Tax on Salary Income

Rajiv Kumar Agarwal.
West Bengal, Siliguri
Phone No. - 09832068053
E-mail: rajiv_slg2007@rediffmail.com

Salary

Income under the head salary is computed as under:

- **Salary:** The term salary include the followings:

➤ Salary due during the previous year.	***
➤ Advance Salary.	***
➤ Arrear Salary.	***
➤ Annuity, Pension, Gratuity.	***
➤ Fees, Commission, Profits in lieu of Salary.	***
➤ Any payment received for any period of leave not availed.	***
➤ The portion of the annual accretion in any previous year to the balance at the credit of an employee Participating.	***
➤ In recognized provident fund to the extent it is taxable.	***
➤ Transferred balance in recognized P.F. to the extent taxable.	***
➤ Cash allowances	***
➤ Any sum received under key man insurance policy including the sum allocated as bonus on such policy.	***
	***
Less: Allowance exempted U/s. 10	***
Less: Deduction U/s. 16(ii)/(iii)	***
Income taxable under the head Salary	***

- **Advance Salary (Sec.17(1)(v):** Taxable on receipt basis.
- **Arrear Salary:** Taxable if not taxed earlier in the year of accrual. If taxed in the year of accrual than it is exempted in the year of receipt.
- **Leave Salary :** If leave salary is received in the previous year then least of the following is exempted from tax:
  - i) 10 months' salary
  - ii) 30 days average salary x No. of years worked
  - iii) Actual amount received as leave salary
  - iv) Rs. 3,00,000.00 – Earlier exemption if any.

  [Note**:** The following points should be kept in mind:
  - i) Salary means Basic + D.A.(if terms of employment so provides) + commission on fixed % of turnover.
  - ii) Any fraction of the year is to be ignored.
  - iii) Average salary is to be calculated on the basis of last 10 months' salary.
  - iv) Leave salary is exempted in the hands of Govt. Employees]
- **Gratuity :** The amount of gratuity received is exempted in case of Government employees but in case of non-government employees the exemption depends on the following two cases:

  A) ***Gratuity received is covered by the Payment of Gratuity Act, 1972:*** If the Gratuity received is covered by the payment of Gratuity ACT, 1972 then the least of the following is exempted from tax.
  - i) Actual amount of Gratuity received from the employer.
  - ii) 15 days' average salary x No. of years worked
  - iii) Rs. 3,50,000.00

  [Note: The following points should be noted :
  - i) Salary here means Basic + D.A.(whether provided or not) + Commission on fixed % of turnover.
  - ii) Salary means salary last drawn.

iii) Any part in excess of 6 months will be counted as one full year of service.
iv) In case of Piece rated employee 15 days' salary will be calculated on the basis of last 3 months' average salary.
v) In case of seasonal employee 7 days will be taken in stead of 15 days.
vi) For calculating 15 days' salary we have to take 26 days in a month(Payment of Gratuity(Amendment) Act, 1987.]

B) ***Gratuity not covered by the Payment of Gratuity Act:*** If the payment received from employer is not covered by the Payment of Gratuity Act, 1972 then the least of the following is exempted from tax:

i) Actual amount received as gratuity from employer.
ii) 15 days' salary x No. of years worked.
iii) Rs. 3,50,000.00

[Note: The following points should be noted:

i) 30 days will be taken in a month in stead of 26 days.
ii) Salary means Basic + D.A.(if terms of employment so provides) + commission of fixed % of turnover.
iii) Any fraction of the year is to be ignored.
iv) Salary means average salary of last 10 months'.
v) Gratuity received by the legal heirs after the death of employee is exempted from tax. But if before the time of death the gratuity has been sanctioned to the deceased employee and after his death received by the legal heir then it is taxable in the hands of deceased employee and not in the hands of legal heir.
(i.e. the date of sanction/Due date is relevant. If at the date of sanction of gratuity the employee exists, the amount is taxable in his hands and if he does not exist and amount is received by the legal heir it is not taxable in the hands of heir and will be exempted)]
vi) If the employee has received gratuity from two employer in the same year then for calculating the exemption for gratuity received from 2nd employer, the exempted portion of the gratuity received from 1st employer shall be reduced from the limit prescribed U/s. 10(10)[i.e. Rs. 3,50,000.00] and the balance amount will be taken as prescribed U/s.10(10).
[Example : If gratuity received by Mr. X from XYZ Ltd. In 1st year and from ABC Ltd. In the second year then for calculating the exemption for gratuity received from ABC Ltd., the exempted portion of gratuity received from XYZ Ltd. will be reduced.]

