street, New Delhi-110001
 - ix) Bhedru, Ahmedabad-380001
 - x) Judges Court Road, Post Box No.103, Patna-800001
 - xi) 59, Forest Park, Bhubneshwar and Gauhati, Assam
 - xii) Gauhati, Assam
72. Chief Controller of Accounts, CBDT, Lok Nayak Bhawan, Khan Market, New Delhi
73. State Bank of Patiala, (Head Office), The Mall, Patiala
74. State Bank of Bikaner and Jaipur, Head Office, Tilak Marg, 'C' Scheme Jaipur
75. State Bank of Hyderabad, Head Office, Gun Factory, Hyderabad
76. State Bank of Indore, 5 Yashwant Nivas Road, Indore.
77. State Bank of Mysore (Head Office), K.G.Road, Bangalore
78. State Bank of Saurashtra, Behind Satyanarayan Road, Bhavnagar, Gujarat
79. State Bank of Travancore, Post Box No.34, Trivandrum
80. N.S.Branch, Department of Economic Affairs, New Delhi
81. The Editory, 'The Income-tax Reporter' Company Law Institute of India (P) Ltd., 88, Thyagaraja Road, Thyagaraja Nagar, Chennai-600017
82. The Editor, Chartered Secretary, The Institute of Company Secretaries of India, 'ICSI House, 22, Institutional Area, Lodhi Road, New Delhi-110003
83. The Editor, "Taxation" 174, Jorbagh, New Delhi
84. The Editor, "The Tax Law Review" Post Box No.152, Jalandhar-144001
85. The Editor, "Taxmann" Allied Services (P) Ltd., 1871, Kucha Chelan, Khari Baoli, Delhi-110006
86. The Min. of Law (Deptt. of Legal Affairs), Shastri Bhawan New Delhi.
87. Food Corporation of India, 16-17, Barakhamba Lane, New Delhi-110001
88. IFCI, Bank of Baroda Building, 16, Parliament Street, New Delhi
89. IDBI, IDBI Tower, Cuff Parad, Mumbai-400 005
90. ICICI, 163, Backbay Reclamation, Mumbai-20
91. NABARD, Poonam Chambers, Dr. Annie Besant Road, P.B.No.552, Worli, Mumbai
92. National Housing Bank, 3rd Floor, Bombay Life Building, 45, Veer Nariman Road, Mumbai
93. IRBI, 19, Netaji Subhash Road, Kolkatta
94. All Foreign Banks operating in India
95. Air India, New Delhi
96. University Grants Commission, Bahadur Shah Jafar Marg, New Delhi
97. The Deputy Director(Admn.), NSSO (FOD), Mahalonobis Bhavan, 6th Floor, 164, G.L.Tagore Road, Kolkata-700108

EXAMPLE - 1*For Assessment Year 2005-06*

Calculation of Income tax in the case of an employee having gross salary income of:

- i) Rs.1,10,000/-.
- ii) Rs.6,00,000/- and
- iii) Rs.9,00,000/-

Particulars	(Rupees) (i)	(Rupees) (ii)	(Rupees) (iii)
Gross Salary Income (Including allowances)	1,00,000	6,00,000	9,00,000
Contribution to G.P.F.	10,000	20,000	30,000

Computation of Total Income and tax payable thereon

Gross Salary	1,10,000	6,00,000	9,00,000
Less Standard Deduction U/s 16(i)	30,000	20,000	20,000
Taxable Income	80,000	5,80,000	8,80,000
Tax thereon	5,000	1,48,000	2,38,000
Less: tax rebate u/s 88 :	3,000	Nil	Nil
Balance tax	2,000	1,48,000	2,38,000
Less: tax rebate u/s 88D :	2,000	Nil	Nil
Income tax payable	Nil	1,48,000	2,38,000
Add: surcharge	Nil	Nil	23,800
Add: Education Cess	Nil	2,960	5,236
Total tax payable	Nil	1,50,960	2,67,036

EXAMPLE - 2*For Assessment Year 2005-06*

Calculation of Income Tax in the case of assessee having handicapped dependent.

Particulars:

1. Gross Salary	Rs. 3,20,000
2. Amount spent on treatment of a dependant, being person with disability (but not severe disability)	Rs. 7,000
3. Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability (but not severe disability)	Rs. 50,000
4. GPF Contribution	Rs. 25,000
5. LIP Paid	Rs. 10,000

Computation of Tax

Gross Salary	Rs. 3,20,000
Less: Standard Deduction	30,000
	Rs. 2,90,000
Less: Deduction U/s 80DD (Restricted to Rs.50,000/- only)	Rs. 50,000
Taxable Income	Rs. 2,40,000
Income Tax thereon	Rs. 46,000

Rebate U/s 88

GPF	25,000/-	
LIP	10,000/-	
Total	35,000/-	
Rebate @ 15% on Rs.35,000/-		Rs. 5,250
Tax Payable		Rs. 40,750
Add: Surcharge		Nil
Add: Education Cess		Rs. 815
Total tax Payable		Rs. 41,565

EXAMPLE - 3*For Assessment Year 2005-06*

Calculation of Income Tax in the case of an employee where Medical treatment expenditure was borne by the employer.

Particulars:

1. Gross Salary	Rs. 3,00,000
2. Medical Reimbursement by employer on the treatment of self and dependent family member	Rs. 30,000
3. Contribution of GPF	Rs. 20,000
4. LIC premium	Rs. 20,000
5. Repayment of House Building Advance	Rs. 25,000
6. Tuition fees for two children (Rs. 20,000/- for one child and Rs.10,000/- for the other child)	Rs. 30,000
7. Investment infrastructure Bond U/s 88(2)(xvi)	Rs. 20,000

Computation of Tax

Gross Salary	Rs. 3,00,000
Add: Perquisite in respect of reimbursement of Medical Expenses in excess of Rs.15,000/- in view of Sec. 17(2)(v)	Rs. 15,000
	Rs. 3,15,000
Less: Standard Deduction	30,000
Taxable Income	Rs. 2,85,000
Tax thereon	Rs. 59,500

Rebate U/s 88:

GPF	20,000/-
LIC	20,000/-
Repayment of HBA (Maximum)	20,000/-
Tuition Fees (Restricted to max. of 12,000/- per child or actuals, whichever is lesser)	22,000/-
Investment in infrastructural Bonds U/s 88(2)(xvi)	20,000/-
Total	1,02,000/-
Restricted to Rs. 90,000/- (70,000+ 20,000)	
Rebate @ 15% on Rs.90,000	Rs. 13,500
Tax Payable	Rs. 46,000
Add: Surcharge	Nil
Add: Education Cess	Rs. 920
Total Tax Payable	Rs. 46,920

