

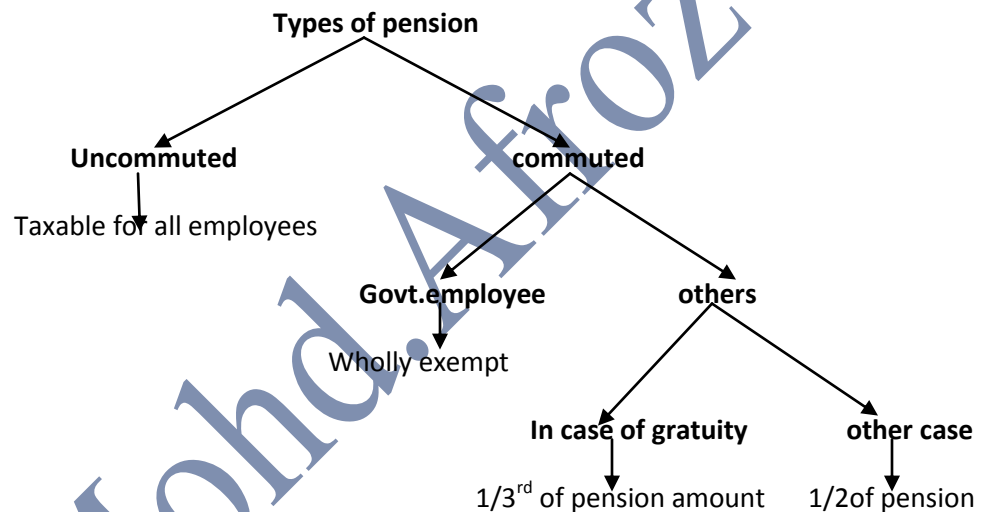
Income under the head salary

Basis of charges (section-15)

Salary is taxable in the previous year on receipt or due whichever is earlier.

- However arrears of salary, not charged to tax in earlier previous year, are taxable in the previous year in which it is paid.
- If any advance salary include in total income of any previous year, it shall not include again.
- Any salary, commission and bonus etc. received by partner from firm not regarded as salary.

Pension (section-10(10A))



Gratuity (section-10(10))

- ❖ Gratuity received by government employee shall be wholly exempted.
- ❖ Amount of gratuity received by other than government employee shall be taxable subject to following :

A. Employee covered in gratuity act,1972

Least of the following will exempt:

1. Rs.10,00,000
2. Amount received
3. 15/26 days salary of every completed year of service(more than 6 months will consider)

B. Employee not covered in gratuity act,1972

Least of the following will exempt:

1. Rs.10,00,000
2. Amount received
3. 15/30 days salary of every completed year of service.

(SALARY=COLUMN 4)

Leave salary (section-10(10AA))

- ❖ **During the employment leave salary is taxable for all employees** whether belongs to government department or others.
- ❖ At the time of retirement or leaving of job amount of leave salary received in the hand of:
 - A. Government employee-----fully exempt.
 - B. Other employee
 - Least of the following exempt: **(SALARY=COLUMN 3)**
 - 1. Rs.300000
 - 2. Amount received
 - 3. Salary for 10 months
 - 4. Cash of unavailed days (30 days for every completed year of service)

Compensation on voluntary retirement (section-10(10c))

Least of the following exempt:

1. Amount received
2. Rs. 500000

Note: exemption will allow only for one previous year.

Condition for claiming exemption:

- A. Only government sector employee may avail exemption under this section.
- B. Following least amount payable to employee:
 1. 3 months salary of each completed year.
 2. Salary of balance months of service before his/her normal retirement.

Retrenchment compensation (section10 (10B))

Least of the following will be exempted:

1. 15/26 days salary for every completed year of services (more than 6 month shall be considered)
2. Rs. 500000
3. Amount received

Note:

- ❖ Salary includes to all but including to Bonus and pf contribution.
- ❖ Average salary for preceding 3 months preceding the date of retirement will be taken.