- **Pension [10(10A)]:** Pension received is taxable in the hands of all employees. But if pension is commuted by the employee then the tax treatment will be as follows:

i) If commuted by the Govt. Employee then is fully exempted.
ii) If commuted by any other employee then the following is exempted from tax:
a) If the employee receives gratuity then 1/3rd of **full value of commuted pension** will be exempted from tax.
b) If the employee do not receive gratuity then ½ of **full value of commuted pension** will be exempted from tax.

[Example: If 20% of pension is commuted for Rs. 1,00,000.00 then full value of commuted pension will be Rs.5,00,000.00 (i.e.1,00,000/20 x 100) and ½ or 1/3 (as applicable) of Rs. 5,00,000.00 will be exempted from tax]

Note: The following points should be kept in mind:

i) Family pension received by the family member after the death of employee then 1/3rd of the pension or Rs. 15,000.00 whichever is less is exempted from tax and balance will be chargeable in the hands of Member who receives the pension (Pension should not be covered by pension for armed forces)

ii) If any employer contributes to the notified pension scheme of Govt.(U/s. 80CCD) then is should first be included in the income of the employee and contribution to the extent of 10% of Salary shall be allowed as deduction. In this case the employee should have joined the service on or after 01.01.2004.
[Salary here means Basic + D.A.(if terms of employment so provides)].

- **Annuity [17(1)(iii)]:**Annuity received is taxable in the year of receipt in case of all employees.
- **Transfer of amount from Unrecognized Provident Fund to Recognized Provident Fund(i.e. URPF to RPF):**

If an Organisation transfers the amount standing to the credit of employee from URPF to RPF then the certain amount out of the transferred balance will be taxable as salary income.

[For example: Say Mr. X is working in ABC Ltd. from 1.04.2004 at a monthly salary of Rs. 12,000.00. The employer contributes 15% to URPF. On 01.10.2008 the co. transfers the amount from URPF to RPF. Then the tax treatment will be as follows:-

Period	Salary (Rs.)	Employer's Contribution (Rs.)	Employee's Contribution (Rs.)	Employer's Contribution in excess of 12% of salary
01.04.04 to 31.03.05	1,44,000.00	21,600.00	21,600.00	4,320.00
01.04.05 to 31.03.06	1,44,000.00	21,600.00	21,600.00	4,320.00
01.04.06 to 31.03.07	1,44,000.00	21,600.00	21,600.00	4,320.00
01.04.07 to 31.03.08	1,44,000.00	21,600.00	21,600.00	4,320.00
01.04.08 to 31.09.08	0,72,000.00	10,800.00	10,800.00	2,160.00
Total of Column 5				19,440.00

Out of the amount transferred from URPF to RPF, total amount of employer contribution in excess of 12% of salary will be chargeable to tax in the year of transfer. In the above solution Rs. 19,440.00 will be chargeable to tax in the P/Y 2008-09.

Note: From the 1st year it will be assumed that the PF is RPF and taxable income of each year will be calculated. Then the aggregate of income of all the years will be chargeable to tax in the year of conversion.

- **Retrenchment Compensation[U/s. 10(10B)]:** The compensation received by an employee is exempted to the least of the following:-

i) Actual amount received
ii) Rs. 5,00,000.00
iii) Amount calculated as per Industrial Dispute Act i.e. 15 days' salary x No. of years worked and any part in excess of 6 months will be counted as one year.
[Example: Say Mr. X earns Rs. 9,000.00 p.m. as salary income at the time of retrenchment and worked for 36 years 9 months.
The amount as per Industrial Dispute Act = $\text{Rs. } \frac{9000}{30} \times 15 \times (36+1) = \text{Rs.}1,66,500.00$

- **Voluntary Retirement [10(10C)]:** The amount received by an employee is exempted to the least of the following:-

i) Actual amount received
ii) Rs. 5,00,000.00
iii) Amount equal to 30 month's salary x No. of years worked, **or**
Monthly salary at the time of retirement x No. of years left for service, at the option of the assessee.