EXAMPLE - 4*For Assessment Year 2005-06*

Illustrative calculation of House Rent Allowance U/s 10 (13A) in respect of residential accommodation situated in Delhi

Particulars:

1. Salary	Rs. 1,44,000
2. Dearness Allowance	Rs. 72,000
3. House Rent Allowance	Rs. 43,200
4. C.C.A	Rs. 4,800
5. House rent paid	Rs. 60,000
6. General Provident Fund	Rs. 36,000
7. Life Insurance Premium	Rs. 10,000
8. National Saving Certificate	Rs. 5,000
9. Subscription to Infrastructure Bonds	Rs. 10,000

Computation of total income and tax payable thereon

1. Salary + D.A. + C.C.A.	Rs. 2,20,800
House Rent Allowance	Rs. 43,200
2. Total Salary income	Rs. 2,64,000
3. Less: House Rent allowance exempt U/s 10(13A): Least of	
a. Actual amount of HRA received=43,200	
b. Expenditure of rent in excess of 10% of salary (including D.A. as presumed that D.A. is taken for retirement benefit) (60,000-21,600=38,400)	
c. 50% of Salary (Basic+DA)	
Rs.1,08,000	Rs. 38,400
	Rs. 2,25,600
Less standard deduction U/s 16 (i) @ 40% or 30,000/- whichever is less	Rs. 30,000
Total Income	Rs. 1,95,600
Tax on total income	Rs. 32,680

Rebate U/s 88

GPF	36,000/-	
LIP	10,000/-	
NSC	5,000/-	
Subscription to Infrastructure Bonds U/s 88(2)(xvi)	10,000/-	
Total	61,000/-	
Rebate @ 15%	9,150/-	
Tax on total income		Rs. 23,530
Add: Education Cess @ 2%		Rs. 470
Total Tax Payable		Rs. 24,000

Note: Part of the dearness allowance merged with the basic pay and shown as 'Dearness Pay' is also included in the definition of 'Salary' for working out the amount of exemption under section 10 (13A).

EXAMPLE - 5*For Assessment Year 2005-06*

Illustrating valuation of perquisite and calculation of tax in the case of an employee of a private company in Mumbai who was provided accommodation in a flat at concessional rate for ten months and in a hotel for two months. Employee owns a car (cubic capacity of engine exceeds 1.61) used partly for personal and partly for official work and actual running and maintenance charges including chauffeur's salary are reimbursed by employer, but no documents are maintained regarding details of journeys -

1. Salary	Rs. 1,08,000
2. Bonus	Rs. 12,000
3. Free gas, electricity, water etc. (Actual bills paid by company)	Rs. 6,000
4(a)Furnished flat provided to the employee for which actual rent paid by the company per annum	Rs. 78,000
4(b)Hotel rent paid by employer (for two months)	Rs. 30,000
4(c)Rent recovered from employee	Rs. 5,000
5. Car expenses reimbursed	Rs. 40,200
6. Furniture at cost	Rs. 50,000
7. Subscription to infrastructure bonds u/s 88(2)(xvi)	Rs. 30,000
8. Life Insurance Premium	Rs. 3,000
9. Subscription to NSC (VIII) Issue	Rs. 18,000
10. Contribution to recognised P.F.	Rs. 24,000

Computation of total income and tax paid thereon

1. Salary	Rs. 1,08,000
2. Bonus	Rs. 12,000
Total Salary for Valuation of Perquisite ie; Rs.10,000 per month	Rs. 1,20,000
Valuation of perquisites	
(a) Perq. for flat:	
Lower of (10% of salary for ten months= Rs.10,000/-actual rent paid=65000)	Rs. 10,000
(b) Perq. for hotel	
Less of (24% of salary of 2 mths=4800, actual payment=30,000)	Rs. 4,800
(c) Perq for furniture @ 10%	Rs. 5,000
	Rs. 19,800
Less: rent recovered from employee	Rs. 5,000
	Rs. 14,800

(d) Add perq. for free gas, elec. water	Rs.	6,000	
(e) Add perq. for car expense reimbursement (40,200-12(1600+600))	Rs.	13,800	
Total perquisites:	Rs.	34,600	
Gross Total Income (1,20,000+34,600)			Rs. 1,54,600
Less: Standard Deduction U/s 16(i)			Rs. 30,000
Total Income			Rs. 1,24,600
Tax on Total income			Rs. 13,920
Tax Rebate U/s 88			
Provident Fund	24,000		
Subscription to NSC VIII Issue	18,000		
LIP	3,000		
Contribution to infrastructure			
Bond	30,000		
Total	75,000		
Tax Rebate @ 20%	15,000		
Tax on Total income			Rs. 13,920
Tax rebate (restricted)			Rs. 13,920
Tax Payable			Nil

EXAMPLE - 6*For Assessment Year 2005-06*

Illustrating Valuation of perquisite and calculation of tax in the case of an employee of a Private Company posted at Delhi and repaying House Building Loan.

Particulars:

1. Salary	Rs. 1,18,000
2. Dearness Allowance	Rs. 36,000
3. House rent allowance	Rs. 12,000
4. Special duties Allowance	Rs. 2,400
5. Provident Fund	Rs. 20,000
6. LIP	Rs. 10,000
7. Deposit in NSC VIII issue	Rs. 20,000
8. Rent Paid by the employee for house hired by him	Rs. 24,000
9. Repayment of House Building loan taken by the employee from LIC	Rs. 12,000
10. Subscription to eligible issue of capital of a Co. approved U/s 88(2)(xvi)	Rs. 20,000

Computation of total income and tax payable thereon

1. Gross salary	Rs. 1,68,400
Less: House rent allowance exempt U/s 10 (13A)	
a. Actual amount of HRA received	12,000
b. Expenditure on rent in excess of 10% of salary (Including D.A.) as personal D.A. is including for retirement benefits 8600)	8,600
c. 50% of salary (including D.A)	77,000
	(-) 8,600
Total salary Income	Rs. 1,59,800
Less : Standard Deduction	Rs. 30,000
Total Taxable Income	Rs. 1,29,800
Tax on total Income	Rs. 14,960

Tax rebate U/s 88

i. Provident Fund	20,000
ii. LIP	10,000
iii. NSC VIII Issue	20,000
iv. Repayment of HBA	12,000
v. Subscription to eligible issue of Co. approved U/s 88(2)(xvi)	20,000
Total	82,000

Rebate @ 20% =	16,200	Rs. 14,960/- (restricted)
----------------	--------	------------------------------

Net Tax Payable**NIL**

Note: Part of the dearness allowance merged with the basic pay and shown as 'Dearness Pay' is also included in the definition of 'Salary' for working out the amount of exemption under section 10 (13A).