Provident fund

Particular	Deduction u/s-80c	Employer contribution	Interest	Repayment
SPF	Yes	Exempt	Exempt	Exempt
RPF	Yes	Up to 12%	Up to 9.5%	Exempt
URPF	No	Not applicable	Not applicable	taxable
PPF	Yes	Employee own	exempt	Exempt

(SALARY=COLUMN 5)

Note: in case of URPF employee repayment, amount contributed by employer and interest on that amount shall fully taxable in the hand of employee. Interest on employee contribution will be taxable in the income from other sources.

Allowances

Specified allowances:

Following allowances shall be exempt to the extent of amount received or amount spent whichever is lower:

1. Travelling allowance
2. Daily allowance
3. Conveyance allowance
4. Helper allowance
5. Academic allowance
6. Uniform allowance

Following allowances are exempt to the extent of:

- A. Amount received, or
- B. Specified limit

Whichever is lower

1. **Children allowance:** amount received or Rs.100 per month whichever is lower. Exemption only for 2 children.
2. **Hostel expenditure allowance:** amount received or Rs.300 per child whichever is lower. Exemption only for 2 children.
3. **Transport allowance:** Rs.800 for normal employee in case of blind or handicapped Rs.1600.
4. **Allowance allowed to transport employee:**
 - A. Rs.6000 or
 - B. 70% of such allowance whichever is lower.
5. **Tribal area allowance:** amount received or Rs. 200 per month whichever is lower.
6. **Under ground allowance:** exempted up to Rs. 800 per month.
7. **Hill /remote area allowance:** Rs.300 to RS.7000 Per month.

House rent allowance (section-10(13A))

Least of the following exempt:

- A. Amount received (SALARY=COLUMN 1)
- B. Rent paid-10%salary
- C. 50% of salary-while employee has taken house on rent in metro Politian city. OR
40% of salary –for other city.

Entertainment allowance

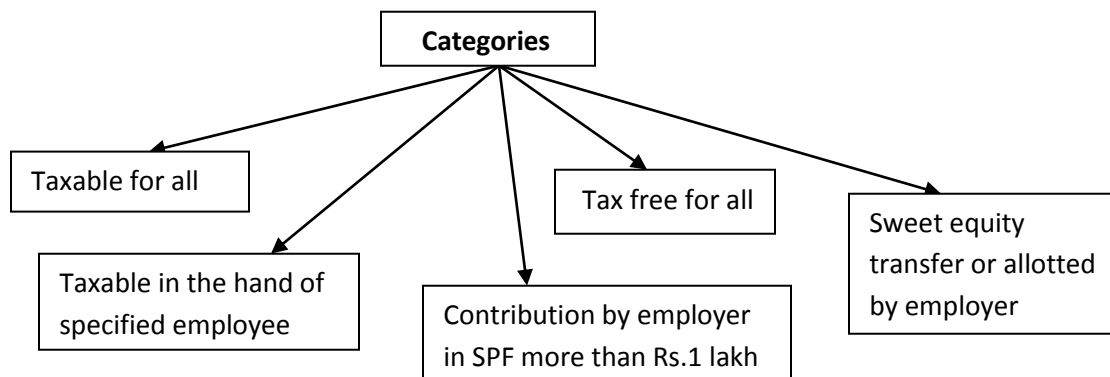
- ❖ In the hand of non government employee is fully taxable.
- ❖ In the hand of government employee is exempt least of the following:
 - A. Amount received
 - B. 20% of basic salary (SALARY=COLUMN 2)
 - C. Rs. 5000

Allowances which are fully taxable

1. Dearness allowance(DA)
2. CCA (city compensatory allowance)
3. Lunch allowance
4. Overtime allowance
5. Medical allowance
6. Servant allowance
7. Warden allowance
8. Non-practicing allowance
9. Family allowance

Perquisites (section-17(2))

Perquisites are the benefits in addition of salary to which the employee has a right by virtue of his employment. It may be in form of both cash as well as kind. For the of tax purpose perquisite can be divided in five categories