[Note: The following points should be noted:-

i) Salary means salary last drawn and includes Basic + D.A.(if terms of employment so provides) + Commission of fixed % of turnover.
ii) The employee has completed 10 years of service and has become 40 years of age or more.
iii) It will be allowed once in the life time of the assessee.
iv) The vacancy caused is not to be filled up.

v) the employee has not been employed any where belonging to the same management

vi) If the employee was in Public Sector Company then the limit of 10 years of service and 40 years of age will not be applicable to him (i.e. he will be allowed the exemption even if he has not completed 10 years of service and has not become 40 years of age.)

vii) It is not needed to choose least of the two option in Point No. (iii) [Arun Kumar T. Makwana vs. I.T.O. (2006) (Guj.)]

- **House Rent Allowances:-** The amount received is exempted to the least of the following:-

  i) Actual amount of HRA received

  ii) Rent paid in excess of 10% of Salary

  iii) 50% of Salary in case of Metro Cities and 40% in case of the other cities.

  Note: The following points should be kept in mind:-

  i) salary and HRA is to be taken for the period in which the assessee has occupied the accommodation on rent (i.e. If Mr. X occupies rented house on 01.10.2008 till 31.01.2009 then salary and HRA will be taken for the period from 01.10.2008 to 31.01.2009 only. His salary is Rs. 3,000.00 p.m. and he receives HRA of Rs. 300.00 p.m. then the salary for the purpose of calculating exemption of HRA will be Rs. 3,000.00 x 4 = Rs. 12,000.00
  and HRA = Rs. 300.00 x 4 = Rs. 12,00.00. Now Rs. 1,200.00 and Rs. 12,000.00 will be taken for Point No. (i) and (ii) above respectively. The balance of HRA for 8 months will be fully taxable.

  ii) Salary means Basic + D.A.(if term of employment so provides) + Commission of fixed % of turnover

  iii) The employee should have incurred the expenses of payment of Rent.

  iv) Salary will be taken on due basis. Advance salary is not to be considered in calculating exemption of HRA.

- **City Compensatory Allowances:** The amount received as City Compensatory Allowances will always be chargeable to tax in case of all employees.

- **Entertainment Allowances[16(ii)]:**
  - In case of non-government employees it is fully taxable.
  - In case of Govt. employee the least of the following is exempted:

    i) Actual amount of entertainment allowances.

    ii) Rs. 5.000.00

    iii) 20% of Salary

    [Note: i) Salary means Basic only

    ii) Employees of a statutory corporation and local authority will not be treated as Govt. employee.

    iii) It should first be included in the total salary income and then it should be deducted U/s. 16(ii).]

- **Leave Travel Concession:** This is taxable on the basis of Receipt or Due whichever is earlier. The amount of leave travel concession received by an employee for himself or for his family member will be exempted from tax if the amount received is in connection with the following*:-
  - On leave to any place in India.(Note 1)
  - On leave to any place in India after retirement from the service or termination of service.(Note 2)

  The Exemption shall be restricted to the amount actually incurred by the assessee.

  The amount actually incurred shall be restricted to the followings:-

Sl. No.	*Journey performed by*	*Amount of Exemption*
1	Air	Air economy fare of the national carrier by the shortest route or the amount spent whichever is less.
2	Rail	A.C. 1st class fare by the shortest route to the place of destination or Amount actually incurred whichever is less.
3	Rail is available but performed by any other mode	Amount of A.C. 1st class fare shortest route to the place of destination or Amount actually incurred whichever is less.
4	If not connected by rail	
	i) If recognized Public Transport system exists	The amount of 1st class or Deluxe class fare on such transport or the amount actually incurred whichever is less.
	ii) If no recognized Public Transport system exists	The amount of 1st class fare by the shortest route(as if the journey is performed by rail) or Amount actually incurred whichever is less.

Note: The following points is of great importance:

(1) *If the amount of LTC is received from is present employer for himself then only point No. (i) and (ii) both will be applicable.

(2) *If received from his former employer only then Point No. (ii) will be applicable.