EXAMPLE - 7*For Assessment Year 2005-06*

Income Tax calculation in the case of an employee who claims loss under the head income from house property.

Particulars:

1. Gross salary	Rs. 4,00,000
2. Housing Loan repaid (Principal)	Rs. 30,000
3. Interest payable on housing loan (Loan taken after 01.04.1999)	Rs. 2,00,000
4. Donation paid to National Children fund	Rs. 5,000
5. NSC Purchased	Rs. 10,000
6. GPF	Rs. 20,000

Computation of taxable income and tax thereon:

1. Salary Income	Rs. 4,00,000
Gross salary	
Less : Standard Deduction	Rs. 30,000
Taxable salary	Rs. 3,70,000
2. Income from house property	
Annual value	Nil
Interest payable on loan U/s 24	2,00,000
Loss from House property (Maximum allowable)	Rs. 1,50,000
Gross total income	Rs. 2,20,000
Less Deduction U/s 80G	
50% of Rs.5,000/-	Rs. 2,500
Net Taxable Income	Rs. 2,17,500
Tax thereon	Rs. 39,250
Less Rebate U/s 88	
GPF	20,000
NSC	10,000
Housing Loan repaid	20,000
Total	50,000
Rebate @ 15% of Rs.50,000/-	Rs. 7,500
Tax Payable	Rs. 31,750
Add: surcharge	Nil
Add: Education Cess	Rs. 635
Total tax payable	Rs. 32,385

EXAMPLE - 8*For Assessment Year 2005-06*

Income Tax calculation in the case of an employee who claims loss under the head Income from house property, loan taken before 1.4.99.

Particulars:

1. Gross Salary	Rs. 4,00,000
2. Housing Loan repaid (Principal)	Rs. 30,000
3. Interest payable on housing loan (Loan taken before 01.04.1999)	Rs. 2,00,000
4. Donation paid to National Children's Fund	Rs. 5,000
5. N.S.C. purchased	Rs. 10,000
6. G.P.F.	Rs. 20,000

Computation of Taxable Income and tax thereon

1. Salary Income	Rs. 4,00,000
Gross Salary	
Less: Standard deduction	Rs. 30,000
Taxable Salary	Rs. 3,70,000
2. Income from House Property	
Annual value	Nil
Interest payable on loan u/s 24:	2,00,000
Loss from House property (Maximum allowable for loans taken before 1.4.99)	Rs. 30,000
Gross total income	Rs. 3,40,000
Less Deduction U/s 80G	
50% of Rs. 5,000/-	Rs. 2,500
Net Taxable Income	Rs. 3,37,500
Tax thereon	Rs. 75,250
Less Rebate U/s 88	
G.P.F.	20,000
N.S.C.	10,000
Housing Loan repaid (maximum)	20,000
Total:	50,000
Rebate @ 15% of Rs. 50,000/-	Rs. 7,500
Tax payable	Rs. 67,750
Add: Surcharge	Nil
Add: Education Cess	Rs. 1,355
Total Tax payable	Rs. 69,105

EXAMPLE - 9*For Assessment Year 2005-06*

Income Tax calculation in the case of a woman assessee who is less than age of 65 years.

(Rupees)

Particulars:

Gross Salary	2,16,000
G.P.F.	30,000
N.S.C. purchased	20,000

Computation of Taxable Income and Tax thereon

Gross Salary	2,16,000
Less: Standard deduction u/s 16(i)	30,000
Taxable Income	1,86,000
Tax thereon	29,800
Less: Rebate u/s 88C (Being woman)	5,000
Balance Tax	24,800

Less: Rebate u/s 88

G.P.F.	30,000
N.S.C.	20,000
Total	50,000

Rebate u/s 88 @ 15% of
Rs.50,000/- = Rs.7,500

7,500

Tax payable **17,300**

Add: Education Cess @ 2% **346**

Total Tax Payable **17,646**

Note: *In the case of a woman assessee who is 65 years of age or more, she will be entitled to rebate only u/s 88B of the Act meant for Senior citizens and not u/s 88C of the Act.*

ANNEXURE-II**Form for sending particulars of income u/s 192(2B) for the year ending 31st March, 2002**

1. Name and address of the employee
 2. Permanent Account Number
 3. Residential status
 4. Particulars of income under any head of income other than "salaries" (not being a loss under any such head other than the loss under the head "Income from house property") received in the financial year

(i) Income from house property (in case of loss, enclose computation thereof)	
(ii) Profits and gains of business or profession	
(iii) Capital gains	
(iv) Income from other sources	
(a) Dividends	
(b) Interest	
(c) Other incomes (specify)	
Total	
 5. Aggregate of sub-items (i) to (iv) of item 4
 6. Tax deducted at source (enclose certificates) issued under section 203)
- Place _____
- Date _____
- _____
Signature of the employee

Verification

I, _____, do hereby declare that what is stated above is true to the best of my knowledge and belief.

Verified today, the _____ day of _____ 2002.

Place _____

Date _____

Signature of the employee

F.No.142/47/98-TPL
Notification No.10722

Sd/-
(Suniti Srivastava)
Under Secretary to the Govt. of India

The principal rules were published vide Notification No.S.O.969(E) dated 26.3.1962 and were last amended vide Notification No.S.O.897(E) dated 12.10.1998.

**TO BE PUBLISHED IN THE GAZETTE OF INDIA EXTRAORDINARY
PART II, SECTION 3, SUB-SECTION(ii) DATED**

**GOVERNMENT OF INDIA
MINISTRY OF FINANCE AND COMPANY AFFAIRS
DEPARTMENT OF REVENUE
(CENTRAL BOARD OF DIRECT TAXES)**

New Delhi, the 4th day of October, 2002.

