

Taxation of Salaries

An Overview

Prepared by:

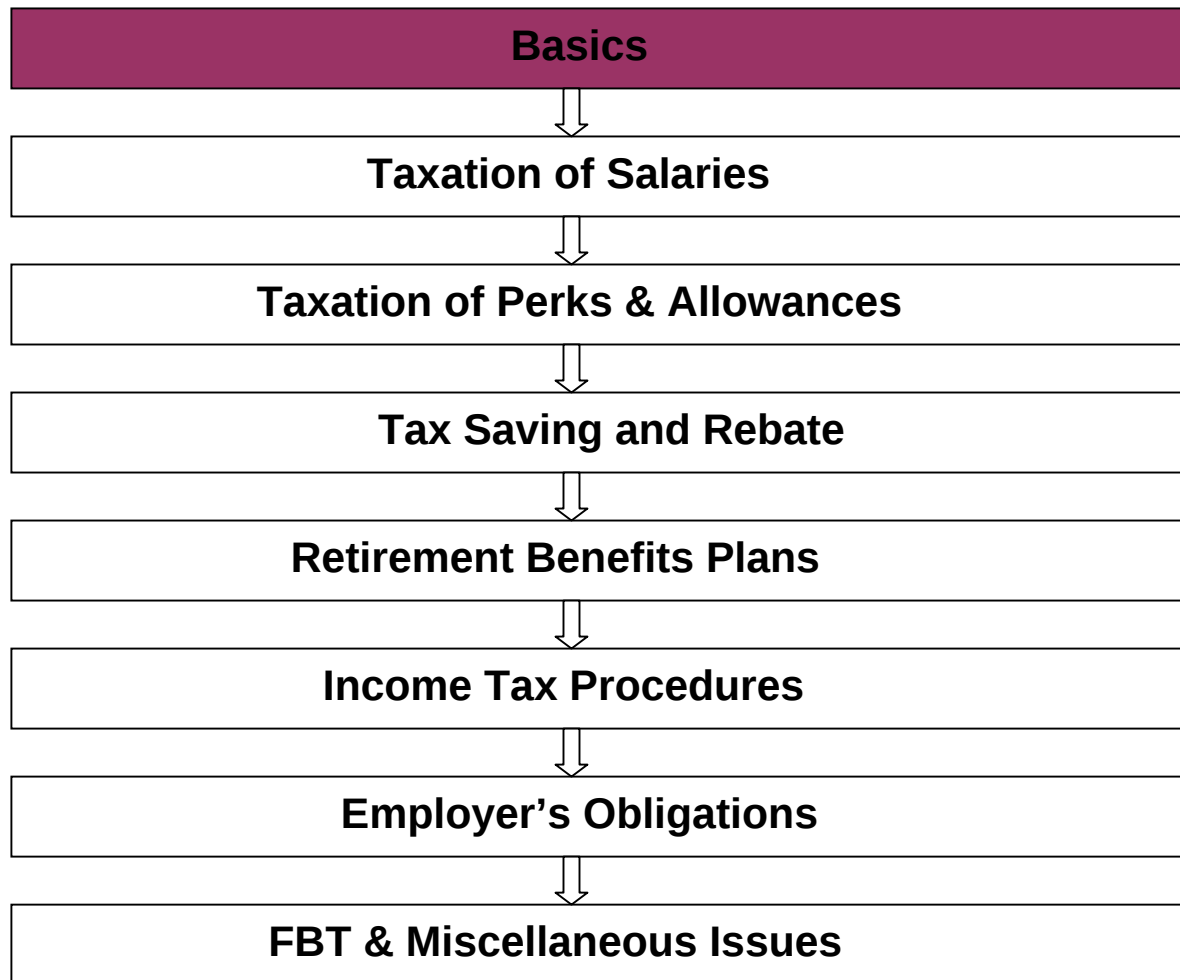
SHWETA PRASAD

Group Coordinator:

YOGESH MITTAL

Yogesh_Mittal2@yahoo.co.in

INSIGHT

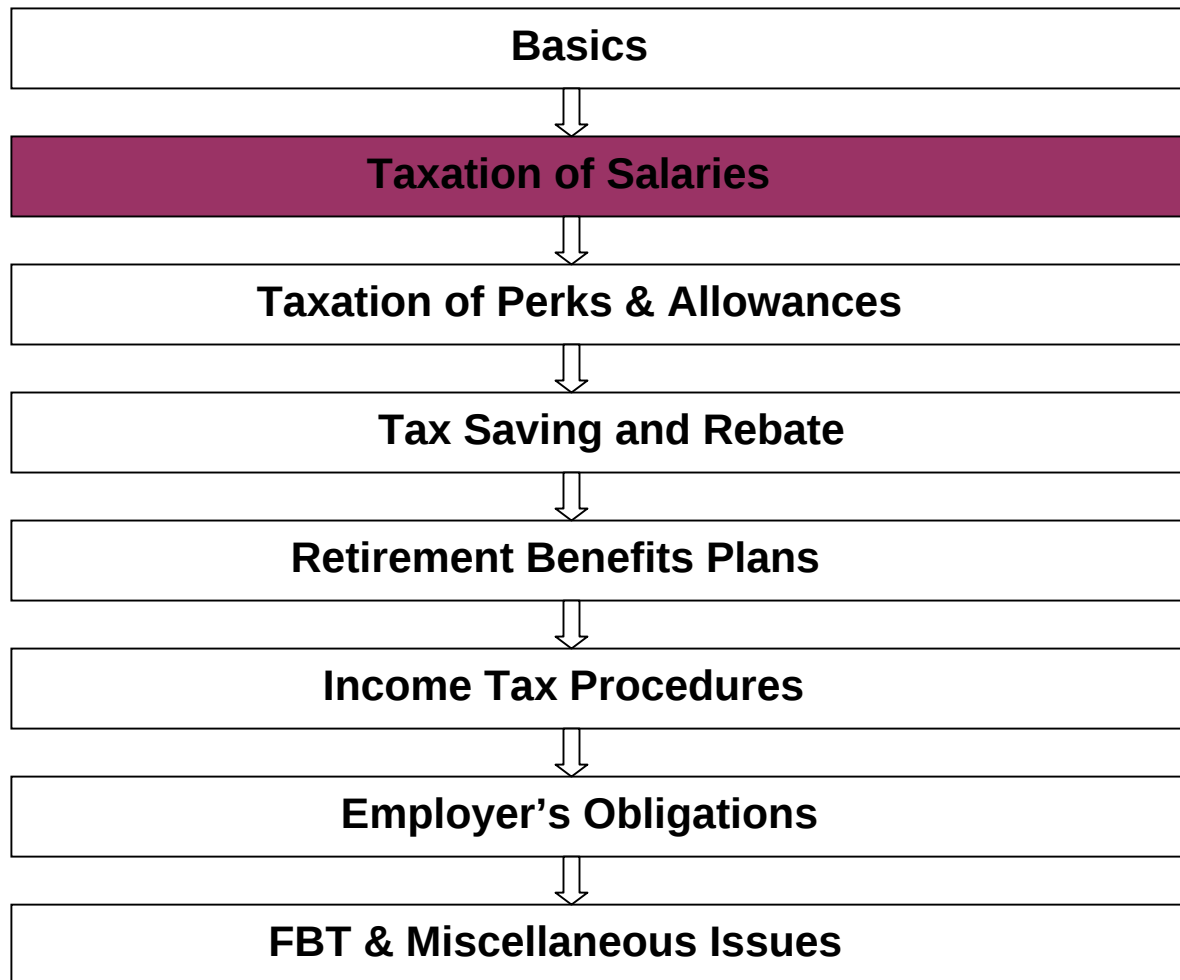




Salary Basics

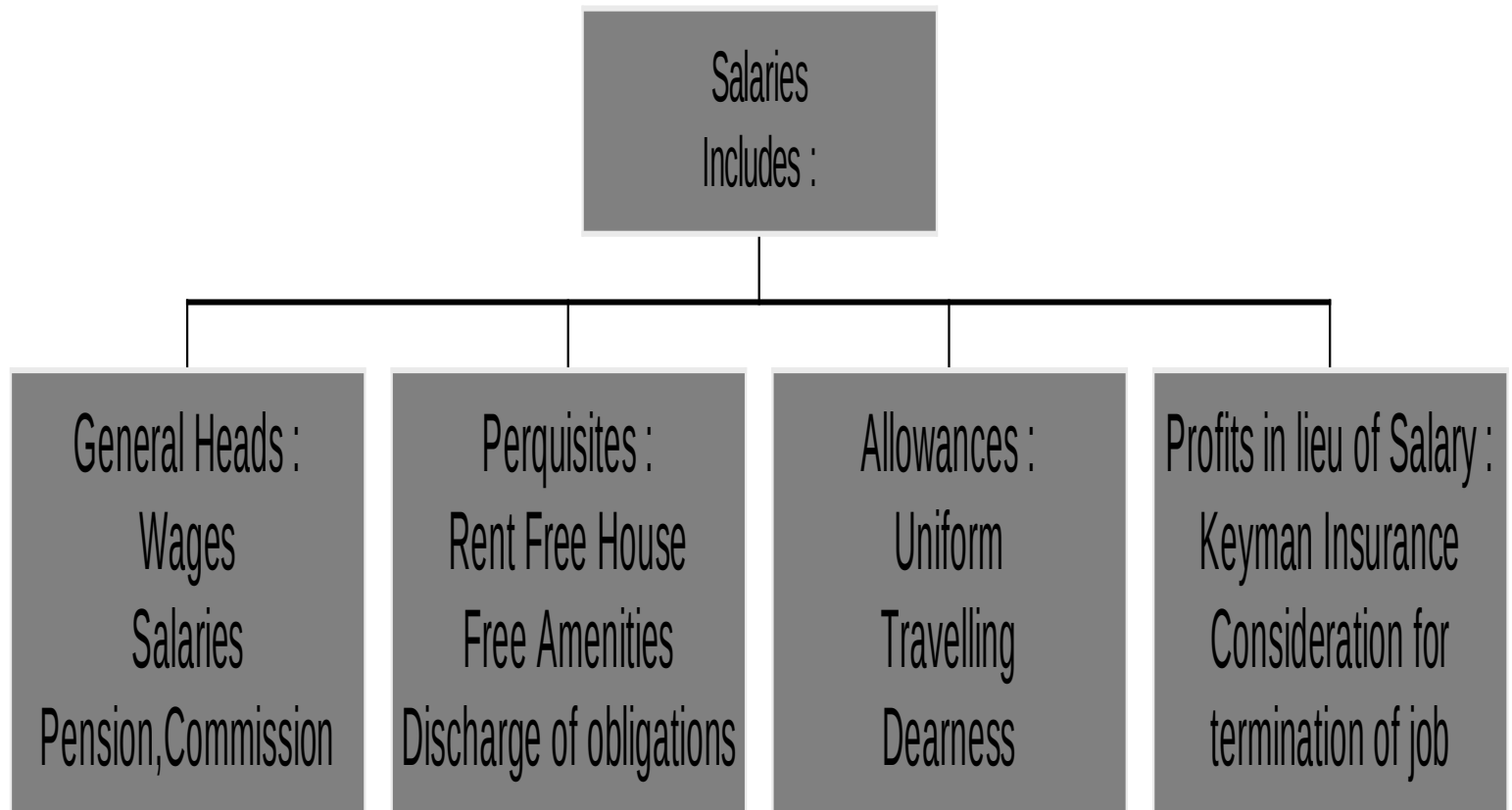
- Taxability on Due or Receipt basis whichever is earlier
- The relationship between the payer and payee should be of an employer – employee or master and servant
- Essentially required is “**Contract of Service**” and not “**Contract for Service**”
- No distinction between gratuitous and contractual payment. Salary, perks or allowances given as gifts are also taxable
- Salary from more than one employer during the year is taxable under ‘salaries’. Also, remuneration from a present, past or prospective employer is taxable as ‘salaries’
- If tax is borne by the employer, the tax element shall be added to the salaries
- Tax implications differ with ‘Specified’ and ‘Non-Specified’ Employees. Specified employees are -
 - Director of a company
 - Employee with substantial interest (i.e. beneficial owner share carrying more than 20% of voting power)
 - Income under the head income from Salaries exceeds Rs.50,000, *excluding:-*
 - *Non monetary payments,*
 - *Exemptions allowed u/s 10 &*
 - *Deductions u/s 16 (ii), 16 (iii)*

INSIGHT





Composition of Salaries



Though advances and arrears in Salary are taxable, relief can be claimed u/s 89 making an application to the AO

Taxation of 'Salaries'