(3) Family means spouse, children, and parents, brother, sister of the employee mainly dependent of the assessee.

(4) Only **two journeys** performed in a block of 4 **calendar year** is exempted from tax.

(5) If an assessee has not availed travel concession or assistance during any of the specified four-year block periods on one of the two permitted occasions(or on both occasions), exemption can be claimed in the 1st calendar year of the next block (but in respect of only one journey). This is known as “carry over” concession. In such case, the exemption so availed will not be counted for the purposes of claiming the future exemptions allowable in respect of two journeys in the subsequent block.

(6) Exemption is available in respect of fare only(Rail fare, Bus fare and Air fare). No exemption can be availed for the expenses incurred in respect of taxi charges, scooter charges at both ends, lodging/boarding expenses and porterage expenses.

(7) Exemption is available only for two children born after 01.10.1998. If children born before 01.10.1998 then exemption can be availed for any No. of children born before 01.10.1998.
(Note: If children born after 01.10.1998 but after the birth of one child again continuously many children born then they all will be treated as “one child only”).

(8) Exemption is available to Indian as well as Foreign citizen.

-:: PERQUISITES ::-

Perquisites: Perquisites include the following only:

(i) Rent free accommodation provided by the employer to the employee.
(ii) Accommodation provided at concessional rate which is not owned by the employer.
(iii) Any benefit provided by the employer to the employee(whither free of cost or at concessional rate).
(iv) Any obligation of the employee met by the employer.
(v) Any sum paid by the employer, directly or indirectly or through a fund, to keep assurance on the life of the assessee or to effect a contract for an annuity(other than a DLI Fund, RPF and Approved Superannuation Fund).
(vi) The value of any fringe benefit which is not chargeable to tax under Fringe Benefit Tax, provided by the employer to the employee.

Note: Following points is to be noted:

(i) Perquisites in point No. (i) to (v) is taxable in the hands of all employees whether specified or not.
(ii) Perquisites in Point No. (vi) is taxable in the hands of Specified Employees only.
(iii) **Specified Employees:** Specified Employee is an employee who
  (a) is a director of the employer company.
  (b) is an employee who has substantial interest on the employer company.
  (c) an employee who draws Rs. 50,000.00 or more during the P/Y. For calculating Rs. 50,000.00 all monetary payments is to be included. So it does not include the following:
    (i) any non-monetary benefit.
    (ii) any allowance which is to the extent exempted U/s. 10.
    (iii) entertainment allowance to the extent exempted U/s. 16(ii).

[Note: A deduction is allowed for the profession tax paid be the employee for calculating the salary for specified employees].

- ***Rent free accommodation:*** If the employer provides accommodation to the employee free of cost then the value of Rent free accommodation is taxable in the hands of all employees. The accommodation may ne furnished or unfurnished. The valuation is as follows:

  - ***Valuation of perquisites in case of Unfurnished Accommodation:*** If accommodation is unfurnished then:

    (A) In case of Gove. Employee: The license fee paid by the Government will be the **taxable value** of perquisites in the hands of employee.

    (B) In case of other employee: The value of perquisites depends on the population of the city in which the employee resides.(See table below)

Population	Accommodation *owned by the employer*	*Accommodation is taken on Rent by the employer*
Exceeds 25 Lakes (Population>25 Lakes)	15% of the Actual Cost to the employer is the **taxable value** of Perquisites.	The least of the following is **taxable value** of Perquisites: (i) 15% of Salary (ii) Rent paid by the employer
Exceeds 10 Lakes but does not exceed 25 Lakes (10 Lakes< Population $\leq$ 25 Lakes)	10% of the Actual Cost to the employer is the **taxable value** of perquisites.	The least of the following is **taxable value** of Perquisites: (i) 15% of Salary (ii) Rent paid by the employer
Less than or equal to 10 Lakes (Population $\leq$ 10 Lakes	7.5% of the Actual Cost to the employer will be the **taxable value** of perquisites	The least of the following is **taxable value** of Perquisites: (i) 15% of Salary (ii) Rent paid by the employer

Note:

(i) The above rule is not applicable to any accommodation located in a 'remote area'(i.e. an area located at least 40 Kilometers away from a town having a population not exceeding 20,000) provided to an employee working at a mining site or an onshore oil exploration site, or a project execution site or a dam site or power generation site or an onshore site. A project site for this purpose means site of project up to the stage of its commissioning – circular No. 15/2001, dated December 12, 2001. Moreover, the perquisites in respect accommodation of temporary nature (and having plinth area of 800sq. ft. or less)

(ii) If the employee has been transferred from one place to another and he continue to acquire the previous accommodation provided by the employer as well as new accommodation provided by the employer at new place then the value of taxable perquisites will be lower of the two accommodations' taxable value of perquisites for 90 days only. If the employee continues to acquire both houses for more than 90 days then perquisites of both the accommodations will be chargeable to tax.]