**NOTIFICATION
INCOME TAX**

S.O. 1062(E) - In exercise of powers conferred by section 295, read with clause (2) section 17 and sub-section (2C) of section 192 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely :-

1. (1) These rules may be called the Income-tax (Amendment) Rules, 2002.
(2) They shall be deemed to have come into force on the 1st day of June 2002.
2. In the Income-tax Rules, 1962, -
 - (i) in rule 26A, in sub-rule(2) for clause (b), the following clause shall be substituted, namely:-
“(b) Form No. 12BA, if the amount of salary paid or payable to the employee is more than one lakh and fifty thousand rupees, which shall accompany the return of income of the employee.”;
 - (ii) in rule 30, -
 - (a) in the heading, for the words “ tax deducted at source”, the words, “tax deducted at source or tax paid under sub-section (1A) of section 192”, shall be substituted;
 - (b) after sub-rule (1), the following shall be inserted:-
“(1A) All sums paid under sub-section (1A) of section 192 shall be paid to the credit of the Central Government -
 - (a) in the case of payment on behalf of the Government, on the same day;
 - (b) in all other cases, within one week from the last day of each month on which the income-tax is due under sub-section (1B) of section 192;”;
 - (c) in sub-rule (2), -
 - I) after the words, “under the head “salaries” or,” insert the words “the person who pays tax, referred to in sub-section (1A) of section 192 or,”
 - II) in the proviso, for the word “deduction” substitute the words “deduction or payment, as the case may be,”;
 - (iii) in rule 31,-
 - (a) in the heading, for the words “ tax deducted at source”, the words, “tax deducted at source or tax paid under sub-section (1A) of section 192”, shall be substituted;

- (b) in sub-rule (1), for the words "The certificate of deduction of tax at source under section 203", the words "The certificate of deduction of tax at source or, the certificate of payment of tax by the employer on behalf of the employee, under section 203", shall be substituted;
- (c) in the second proviso to sub-rule (3), for the words, "that the certificate in the case of deduction of tax under section 192", the words, "that the certificate in the case of deduction of tax under sub-section (1) of section 192 or, payment of tax by the employer on behalf of the employee, under sub-section (1A), of that section", shall be substituted;
- (iv) in Appendix-II, -
- (a) after Form No.12B, the following Form shall be inserted, namely:-

Form No. 12BA
[(See Rule 26A(2)(b))]

Statement showing particulars of perquisites, other fringe benefits or amenities and profits in lieu of salary with value thereof

- 1) Name and address of employer :
- 2) TAN
- 3) TDS Assessment Range of the employer :
- 4) Name, designation and PAN of employee :
- 5) Is the employee a director or a person with :
substantial interest in the company
(where the employer is a company)
- 6) Income under the head "Salaries" of the employee :
(other than from perquisites)
- 7) Financial Year :
- 8) Valuation of Perquisites

Sl. No.	Nature of perquisite (See Rule 3)	Value of perquisite as per rules (Rs.)	Amount, if any recovered from the employee (Rs.)	Amount of taxable perquisite chargeable to tax Col(3) - Col(4) (Rs.)
(1)	(2)	(3)	(4)	(5)
1.	Accommodation			
2	Cars/Other automotive			
3	Sweeper, gardener, watchman or personal attendant			
4	Gas, electricity, water			
5	Interest free or concessional loans			

- 6 Holiday expenses
 - 7 Free or concessional travel
 - 8 Free meals
 - 9 Free Education
 - 10 Gifts, vouchers etc.
 - 11 Credit card expenses
 - 12 Club expenses
 - 13 Use of movable assets by employees
 - 14 Transfer of assets to employees
 - 15 Value of any other benefit/amenity/
service/privilege
 - 16 Stock options (non-qualified options)
 - 17 Other benefits or amenities
 - 18 Total value of perquisites
 - 19 Total value of Profits in lieu of
salary as per 17(3)
9. Details of tax, -
- (a) Tax deducted from salary of the employee u/s 192(1)
 - (b) Tax paid by employer on behalf of the employee u/s 192(1A)
 - (c) Total tax paid
 - (d) Date of payment into Government treasury

DECLARATION BY EMPLOYER

I s/o working as
..... (designation) do hereby declare on behalf of
..... (name of the employer) that the information given above is based on
the books of account, documents and other relevant records or information available with us and
the details of value of each such perquisite are in accordance with section 17 and rules framed
thereunder and that such information is true and correct.

Signature of the person responsible
for deduction of tax

Place.....

Full Name

Date.....

Designation “;

(b) for Form No.16, the following Form shall be substituted, namely :-

FORM NO.16
{See rule 31(1)(a)}

**Certificate under section 203 of the Income-tax Act, 1961 for tax deducted at source
from income chargeable under the head "Salaries"**

DETAILS OF SALARY PAID AND ANY OTHER INCOME AND TAX DEDUCTED

1. Gross Salary			
a) Salary as per provisions contained in sec.17(1)	Rs		
b) Value of perquisites u/s 17(2) (as per Form No.12BA, wherever applicable)	Rs		
c) Profits in lieu of salary under section 17(3)(as per Form No.12BA, wherever applicable)	Rs		
d) Total		Rs.....	
2. Less: Allowance to the extent exempt u/s 10	Rs		
	Rs		
	Rs.....	Rs.....	
3. Balance(1-2)		Rs.....	
4. Deductions :			
a) Standard deduction	Rs		
b) Entertainment allowance	Rs		
c) Tax on employment	Rs		
5. Aggregate of 4(a) to (c)	Rs		
6. Income chargeable under the head 'salaries' (3-5)			Rs
7. Add: Any other income reported by the employee	Rs		
	Rs		
	Rs	Rs	

8. Gross total income (6+7)				Rs
9. Deductions under Chapter VIA				
	Gross Amount	Qualifying Amount	Deductible Amount	
a)	Rs	Rs	Rs	
b)	Rs	Rs	Rs	
c)	Rs	Rs	Rs	
d)	Rs	Rs	Rs	
10. Aggregate of deductible amount under Chapter VIA		Rs		
11. Total Income (8-10)		Rs		
12. Tax on total income		Rs		
13. Rebate under Chapter VIII-A				
I. Under section 88 (please specify)				
	Gross Amount	Qualifying Amount	Tax rebate	
(a)	Rs	Rs		
(b)	Rs	Rs		
(c)	Rs.....	Rs		
(d)	Rs.....	Rs		
(e)	Rs.....	Rs		
(f) Total[(a) to (e)]	Rs.....	Rs	Rs	
II (a) Under section 88B			Rs	
(b) Under section 88C			Rs	
(c) Under section 88D			Rs	
III. Under section 89 (attach details)			Rs	
14. Aggregate of tax rebates and relief at 13 above [I(f) + II(a)+ II(b)+ II(c)]				Rs
15. Tax payable on total income (12-14) and surcharge thereon			Rs.....	Rs