Income from Salary	Rs.	Rs.
■ Basic Pay		XX
Add:		
■ Taxable Allowances (I.e. after netting out the section 10 exemptions)	xx	
- House Rent Allowance		
- Uniform Allowance		
■ Perquisites	xx	
- Rent Free House		
- Free Gas, Water, Electricity provided by employer		
■ Profits in lieu of Salary	xx	xx
- Any sum received before joining / after leaving the employment with the present employer		
Gross Salary		Xx
Less:	xx	
■ Deductions:	xx	Xx
- Entertainment Allowance u/s 16(ii)		
- Profession Tax u/s 16(iii)		
Net Taxable Salary		XX
■ Relief u/s 89, if any, can be claimed from the tax payable in the respective year		

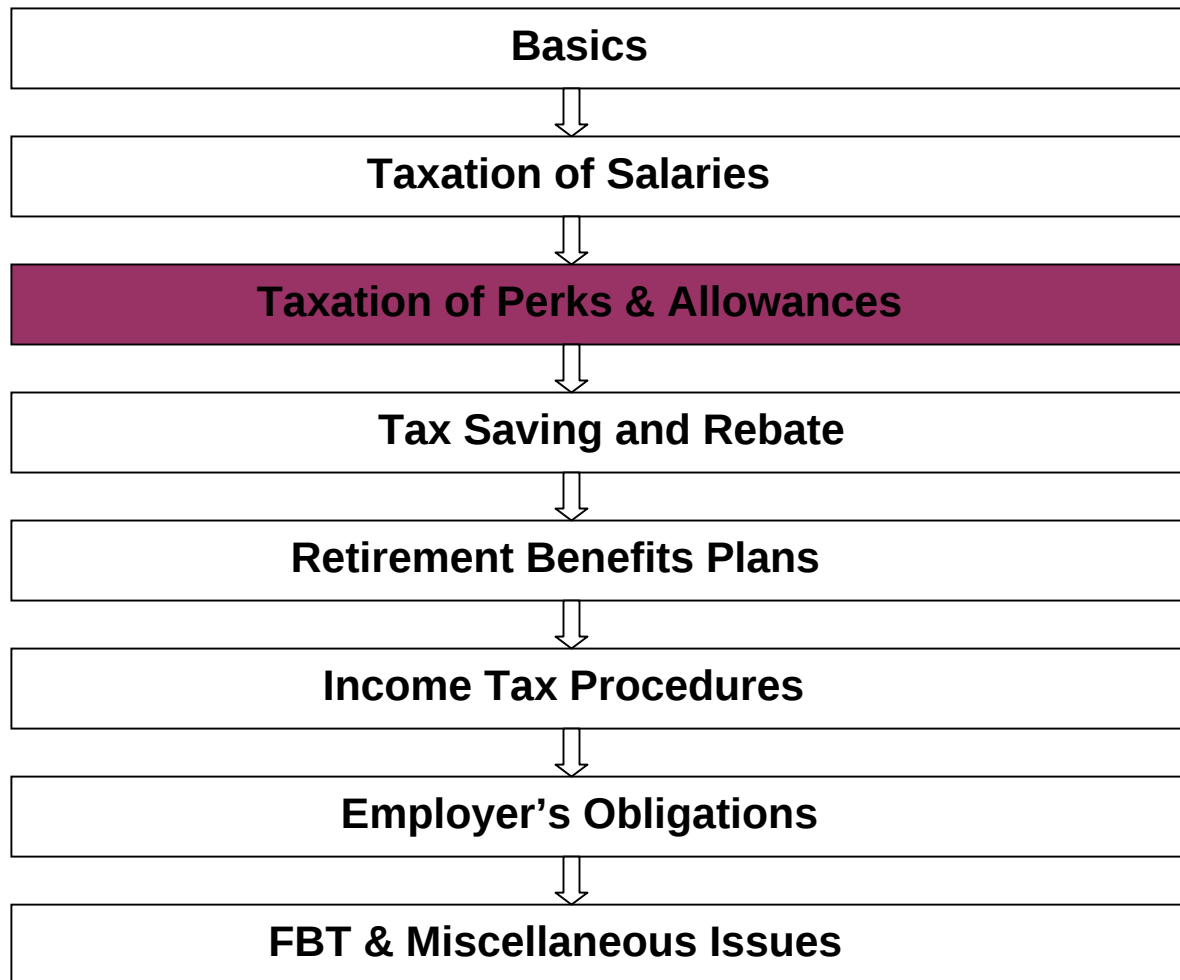


Tax Rate for AY 2006-2007

Individual	Woman	Senior Citizen	Rate
Upto Rs.1,00,000	Upto Rs.1,35,000	Upto Rs.1,85,000	Nil
Rs.1,00,001 - Rs.1,50,000	Rs.1,35,001 – Rs.1,50,000.	-	10.20%
Rs.1,50,001 -Rs.2,50,000	Rs.1,50,001 – Rs.2,50,000	Rs.1,85,001– Rs.2,50,000.	20.40%
Rs.2,50,000 – Rs. 10,00,000	Rs.2,50,000 – Rs. 10,00,000	Rs.2,50,000 – Rs. 10,00,000	30.60%
Above Rs.10,00,000	Above Rs.10,00,000	Above Rs.10,00,000	33.66% (Marginal Relief available)