- ***Valuation of perquisites in case of Furnished Accommodation:*** If accommodation is Furnished then:

  (A) If furniture is owned by the employer then 1st calculate the **taxable value** of perquisites as if the accommodation is unfurnished and to that value add 10% of the cost of furniture to the employer. (This is same for both Govt. and Non-Govt. employees)

  (B) If furniture is taken on rent by the employer then 1st calculate the taxable value of perquisites as if the accommodation is unfurnished and to that value add rent paid by the employer for the furniture provided to the employee.

- ***Valuation of perquisites in case of Accommodation provided in a Hotel:*** The taxable value of perquisites in the hands of all employees will the least of the following as reduced by the rent actually paid by the employee:

  i) 24% of Salary OR

  ii) Actual charges paid by the employer to such hotel.

  However there is no perquisites if

  i) The accommodation is provided for not exceeding 15 days

  ii) The accommodation is provided in case of transfer of employee from one place to another.

[General Notes:

1) Salary includes the following:
   a) Basic Salary
   b) D.A.(provides)
   c) Taxable portion of all allowances
   d) All taxable monetary payment.

   That means it does not include the following:
   i) D.A.(if terms of employment does not provides)
   ii) Value of perquisites(Because for it we are calculating salary)
   iii) Employer's contribution to Provident fund on A/c of Employee(Because it is not paid to employee).
   iv) All monetary payments which are in the nature of Perquisites U/s. 17(2).
2) Salary will be taken on due basis not on receipt basis.
3) Salary will be taken for the period during which the accommodation was acquired by the employee.

4) If salary is received from 2 or More employers and accommodation has been provided by only one of the employers then salary received from all employers will be taken into consideration for the calculation of Perquisites

- ***Obligation of the employee met by the employer:*** If the employer meets the obligation of the employee which would otherwise be payable by the employee then it will be taxable in the hands of all employees(whether Govt. Employee, Non-Govt. Employee, Specified Employee or Non-Specified Employee).

  [Example: Salary of domestic servant employed by the employee and wages of that is paid by the employer then it is the obligation of the employee met by the employer]

- ***Sum paid by the employer for the assurance on the life of the employee :*** If the employer pays any amount to keep assurance on the life of the employee then it will be taxable in the hands of all employees(whether Govt. Employee, Non-Govt. Employee, Specified Employee or Non-Specified Employee).

  However there is no any perquisites if the employer makes payment to RPF, SPF, DLI, Group Insurance Scheme and ESI Scheme etc. to keep assurance on the life of employee.

- ***Benefits provided free of cost or at Concessional rate:*** If an employer provides any benefit to the employee free of cost then cost to the employer will be taxable in the hands of **Specified Employees only**. If any sum is recovered from the employee then such sum will be deducted from the cost to the employer and balance will be chargeable to tax.

- ***Gardener's Salary and Expenses as a perquisites or not:*** If the rent free accommodation is owned by the employer then the salary of the gardener is included in the fare rent of the house and not taxable separately otherwise taxable in the hands of all employees if not in the nature of benefit and in the hands of specified employees if in the nature of benefit. Gardener's salary includes salary of gardener as well as expenses incurred by the employer to maintain the garden.

- ***Interest free loan or advances:*** If an employer gives to his employee(or to any member of his household) an interest free loan or advance then the perquisites will be taxable in case of all employees(whether Govt. Employee, Non-Govt. Employee, Specified Employee or Non-Specified Employee). The value of perquisites will be calculated as follows:

  i) Calculate the amount of Interest to be paid if the employee would have taken loan from SBI for the same purpose applying the rate existing on the 1st day of the relevant previous year on the Maximum Outstanding Balance. The total value of interest as calculated above will be the taxable value of perquisites.

  ii) If the employer charges any amount of interest at the rate less than the rate of SBI then the actual amount paid by the employee will be deducted from the amount of Interest as calculated in point no. (i).