16. Relief under section 89 (attach details)	Rs
17. Tax payable (15-16)	Rs
18 Less: a) Tax deducted at source u/s 192(1)	Rs
b) Tax paid by the employer on behalf of the employee u/s 192(1A) on perquisites u/s 17(2)	Rs Rs
19. Tax payable/refundable (15-16)	Rs

**DETAILS OF TAX DEDUCTED AND DEPOSITED INTO
CENTRAL GOVERNMENT ACCOUNT**

Amount	Date of payment	Name of bank and branch where tax deposited
--------	-----------------	--

I son of working in the capacity of (designation) do hereby certify that a sum of Rs.....[Rupees(in words)] has been deducted at source and paid to the credit of the Central Government. I further certify that the information given above is true and correct based on the book of accounts, documents and other available records

Place.....

Date.....

.....

Signature of the person responsible
for deduction of tax

Full Name

Designation

**“[TO BE PUBLISHED IN PART II, SECTION 3, SUB-SECTION (ii) OF
THE GAZETTE OF INDIA (EXTRAORDINARY)]**

**GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
(CENTRAL BOARD OF DIRECT TAXES)**

New Delhi, the 12th January, 2004

**NOTIFICATION
(INCOME-TAX)**

S.O. 50(E).- In exercise of the powers conferred by section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income-tax (5th Amendment) Rules, 2004.
(2) They shall come into force on the 1st day of April, 2004.
2. In the Income-tax Rules, 1962, —
 - (i) in rule 12, in sub-rule (1), in clause (b), after the second proviso, the following proviso shall be inserted, namely:-
“Provided also that in the case of an individual, resident in India, where-
 - a) his total income includes income chargeable to income-tax under the head ‘Salaries’;
 - b) the income from salaries before allowing deductions under section 16 of the Income-tax Act, 1961 does not exceed rupees one lakh fifty thousand;
 - c) his total income does not include income chargeable to income-tax under the head ‘Profits and gains of business or profession’ or ‘Capital gains’ or agricultural income; and
 - d) he is not in receipt of any other income from which tax has been deducted at source by any person other than the employer;
 the assessee shall also have the option of filing return in Form No.16AA.”;
 - (ii) in rule 31, in sub-rule (1), in clause (a), the following proviso shall be inserted namely,-
“Provided that in the case of an individual, resident in India, where his income from salaries before allowing deductions under section 16 of the Income-tax Act, 1961 does not exceed rupees one lakh fifty thousand, the certificate of deduction of tax at source shall be in Form No.16AA.”;
 - (iii) in Appendix II, after Form No.16A, the following Form shall be inserted, namely:-

FORM NO. 16AA

[See third proviso to rule 12(1)(b) and rule 31(1)(a)]

**Certificate for tax deducted at source from income chargeable under the head
"Salaries"-cum-Return of income**

For an individual, resident in India, where—

- (a) his total income includes income chargeable to income-tax under the head 'Salaries';
- (b) the income from salaries before allowing deductions under section 16 of the Income-tax Act, 1961 does not exceed rupees one lakh fifty thousand;
- (c) his total income does not include income chargeable to income-tax under the head 'Profits and gains of business or profession' or 'Capital gains' or agricultural income; and
- (d) he is not in receipt of any other income from which tax has been deducted at source by any person other than the employer.

Name and Address of the Employer																			
PAN/GIR NO.										TAN									

Name and Designation of the Employee																			
PAN/GIR NO.																			

TDS Circle where annual Return/Statement under section 206 is to be filed	Period		Assessment Year
	From	To	

DETAILS OF SALARY PAID AND ANY OTHER INCOME AND TAX DEDUCTED

1. Gross Salary			
(a) Salary as per provisions contained in section 17(1)	Rs.		
(b) Value of perquisites under section 17(2) (as per Form No. 12BA, wherever applicable)	Rs.		
(c) Profits in lieu of salary under section 17(3) (as per Form No. 12BA, wherever applicable)	Rs.		
(d) Total		Rs.	
2. Less: Allowance to the extent exempt under section 10	Rs.		
	Rs.		
	Rs.	Rs.	
		Rs.	
3. Balance (1-2)		Rs.	
4. Deductions under section 16.			
(a) Standard deduction	Rs.		
(b) Entertainment allowance	Rs.		
(c) Tax on Employment	Rs.		
5. Aggregate of 4 (a) to (c)		Rs.	
6. Income chargeable under the head 'Salaries'			

701

7. Add: Any other income reported by the employee

(a) Income under the head 'Income from House Property'

702

(b) Income under the Head 'Income from Other Sources'

706

(c) Total of (a) + (b) above

Rs.

8. Particulars of Bank Account (Mandatory in Refund Cases)

Name of the Bank	MICR Code (9 digit)	Address of Bank Branch	Type of Account (Savings / Current)	Account Number	ECS (Y/N)

9. Deductions under Chapter VI-A

	GROSS AMOUNT	QUALIFYING AMOUNT	DEDUCTIBLE AMOUNT
(a) 80 CCC	Rs.	Rs.	235
(b) 80 D	Rs.	Rs.	236
(c) 80 E	Rs.	Rs.	239
(d) 80 G	Rs.	Rs.	242
(e) 80 L	Rs.	Rs.	260
(f) 80 QQB	Rs.	Rs.	275
(g) 80RRB	Rs.	Rs.	282
(h) SEC	Rs.	Rs.	

10. Aggregate of deductible amounts under Chapter VI-A

747

11. Total Income (8-10)

760

12. Tax on Total Income

810

13. Rebate under Chapter VIII

I. Under section 88 (Please Specify)	GROSS AMOUNT	QUALIFYING AMOUNT	TAX REBATE
(a)	Rs.	Rs.	Rs.
(b)	Rs.	Rs.	Rs.
(c)	Rs.	Rs.	Rs.
(d)	Rs.	Rs.	Rs.
(e)	Rs.	Rs.	Rs.
(f)	Rs.	Rs.	Rs.
(g) Total [(a) to (f)]	Rs.	Rs.	812
II. (a) Under section 88B			813
(b) under section 88C			814

14. Aggregate of tax rebates at 13 above [I(g)+II(a)+II(b)]

820

15. Tax payable on total income (12-14) and surcharge thereon

832

16. Less : Relief under section 89 (attach details)

837

17. Balace Tax payable (15-16)

841

18. Less :

(a) tax deducted at source under section 192(1)

868

(b) Tax paid by the employer on behalf of the employee under section 192 (1A) on perquisites under section 17(2)

872 873

19. Tax payable/refundable (17-18)

891

[illegible]

Date.....