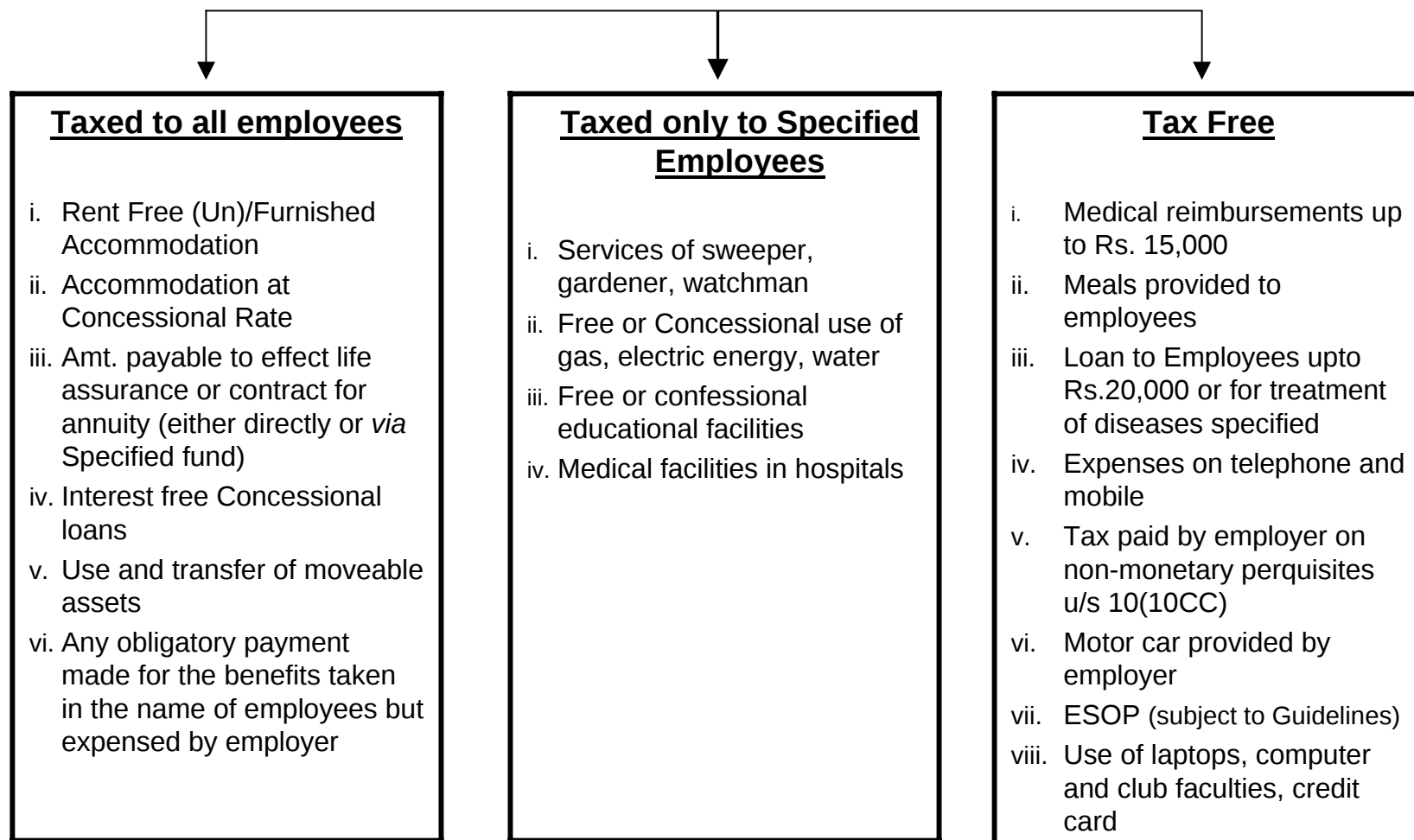
Advance payment of tax has to be made at the prescribed dates – Sep. 15, Dec. 15 & Mar. 15

INSIGHT





Taxability of Perquisites





Allowances – I

Leave Travel Concession (LTC) U/S 10(5):

- It is the travel concession or assistance provided by the employer to employee and his family for proceeding to any place in India either on leave or after termination of services
- Employee is entitled to exemption in respect of the value of 2 journeys performed in a block of 4 years commencing from the calendar year 1986 ie 1986-89, 1990-1993....2006-09 etc.
- Maximum one journey can be carried forward during the first calendar year of the immediately succeeding block of 4 calendar years.
- In case the LTC is encashed without performing journey, the entire amount received will be taxable
- Exemption shall not be available to more than 2 surviving children of the employee after 01-10-1998. *this restriction shall not apply in case of children born before 01-10-1998 and also in case of multiple birth after one child.*
- Quantum of deduction will be limited to the actual travel expenses incurred on journey depending upon the mode of transportation

House Rent Allowance (HRA) U/S 10(3A) :

- Given by employer to meet any expenditure incurred by the employee in respect of rent of accommodation
- Of the above sum provided, least of the following is exempt:
 - Actual HRA received by employee.
 - Excess of rent paid over 10% of Salary.
 - 50% of Salary in case residential house is situated in Mumbai, Delhi, Kolkatta or Chennai or 40% in other cities



Allowances – II

Allowance Head	Amount of Exemption
Children Education Allowance	Maximum Rs.100 per month per Child for a maximum of 2 Child
Children Hostel Allowance	Maximum Rs.300 per month per Child for a maximum of 2 Child
Transport Allowance	Maximum Rs. 800 per month for commuting between residence and office.(Rs.1,600 for blind and disabled.)
Others	➤ Dearness allowance to the extent not includible in retirement benefits ➤ Uniform Allowance for purchase and maintenance of uniform ➤ Allowance given to an employee working in a transport system. 70 % of such allowance (Max. 6,000) is exempt. ➤ Special compensatory allowances as given in Border areas, Remote locality or difficult areas. Exempt to the extent specified.