  Note:

  a) Employee means all employees(whether Govt. Employee, Non-Govt. Employee, Specified Employee or Non-Specified Employee).
  b) If the amount of Loan does not exceed in aggregate from all the employer in the previous year Rs. 20,000.00 then the perquisites is not chargeable to tax.
  c) If the loan is taken for the medical treatment specified in Rule 3A then perquisites is not chargeable to tax.

     But if the employee receives any reimbursement from Medical Insurance then this rule is not applicable to so much of the amount as received from the Insurance Co.(i.e. on the reimbursed amount interest will be calculated from the date of reimbursement and will be taxable as perquisites).

- ***Assets sold by the employer to employee at nominal rate:*** If any assets pertaining to the employer is sold by him to his employee at a price less than the market price then the difference between the market price and price charged by the employer will be taxable as perquisites in the hands of all employee(whether Govt. Employee, Non-Govt. Employee, Specified Employee or Non-Specified Employee).
- ***Perquisites in respect of movable assets:*** If the employee or any member of his family uses the facility of movable assets provided by the employer to the employee then 10% of the actual cost of such assets to the employer as reduced by the amount recovered from the employee will be chargeable to tax.
  [Note: There is no taxable perquisites in respect of computer or laptops provided by the employer. But in case of any other assets If the assets is owned by the employer then 10% of actual cost of the assets as reduced by the amount recovered from the employee will be chargeable to tax. And if the assets are hired by the employer then actual rent paid minus amount recovered from employee will be chargeable to tax.
- ***Medical Allowances:*** Before starting the discussion on the valuation of perquisites in respect of Medical Facility following points should be kept in mind:
  - i) Fixed medical allowances is always chargeable to tax.
  - ii) This is generally taxable in the hands of Specified Employee only but if bill are issued in the name of employee then it will be taxable in the hands of both Specified and Non-specified Employees.
  - iii) Family here means:
    - a) the spouse and children of the individual; and
    - b) the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.
  - ***Valuation of perquisites in case of* Medical Facility is provided in India*:*** The taxable value of perks will be calculated in the following cases:
    1) **Hospital is maintained by the employer:** If the Hospital is maintained by the employer then expenses incurred in connection with the facility provided to its employees or any member of his family will be chargeable to tax without any ceiling limit(IN THE HANDS OF ALL EMPLOYEES).
    2) **Hospital is maintained by Central or State Govt., Local authority or any other person approved by the Govt.:** In this case any expenses incurred or reimbursed by the employer for any treatment will not be chargeable to tax.
    3) **If hospital is maintained by a person approved by Chief Commissioner** having regard to the prescribed guidelines then for the treatment of diseases given in Rule 3A(2), expenses incurred or reimbursed by the employer will not be chargeable to tax.(The employee should attach with his return of Income a certificate from the hospital specifying the nature of diseases as well as amount of expenses.)
    4) **Health Insurance premium paid or reimbursed by the employer will not be charged to tax.**
    5) **Hospital is maintained by any other person not specified above(i.e. Private Hospital):** Expenses incurred or reimbursed by the employer for any treatment will not be chargeable

to tax upto Rs. 15,000.00. Any amount over and above Rs. 15,000.00 will be chargeable to tax sin the hands of employee.

- ***Valuation of perquisites in case of* Medical Facility is provided out side India*:*** Expenditure incurred or reimbursed by the employer in medical treatment of the employee or any member of his(employee's) family is treated as perquisites subject to the condition given below:
  1) Medical treatment of employee or any member of his family will be excluded from perquisites to the extent permitted by RBI.
  2) Cost of travelling for the employee or any member of his family including for an attendant who accompanies patient is excluded from perquisites in case of employee whose gross total income before including the above expenditure as perquisites does not exceed Rs. 2,00,000.00.
  3) Cost of staying abroad for the employee or any member of his family and one attendant should not be included in the perquisites to the extent permitted by RBI.