Full Name

Designation

1. NAME OF THE ASSESSEE

[illegible]

3. DATE OF BIRTH - - 4. SEX M/F: 5. ASSESSMENT YEAR -

6. WARD/CIRCLE/SPECIAL RANGE:

7. RETURN: ORIGINAL OR REVISED:

8. PARTICULARS OF BANK ACCOUNT (for payment of refund)

Name of the Bank	MICR Code	Address of Bank Branch	Type of Account	Account Number

I, (Name in full and in block letters), son/daughter of Shri solemnly declare that to the best of my knowledge and belief, the information given in this return is correct, complete and truly stated and in accordance with the provisions of the Income-tax Act, 1961, in respect of income chargeable to income-tax for the previous year relevant to the assessment year.....

Receipt No..... Date.....

Seal

Signature of the receiving official

Signature of the assessee

Date.....

Place.....

**[TO BE PUBLISHED IN PART II, SECTION 3, SUB-SECTION (ii) OF THE
GAZETTE OF INDIA (EXTRAORDINARY)]**

**GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
(CENTRAL BOARD OF DIRECT TAXES)**

New Delhi, the 12th January, 2004

**NOTIFICATION
(INCOME-TAX)**

S. O. No. 51(E).- In exercise of the powers conferred by sub-section (1A) of section 139 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby frames the following Scheme, namely:

1. Short title, commencement and application.-

- (1) This Scheme may be called the Scheme for Filing of Returns by Salaried Employees through Employer, 2004.
- (2) It shall come into force from the 1st day of April, 2004.
- (3) It shall be applicable to all eligible employees.

2. Definitions.- In this Scheme, unless the context otherwise requires,—

- (a) “Act” means the Income-tax Act, 1961 (43 of 1961);
- (b) “Eligible Employee” means an individual, resident in India, where-
 - (i) his total income includes income chargeable to income tax under the head ‘Salaries’;
 - (ii) the income from salaries before allowing deduction under section 16 of the Income-tax Act, 1961, does not exceed rupees one lakh fifty thousand;
 - (iii) his total income does not include income chargeable to income-tax under the head ‘Profits and gains of business or profession’ or ‘Capital gains’ or, agricultural income; and
 - (iv) he is not in receipt of any other income from which tax has been deducted at source during the previous year by any person other than the employer.
- (c) “Form” means a form prescribed under the Income-tax Rules, 1962.
- (d) all other words and expressions used herein but not defined and defined in the Act shall have the meaning respectively assigned to them in the Act.

3. Types of returns to be received.-

Following types of returns shall not be furnished under this Scheme-

- (i) Return of income for any assessment year other than the assessment year for which he is required to furnish the return of income under sub-section (1) of section 139 during the current financial year;
- (ii) Return of income where no PAN or incorrect PAN of the employee has been quoted;
- (iii) Return of income under section 153A of the Income-tax Act;
- (iv) Return of an employee having more than one employer during the previous year for which the return is being furnished; and
- (v) Return of employee who is not in receipt of his salary from the employer as on the last day of the previous year, for which the return is being furnished.

4. Returns how to be furnished.-

The Scheme is optional and provides an additional mode of furnishing returns of income by persons deriving income from salaries. On his option, an eligible employee may furnish his return through his employer under the Scheme, as per the following procedure:-

- (i) On receipt of the certificate of tax deducted at source from the income chargeable under the head 'salaries' in Form No. 16AA from the employer, the eligible employee shall verify the information given in the said Form as correct, complete and true in accordance with the provisions of Income Tax Act, 1961 in respect of his income chargeable to income-tax for the relevant assessment year and furnish the same after being signed and verified by him to the employer before the due date specified in sub-section (1) of section 139 of the Income Tax Act, 1961.
- (ii) On receipt of duly signed and verified Form No. 16AA from an 'eligible employee', the employer shall furnish the return of income of the eligible employee in Form No. 16AA to the Assessing Officer and obtain an acknowledgement.
- (iii) The employer shall ensure that the return of income is furnished to the Assessing Officer on or before the due date specified in sub-section (1) of section 139 of the Income Tax Act, 1961.
- (iv) The employer shall distribute acknowledgements obtained from the Assessing Officer to the respective eligible employees.

5. Date of furnishing of return.-

For an eligible employee who opts to furnish the return of income through his employer under this Scheme, the date on which the employer has furnished the return of income of the eligible employee to the Assessing Officer shall be treated as the date of furnishing of return of income by the eligible employee and the relevant provisions of the Income-tax Act, 1961, for furnishing of income shall apply as if the return has been filed by the employee.

[Notification No. 13/2004 /F. No. 142/03/2004-TPL]

Chandrajit Singh,
Under Secretary to the Government of India

**[TO BE PUBLISHED IN THE GAZETTE OF INDIA EXTRAORDINARY
PART-II SECTION 3, SUB-SECTION (ii)]**

**GOVERNMENT OF INDIA
MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)
(CENTRAL BOARD OF DIRECT TAXES)**

New Delhi, the 26th August, 2003

**NOTIFICATION
INCOME-TAX**

S.O. 974 (E)- In exercise of the powers conferred by sub-section (2) of section 206 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby specifies the following Scheme for electronic filing of return of tax deducted at source, namely:-

1. Short title, commencement and application. -

- (1) This Scheme may be called the "Electronic Filing of Returns of Tax Deducted at Source Scheme, 2003".
- (2) It shall come into force on the date of its publication in the Official Gazette.
- (3) It shall be applicable to all persons filing returns of tax deducted at source on computer media under sub-section (2) of section 206 of the Income-tax Act, 1961.