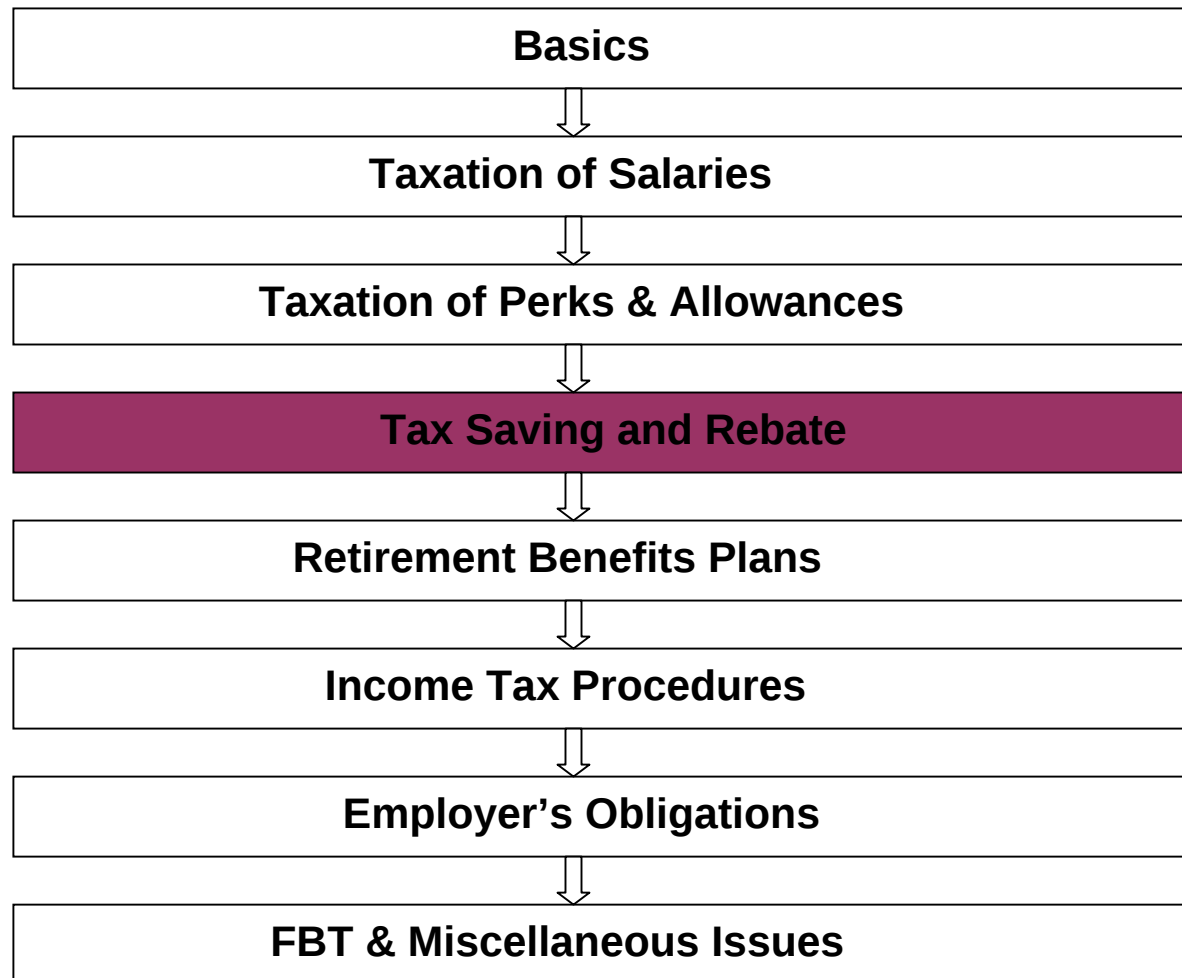
Important;

1. The above allowances are exempt upto actual amount received or limit specified. Actual expenditure are irrelevant.
2. The allowances like traveling, conveyance, daily allowance, academic allowance or uniform allowance, if received by the employee for his personal purpose will be taxable in his hands as 'salary'. On the other hand if these are spent by him on the performance of official duty, the same will be treated as reimbursement and taxable as 'FBT'.

INSIGHT



YGM





Section 80C

Particulars	PPF	NSC	ELSS	Infrastructure Bonds	Fixed Deposit
Tenure (Years)	15	6	3	3	5
Min. Investment (Rs.)	500	100	500	5000	100
Max. Investment	70,000	100,000	100,000	100,000	100,000
Return % (CAGR)	8.00	8.00	Market-Linked	5.50-6.00	6.50
Interest Frequency	Compounded Annually	Compounded half yearly	No assured returns	Options Available	Options Available
Taxation of Interest	Tax Free	Taxable (Deduction can be claimed)	Dividend & capital gains tax free	Taxable	Taxable

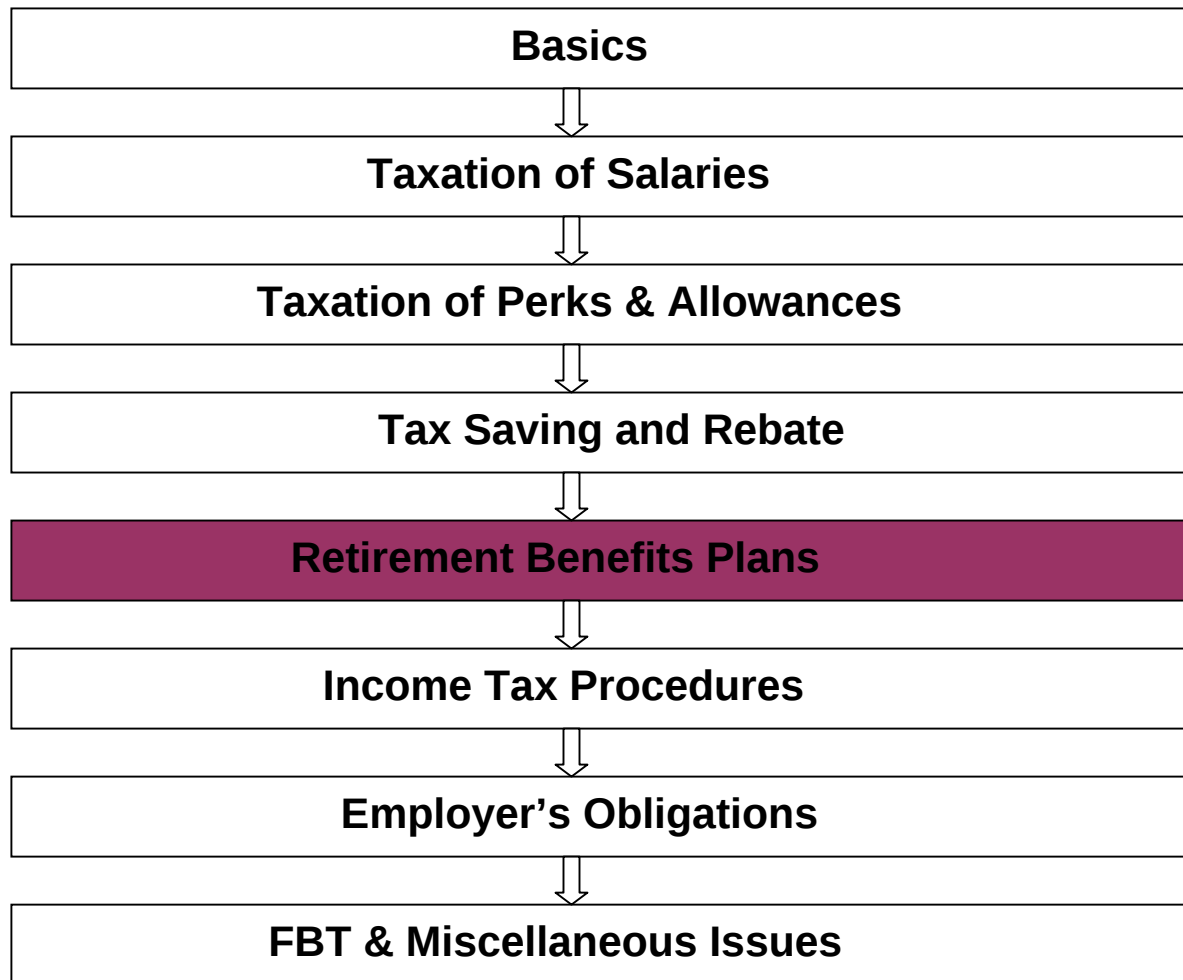
Maximum Deduction u/s 80C is to the extent of Rs. 1 Lakh