- ***Tax treatment in case of movable assets is sold by employer to his employee:*** Where an employer sales the movable assets to the employee at concessional rate then the difference between the actual cost to the employer as reduced by some charge of Depreciation and amount recovered from the employee will be chargeable to tax.

DIFFERENT TAX TREATMENT IN CASE OF DIFFERENT ASSETS IS AS FOLLOWS:

Particulars		*Assts sold*		
		Electronic items & Computers	*Motor car*	*Any other assets*
(i)	Actual Cost to employer	√	√	√
(ii)	Less: Normal wear & tear for every completed year during which the asset was used by the employer	50% for each year at WDV Method	20% for each year at WDV Method	10% of Actual Cost for every year(i.e. at SLM Basis)
(iii)	Less: Amount recovered from employee	√	√	√
(iv)	Value of Perquisites(if +ve) (iv)=(i)-(ii)-(iii)	√	√	√

Note: Electronic items means data storage and handling devices like computer, digital diaries and printers. They do not include house hold appliances (i.e. white goods like washing machine, micro ovens, mieture and hot plates etc.)

- ***Valuation of perquisites in respect of lunch, refreshment etc.:*** The perquisites is taxable Only if the employer is
  i) An Individual
  ii) An HUF
  iii) The government
  iv) Political Party
  v) a person whose income is exempt U/s. 10(23C) and
  vi) A charitable institute(which is subject to registration U/s. 12AA)

If any lunch allowances, dinner allowances or refreshment allowances are given to employee it is always chargeable to tax. But

The perquisites in respect of free meal provided by the employer is valued as under:

(A) Food or Non-alcoholic beverage is provided in the working hours(whether in remote area or in an off shore installation) is not chargeable to tax.

(B) Tea or snacks provided in working hours is not chargeable to tax.

(C) Food or Non-alcoholic beverage provided by the employer to the employee in office premises or through non-transferable vouchers(usable only at eating point) is valued as follows:

Cost to the employer in excess of Rs. 50.00 per meal	***
Less: Amount recovered from employee	***
Value of perquisites	***

- ***Valuation of gift or vouchers or token received from employer:*** The value of any gift received from the employer is always chargeable to tax. If gift is provided in cash or convertible money then full value is chargeable to tax but if gift is in kind then it is chargeable to tax if the value of gift received **in a year** exceeds Rs. 5000.00(in aggregate from any no. of employer).

Note: (i) this perquisites is taxable on the hands of all employee.

(ii) The taxable value of gift in kind will be **value of kind minus Rs. 5000.00**

(iii) Gift received by the member of family of the employee is also subject to this provision.

(iv) The perquisites is taxable Only if the employer is

i) An Individual

ii) An HUF

iii) The government

iv) Political Party

v) a person whose income is exempt U/s. 10(23C) and

vi) A charitable institute(which is subject to registration U/s. 12AA)

- ***Valuation of perquisites in respect of credit card:*** The value is chargeable to tax in case of all employees as follows:

Find out the expenditure incurred by the employer in respect of Credit card used by employee	***
Less: Expenses incurred for office purpose	***
Less: amount recovered from employee	***
Taxable value of perquisites(if +ve)	***

Note: (i) The expenditure includes membership fee and annual fee paid (or due) by the employer or any member of his family which is charged to a credit card provided by the employer (or otherwise paid or reimbursed by the employer)

(ii) The perquisites is taxable Only if the employer is

i) An Individual

ii) An HUF

iii) The government

iv) Political Party

v) a person whose income is exempt U/s. 10(23C) and

vi) A charitable institute(which is subject to registration U/s. 12AA)

(iii) Employee means all employee.

(iv) Expenditure for official purpose should be certified by the employer and a complete details thereof should be enclosed.

- ***Valuation of perquisites in respect of Club expenditure:*** It is chargeable to tax in case of all employees if the club facility is provided by the employer who is

i) An Individual

ii) An HUF

iii) The government

iv) Political Party

v) a person whose income is exempt U/s. 10(23C) and

vi) A charitable institute(which is subject to registration U/s. 12AA)

The value of perquisites will be determined as follows:

Find out the cost incurred by the employer in respect of club facility used by the employee or any member of his household	***
Less: Expenses incurred for office purpose	***
Less: amount recovered from employee	***
Taxable value of perquisites(if +ve)	***

Note: (i) Expenditure includes any annual or periodical fee paid or payable to a club.