2. Definitions. - In this Scheme, unless the context otherwise requires,-

- (1) "Act" means the Income-tax Act, 1961 (43 of 1961);
- (2) "Board" means the Central Board of Direct Taxes constituted under the Central Board of Revenues Act, 1963 (54 of 1963);
- (3) "computer media" means a floppy (3 ½ inch and 1.44 MB capacity) or CD-ROM, and includes on-line data transmission of electronic data to a server designated by e-filing Administrator for this purpose;
- (4) "e-deductor" means the person responsible for deduction of tax at source who is required to furnish e-TDS Return under this scheme;
- (5) "e-filing Administrator" means an officer not below the rank of Commissioner of Income-tax designated by the Board for the purpose of administration of this scheme;
- (6) "e-TDS Intermediary" means a person, being a company, authorised by the Board

to act as e-TDS Intermediary under this scheme;

- (7) "e-TDS Return" means a return to be filed under section 206 of the Act duly supported by a declaration in Form No. 27A as prescribed under the Rules;
- (8) "Rules" means the Income-tax Rules, 1962;
- (9) All other words and expressions used herein but not defined and defined in the Act shall have the meanings respectively assigned to them in the Act.

3. Preparation of e-TDS Return. –

- (1) The e-deductor shall use the relevant Forms prescribed under the Rules for preparing e-TDS Returns.
- (2) The e-deductor shall prepare his e-TDS Return according to the data structure to be provided by the e-filing Administrator.
- (3) While preparing e-TDS Return, the e-deductor shall quote his permanent account number and tax deduction account number as also the permanent account number of all persons in respect of whom tax has been deducted by him except in respect of cases to which the first proviso to sub-section (5A) or the second proviso to sub-section (5B) of section 139A of the Act applies.
- (4) The e-deductor shall ensure that all columns of the Forms of the return for tax deduction at source, prescribed under the Rules, are duly and correctly filled in.
- (5) Each computer media used for preparation of the e-TDS Return shall be affixed with a label indicating name, permanent account number, tax deduction account number and address of the e-deductor, the period to which the return pertains, the Form Number of the return and the volume number of the said media in case more than one volume of such media is used.
- (6) Separate computer media shall be used for each Form of e-TDS Return by the e-deductor.

4. Furnishing of e-TDS Return.-

- (1) The e-deductor shall furnish e-TDS Return on computer media to the e-TDS Intermediary duly supported by a declaration in Form No.27A, as prescribed in the Rules, in paper format:

Provided that in case any compression software has been used by the e-deductor for preparing the e-TDS Return, he shall also furnish such compression software alongwith the e-TDS Return on the same computer media.

- (2) In case the e-deductor has on-line connectivity with the server of the e-TDS Intermediary, as may be designated by e-filing Administrator for this purpose, he may transmit the electronic data of the e-TDS Return directly to such server and send Form No. 27A on paper format separately to the e-TDS Intermediary.

5. Procedure to be followed by e-TDS intermediary. –

- (1) The e-TDS Intermediary shall receive the e-TDS Return from e-deductors alongwith the declaration in Form No. 27A in paper format.
- (2) The e-TDS Intermediary shall perform format level validation and control checks on the e-TDS Returns received by him and on successful completion of the same, the e-filing Administrator shall issue provisional receipt to the e-deductor.
- (3) The e-TDS Intermediary shall upload the data on e-TDS Return on the server designated by the e-filing Administrator for the purpose of e-TDS Return and check whether the prescribed particulars relating to deposit of the tax deducted at source in bank and the permanent account number of the deductee have been given in the e-TDS Return.
- (4) On successful completion of the check, the data of e-TDS Return shall be transmitted by the e-TDS Intermediary to the e-filing Administrator together with the declaration in Form No.27A and the provisional receipt issued shall be deemed to be the acknowledgement of the e-TDS Return.
- (5) Where the details of deposit of tax deducted at source in bank, the permanent account number, tax deduction account number or any other relevant details are not given in the e-TDS Return, the e-filing Administrator shall forward a deficiency memo to the e-deductor with a request to remove the deficiencies within seven days of receipt of the same.
- (6) In case the deficiency indicated in the deficiency memo is removed within seven days, the data on e-TDS Return shall be transmitted by the e-TDS Intermediary to the e-filing Administrator and the provisional receipt shall be deemed to be acknowledgement of the e-TDS Return. The date of issue of provisional receipt shall be deemed to be the date of filing of the e-TDS Return.
- (7) In case no deficiency memo is issued by the e-filing Administrator within thirty days of issue of the provisional receipt, the provisional receipt issued shall be deemed to be the acknowledgement of the e-TDS Return and the date of issue of provisional receipt shall be deemed to be the date of filing of e-TDS Return.
- (8) Where the deficiencies indicated in the deficiency memo are not removed by the e-deductor within seven days, the e-TDS Intermediary shall communicate the same to the e-filing Administrator and transmit the data to the e-filing Administrator whereupon Assessing Officer may take action for declaring the return as an invalid return after giving due opportunity to the deductor as required under sub-section (4) of section 206 of the Act.
- (9) In case the defects intimated by the Assessing Officer are rectified within the period of fifteen days or such further period as may be allowed by the Assessing Officer, the date of issue of provisional receipt shall be deemed to be the date of filing of e-TDS Return.

6. General responsibilities of e-TDS Intermediary. –

- (1) The e-TDS Intermediary shall ensure accurate transmission of the e-TDS Return to the e-filing Administrator:

Provided that the e-TDS Intermediary shall not be responsible for any errors or omissions in the return of tax deducted at source prepared by the e-deductor.

- (2) The e-TDS Intermediary shall retain for a period of one year from the end of the relevant financial year in which the return is required to be filed, the electronic data of the TDS Return in the format as specified by the e-filing Administrator.
 - (3) The e-TDS Intermediary shall retain for a period of one year from the end of the relevant financial year in which the return is required to be filed, the information relating to deficiency memo and provisional receipts issued in respect of the returns filed through it.
 - (4) The e-TDS Intermediary shall ensure confidentiality of information that comes to his possession during the course of implementation of this scheme, save with the permission of the e-deductor, Assessing Officer or e-filing Administrator.
 - (5) The e-TDS Intermediary shall ensure that all his employees, agents, franchisees, etc., adhere to all provisions of this scheme as well as all directions issued by the e-filing Administrator.
7. **Powers of e-filing Administrator.** - Without affecting the generality of the foregoing provisions, the e-filing Administrator shall -
- (1) specify the procedures, data structures, formats and standards for ensuring secure capture and transmission of data, for the day to day administration of this scheme;
 - (2) ensure compliance by e-TDS Intermediary with the technical requirements of this scheme, including review of the functioning of e-return Intermediary, verification of any complaints, scrutinising advertising material issued by them and such other matters as he deems fit.
8. **Powers of the Board:** The Board may revoke the authorisation of an e-filing Intermediary on grounds of improper conduct, misrepresentation, unethical practices, fraud or established lack of service to the e-deductors or such other ground as it may deem fit.