Other Deductions

Particulars	Section	Amount(Rs.)
Contribution to Pension Funds	80CCC	Rs. 1 Lakh (w.e.f April,07)
Medical insurance premium	80D	10,000
Maintenance including medical treatment of handicapped dependent	80DD (Form 10-I)	50,000 (Rs.75,000 for sever disability)
Medical treatment of any member of the family (For actual expenses incurred on specified diseases)	80DDB (Form 10-IA)	40,000 (Rs.60,000 in case of senior citizen)
Interest on loan taken for higher education	80E	100%
Donations	80G (Attach Proof of payment)	50%/100%
Rent paid wherein assessee is not entitled to any HRA or concession	80GG (Form 10-BA)	Maximum Rs. 2,000 per month
Disability of a person	80U	Rs. 50,000

INSIGHT

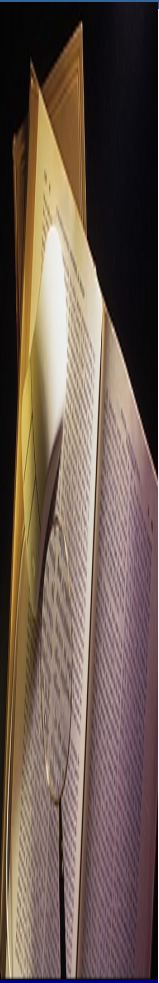
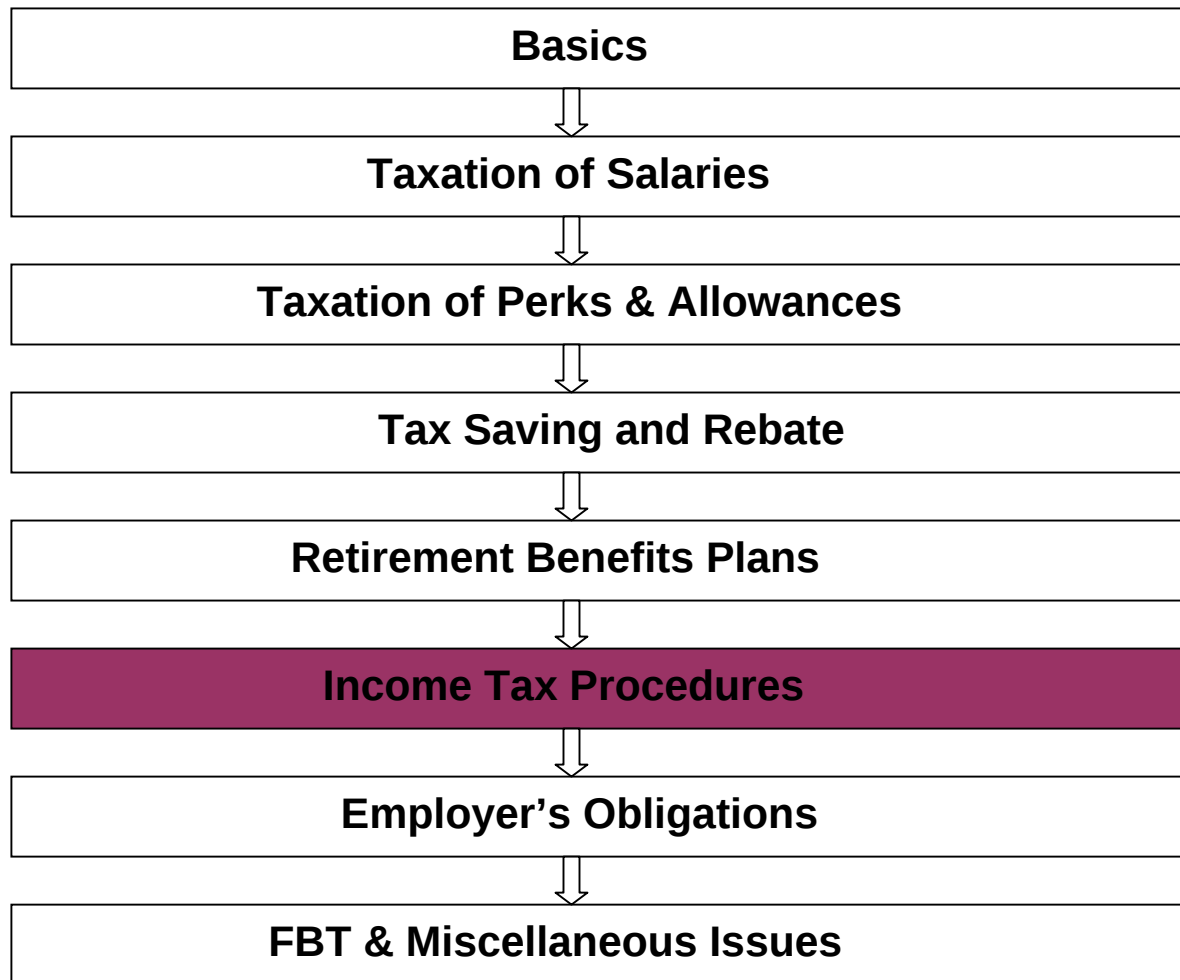




Retirement benefits

Retirement benefits	Conditions
Gratuity u/s 10(10)	- For government employees -> fully exempt - Others -> half month salary for each year of completed service/ actual sum - Maximum exemption to Rs.3,50,000
Pension u/s 10(10A)	- For uncommuted i.e. periodical pension -> fully taxable. - Commuted pension:- - For government employees -> fully exempt. - Where gratuity is received -> 1/3rd of commuted value. - Where gratuity is not received -> 1/2 of commuted value.
Recognized Provident Fund	- Employer's Contribution, Maximum exemption ->12% of Salary - Interest on PF Maximum exemption ->9.5%p.a
Life Insurance Policy u/s 10(10D)	- Sum received on the maturity of policy (including Bonus thereon) is exempt - Exemption not available on the assignment of the Keyman Insurance Policy
Retrenchment Compensation u/s10(10B)	Maximum exemption Rs.5,00,000.
Leave Encashment u/s 10(10AA)	- During the period of service -> Fully taxable. - Encashed at the time of retirement, resign or death: - Government employees -> fully exempt - Others -> 10 months average of immediately salary/ actual sum - Maximum exemption Rs.3,00,000.
Voluntary Retirement Scheme u/s 10(10C)	Maximum exemption Rs.5,00,000.