(ii) Sports facility provided at employer's premises is not chargeable to tax(i.e. Expenditure on such facility is not included in the value of perquisites).

(iii) Expenditure for official purpose should be certified by the employer and a complete details thereof should be included.

(iv) Initial one time deposit fee for corporate or institutional membership where benefit does not remain with the employee are exempt from tax.

- ***Tiffin allowances, Fixed Medical allowances and Servant allowances:*** It is chargeable to tax in case of all employees.
- ***Allowances to High Court and Supreme Court Judges:*** I

(A) Any allowances to High Court judges are not chargeable to tax.

(B) Sumptuary allowances to Supreme Court judges are not chargeable to tax w.e.f. A/Y 1987-1988.

- ***Allowances given by UNO to its employees are not chargeable to tax at all.***

-:: RELIEF U/S. 89(READ WITH RULE 21A) ::-

Relief U/s. 89 can be claimed in case of any of the following and by the given method:

- ***For arrear salary received [Rule- 21A(2):*** If an employee receives arrear salary then relief can be claimed as follows:
  - (i) Compute tax on total income after including arrear salary for the year in which it is received.
  - (ii) Compute tax on total income excluding arrear salary received for the year in which it is received.
  - (iii) Find out the difference between (i) and (ii) above.
  - (a) Compute tax on total income after including arrear salary for the year to which it relates.
  - (b) Compute tax on total income excluding arrear salary for the year to which it relates.
  - (c) Find out the difference between (a) and (b) above.

  If (iii) > (c) {if both are +ve} then the difference between (iii) and (c) will be allowed as relief U/s. 89.

  Important: If arrear salary is received in 2008-09 for the year 2000-01 then in point no. (i), (ii), (a) and (b) tax rates for the year 2008-09 will be applied for calculating relief.

- ***For Gratuity received[Rule- 21A(3)]:*** Relief in for the gratuity received can be claimed only if gratuity received is in excess of limits specified U/s 10(10). However no relief can be claimed if taxable gratuity is in respect of services rendered for less than 5 years.

  There are two cases for calculating relief for gratuity:
  - ***Gratuity is payable in respect of Past service of 15 years or more***
  - ***Gratuity is payable in respect of Past service of 5 years or more but less than 15 years***

- ***Gratuity is payable in respect of Past service of 15 years or more:*** The relief can be calculated as follows:
  - i) Compute the average rate of tax on the total income including the gratuity in the year of receipt.
  - ii) Find the tax on gratuity at the average rate of tax computed in (i) above.
  - iii) Compute the average rate of tax be adding 1/3rd of the gratuity to other income of each of the 3 preceding years.
  - iv) Find out the average of 3 average rates computed in (iii) above and compute the tax on gratuity at that rate.
  - v) Find out difference between the tax on gratuity computed at (ii) and (iv) above. This will be allowed as relief U/s. 89.

- ***Gratuity is payable in respect of Past service of 5 years or more but less than 15 years:*** For calculating relief for this case, the lines stated above will remain same. Only the difference is that in point no. (iii) instead of 1/3rd of gratuity ½ of gratuity should be added to other income of each of 2 years preceding the years of receipt and not to 3 years.

- ***For Compensation on termination of employment [Rule- 21A(4)]:*** If compensation is received by the assessee form his employer or former employer at or in connection with termination of employment after a continuous service of not less than 3 years and where the unexpired portion of his term of employment is not less than 3 years, the relief will be calculated in the same manner as if gratuity was paid to employee in respect of service rendered for a period of 15 years or more.

- ***For Commutation of pension [Rule- 21A(5)]:*** Relief can be claimed in respect of payment in commutation of pension received in excess of the limit specified U/s. 10(10A). such relief is computed in the same manner as if the gratuity was paid to the employee in respect of services rendered for a period of 15 years or more.

- ***For other payments [Rule- 21A(6)]:*** In respect of payment received other than those mentioned above , the relief U/s. 89 will be granted by the Board after examining the circumstances of each individual case.

[For calculating relief U/s. 89 the assessee should send an application on plain paper to the concerned A.O.]