Notification No.205/2003.

F. No. 142/31/2003-TPL

(Deepika Mittal)
Under Secretary to the Government of India

MINISTRY OF FINANCE
(Department of Economic Affairs)
(ECB & PR Division)

NOTIFICATION

New Delhi, the 22nd December, 2003

F.No. 5/7/2003-ECB &PR- The government approved on 23rd August, 2003 the proposal to implement the budget announcement of 2003-04 relating to introducing a new restructured defined contribution pension system for new entrants to Central Government service, except to Armed Forces, in the first stage, replacing the existing system of defined benefit pension system.

- (i) The system would be mandatory for all new recruits to the Central Government service from 1st of January 2004 (except the armed forces in the first stage). The monthly contribution would be 10 percent of the salary and DA to be paid by the employee and matched by the Central government. However, there will be no contribution from the Government in respect of individuals who are not Government employees. The contribution and investment returns would be deposited in a non-withdrawable pension tier-I account. The existing provisions of defined benefit pension and GPF would not be available to the new recruits in the Central Government service.
- (ii) In addition to the above pension account, each individual may also have a voluntary tier-II withdrawable account at his option. This option is given as GPF will be withdrawn for new recruits in Central government service. Government will make no contribution into this account. These assets would be managed through exactly the above procedures. However, the employee would be free to withdraw part or all of the 'second tier' of his money anytime. This withdrawable account does not constitute pension investment, and would attract no special tax treatment.
- (iii) Individuals can normally exit at or after age 60 years for tier-I of the pension system. At the exit the individual would be mandatorily required to invest 40 percent of pension wealth to purchase an annuity (from an IRDA-regulated life insurance company). In case of Government employees the annuity should provide for pension for the lifetime of the employee and his dependent parents and his spouse at the time of retirement. The individual would receive a lump-sum of the remaining pension wealth, which he would be free to utilize in any manner. Individuals would have the flexibility to leave the pension system prior to age 60. However, in this case, the mandatory annuitisation would be 80% of the pension wealth.

Architecture of the new Pension System

- (iv) It will have a central record keeping and accounting (CRA) infrastructure, several pension fund managers (PFMs) to offer three categories of schemes viz. option A, B and C.
 - (v) The participating entities (PFMs and CRA) would give out easily understood information about past performance, so that the individual would be able to make informed choices about which scheme to choose.
2. The effective date for operationalisation of the new pension system shall be from 1st of January, 2004.

MINISTRY OF FINANCE
(Department of Revenue)
(Central Board of Direct Taxes)

Notification

New Delhi, the 24th November, 2000

INCOME- TAX

S.O.1048 (E) - In exercise of the powers conferred by sub-clause (i) of clause (18) of Section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government, hereby specifies the gallantry awards for the purposes of the said Section, mentioned in column 2 of the table below awarded in the circumstances as mentioned in corresponding column 3 thereof:-

Table

Sl. No. (1)	Name of gallantry award (2)	Circumstances for eligibility (3)
1.	Ashok Chakra	When awarded to Civilians for gallantry
2.	Kirti Chakra	- do -
3.	Shaurya Chakra	- do -
4.	Sarvottan Jeevan Raksha Padak	When awarded to Civilians for bravery displayed by them in life saving acts.
5.	Uttam Jeevan Raksha Medal	- do -
6.	Jeevan Raksha Padak	- do -
7.	President's Police Medal for gallantry	When awarded for acts of exceptional courage displayed by members of police forces, Central police or security forces and certified to this effect by the head of the department concerned.
8.	Police Medal for Gallantry	- do -
9.	Sena Medal	When awarded for acts of courage or conspicuous gallantry and supported by certificate issued to this effect by relevant service headquarters.
10.	Nao Sena Medal	- do -
11.	Vayu Sena Medal	- do -

Sl. No. (1)	Name of gallantry award (2)	Circumstances for eligibility (3)
12.	Fire Secrvices Medal for Gallantry	When awarded for acts of courage or conspicuous gallantry and supported by certificate issued to this effect by the last Head of Department.
13.	President's Police & Fire Services Medal for Gallantry	-do-
14.	President's Fire Services Medal for Gallantry	-do-
15.	President's Home Guards and Civil Defence Medal for Gallantry	-do-
16.	Home Guard and Civil Defence Medal for Gallantry	-do-

(Notification no. 1156/F.No. 142/29/99-TPL)

(T.K. SHAH)
Director

ANNEXURE VIB

**MINISTRY OF FINANCE
Department of Revenue
Central Board of Direct Taxes**

New Delhi, the 29th January, 2001

S.O.81(E)- In exercise of the powers conferred by sub-clause (i) of clause (18) of Section 10 of the Income –tax Act, 1961 (43 of 1961)), the Central Government, hereby specifies the gallantry awards for the purposes of the said Section and for that purpose makes the following amendment in the notification of the Government of India in the Ministry of Finance, Department of Revenue (Central Board of Direct Taxes) number S.O.1048(E), dated the 24th November 2000, namely:-

In the said notification, in the Table, against serial numbers 1,2 and 3 under cloumn (3) relating to “Circumstances for eligibility” **the words** “to civilians” shall be omitted.

(Notification No.22/F.No.142/29/99-TPL)

(T.K. SHAH)
Director

FORM NO. 10BA
(See rule 11B)
DECLARATION TO BE FILED BY THE ASSESSEE
CLAIMING DEDUCTION U/S 80 GG

I/We.....

(Name of the assessee with permanent account number)

do hereby certify that during the previous Year.....I/We had occupied the
 premise.....(full address of the premise) for the purpose of my/our own
 residence for a period of.....months and have paid Rs. in cash/
 through crossed cheque, bank draft towards payment of rent to Shri/Ms/M/s.....
(name and complete address of the landlord).

It is further certified that no other residential accommodation is owned by

(a) me/my spouse/my minor child/our family (in case the assessee is HUF), at
 where I/we ordinarily reside/perform duties of officer or employment or carry on business or
 profession, or

(b) me/us at any other place, being accommodation in my occupation, the value of which is to be
 determined u/s 23(2)(a)(i) of u/s 23(2)(b)".

Sd/-

(SUNITI SRIVASTAVA)

Under Secretary to the Govt. of India

(F.No. 142/47/98-TPL
 Notification No. 10722)

The principal rules were published vide Noti.No.S.O.969 (E) dated 26.3.1962
 And were last amended vide Notification No. S.O. 897(E) dated 12.10.98.