INSIGHT





Filing of Return

Particulars	Form No.	Documents to be attached	Due Date of filing
Salary Income	2E (now replaced by Form 2F)	Form 16 and 12BA (for Perquisites)	31 st July
Salary with Business Income	2D	Form 16 and 12BA (for Perquisites), Final a/cs of Business	31 st July
For Refund of excess tax paid	30	-	To be filed along with the Return

Important:

- Fill form with Black Pen only
- PAN is compulsory to be quoted
- Has to be signed by the Assessee himself or designated attorney
- Bank Account Details has to be given in case of refund
- Penalties imposed for default in furnishing the Returns



TAX REQUISITES

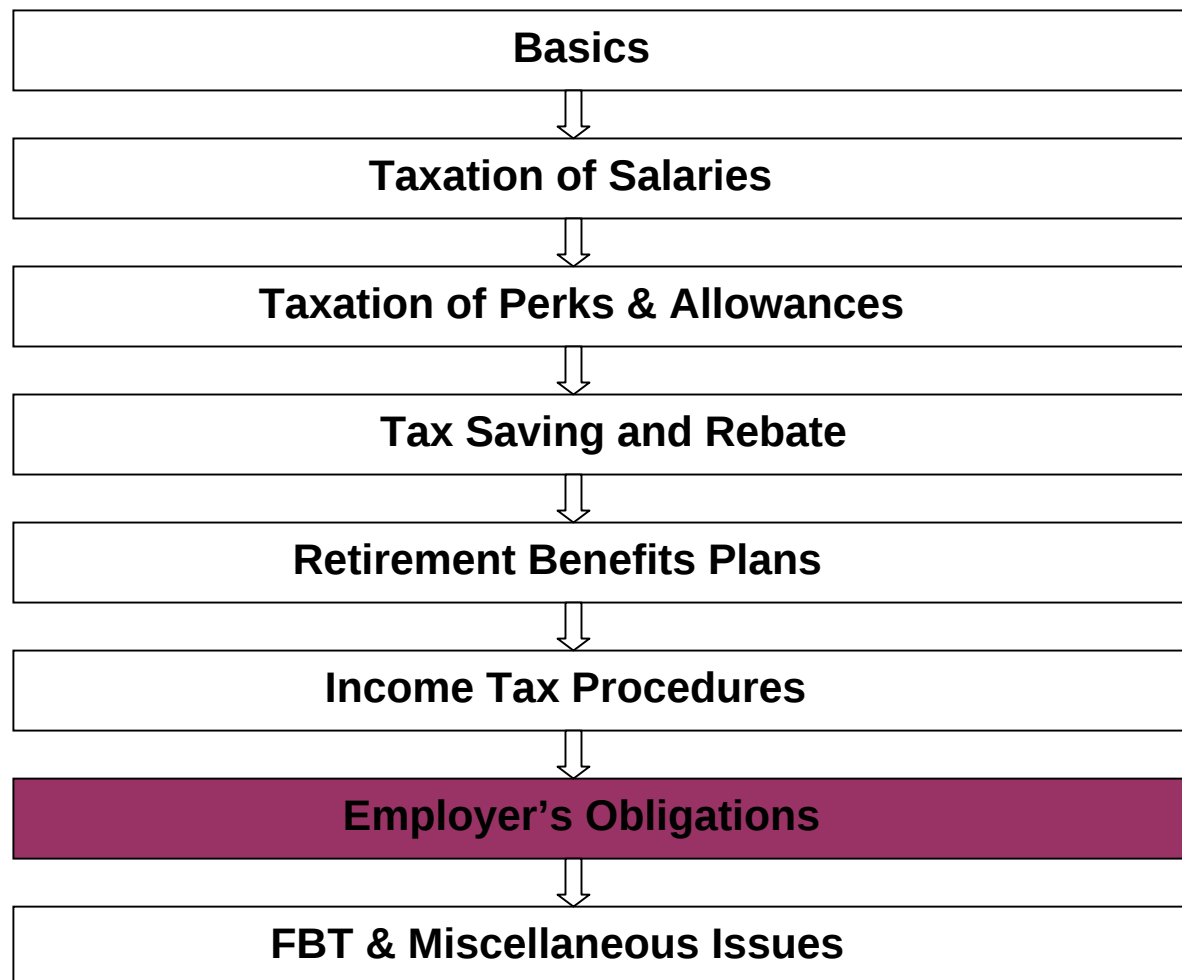
Permanent Account Number ('PAN'):

- Every person is required to apply for PAN where his total income exceeds basic exemption limit
- Apply in Form No. 49A
- To be submitted to National Securities Depository Limited along with prescribed charges (can be made online)
- Documents required:
 - Identity Proof: Driving license, voter identity card, passport, Bank account, ration card etc.
 - Address Proof: electricity bill, telephone bill, employer's certificate, rent receipt etc.
- Deduction and exemptions can only be availed if Income Tax Return has been filled for which PAN is mandatory
- Failure to comply with the requirements of Section 139A will attract penalty of Rs.10,000

Tax Deduction Account Number ('TAN'):

- Every person responsible for deducting the tax at source has to apply for TAN
- Application to be given in Form 49B
- To be submitted before the NSDL along with the Identity and Address Proof
- Mandatory to be quoted on to the Challan for TDS payment and e-TDS return

INSIGHT

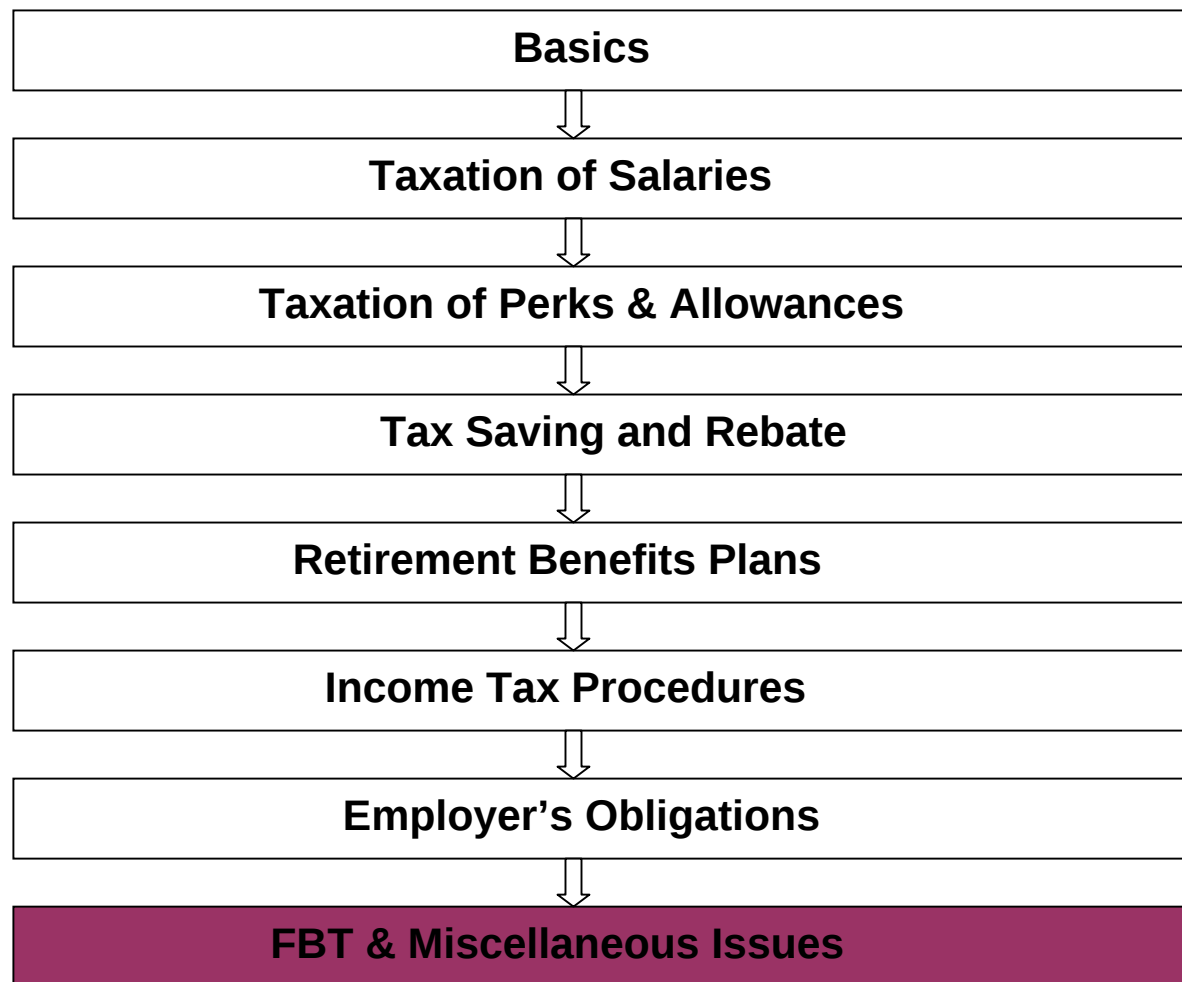




TDS u / s 192

- Deducted at the time of payment of salaries not at the time of accrual of salaries
- If the details of investments, deductions etc. are furnished properly, the tax liability calculated on estimated income on the basis of relevant slab rates and annual tax liability is deducted in equal monthly installments
- Tax deducted has to be deposited to bank account before 7th day of subsequent month
- Employer required to issue TDS certificate in Form 16 & Form 12BA (statement of value of perquisites and profit in lieu of salary) before April 30th of the corresponding year
- Employee has to furnish details in Form No.12B when Salary is received from more than one employer. He has to decide under which employer he wants the tax deduction to take place for the entire year
- Employer can (compulsory for Companies) file the quarterly returns of TDS in 'e-Format'
- On the payment of non-monetary perquisite, an option is provided to the employer to pay tax on the whole / partial sum without making any deduction there from while paying salary
- There cannot be a valid agreement between employer and employee that the employer will not deduct tax for the employee is going to bear it himself

INSIGHT





FBT – additional 30 % tax

- Fringe Benefits Tax is payable by employers in addition to the Corporate tax
- The liability is attracted on provision of following benefits to the employees

Benefit valued @ 100 %

- Free or concessional tickets for private journeys of employee / family members
- Superannuation fund contribution (Rs. 1 lakh exempt)

Effective tax rate – 33.66%

Benefit valued @ 20 %

- Entertainment
- Provision of hospitality
- Conference
- Sales promotion & publicity
- Employee's welfare
- Conveyance
- Hotel, boarding & lodging
- Repairs, maintenance & running of motor cars
- Repairs, maintenance & running of aircrafts
- Use of telephone & mobiles
- Maintenance of guest house

Effective tax rate – 6.73%

Benefit valued @ 50 %

- Festival celebrations
- Use of health club and similar facilities
- Use of any other club facilities
- Gifts
- Scholarship

Effective tax rate – 16.83%

Important:

- Tour & travel (including foreign travel) to be valued at 5% i.e. effective tax rate @ 1.68%
- Industry specific relief is also given to the employers for some of the above expenses



Other Issues

FBT Compliance:

- Quarterly payment of Advance Tax on or before July 15th, October 15th, January 15th and March 15th
- Return for FBT has to be filed in form 3B like the normal tax-returns before July 31st or October 31st
- Challan – ITNS 283 has been prescribed for Advance payment of tax

Penalties:

- For defaults in furnishing the Return of Income - Penal Interest u/s 234A
- For defaults in payment of advance tax – Penal Interest u/s 234B and 234C
- For failure to deduct or pay TDS amount as per the provisions – Penal Interest u/s 201
- For default in furnishing the return of fringe benefits – Penal interest u/s 115WK
- Failure to pay advance installments of fringe benefit tax – Penal interest u/s 115WJ
- Further, penalties leviable under Chapter - XXI

Our Stand:

Pay off your liabilities in time to avoid uninvited trouble.





THANK YOU.