Perquisite taxable in the hand of all employees:

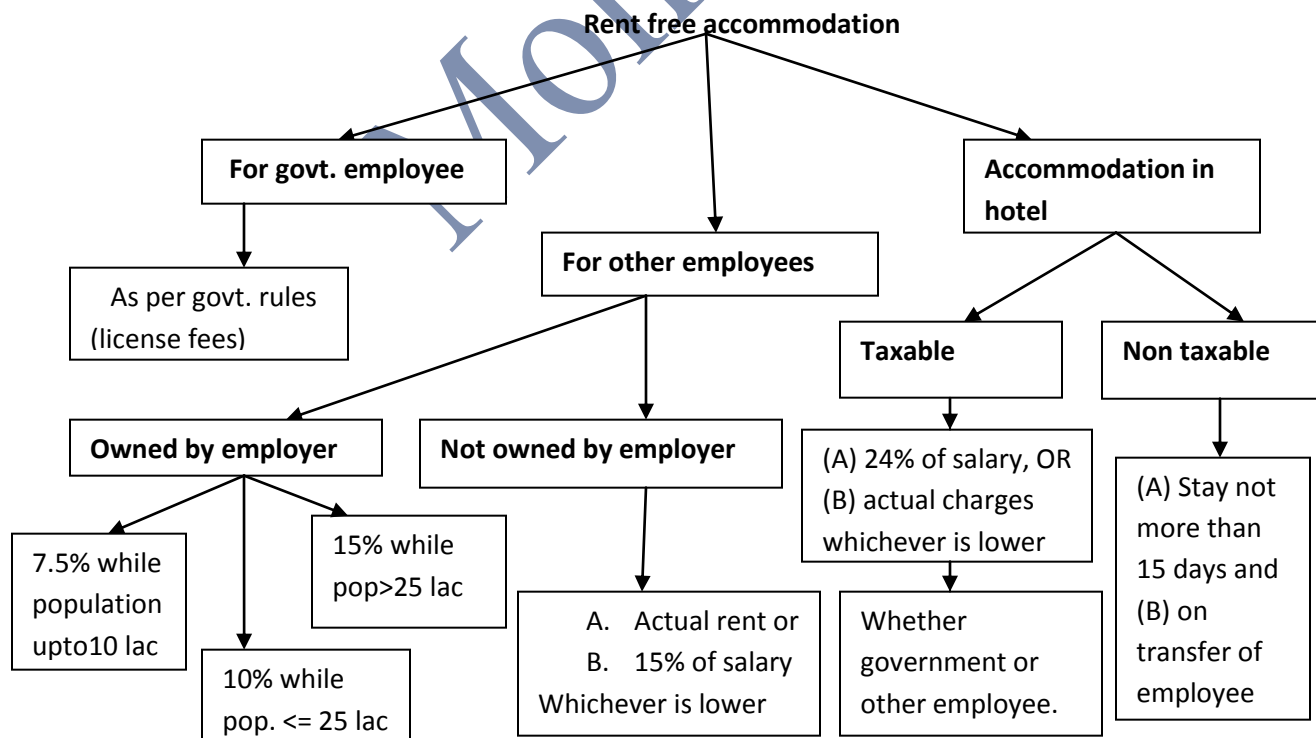
- I. Rent free accommodation (RFA)
- II. Any concession in the matter of rent by employer to their employee.
- III. Any sum paid by the employer in discharging the monetary obligation of employee.
- IV. Any sum payable by employer directly or through fund other than RPF, ESI & u/s-80CCD.
- V. Any fringe benefit or amenity as may be prescribed.

Perquisite taxable in the hand of specified employee:

- I. Service of sweeper, gardener, watchmen and personal attendant (actual paid—taxable)
- II. Free use of gas, water and electricity (own-prod. Cost, in other case—paid amt)
- III. Free or concessional education facility (own—≤ Rs.1000 exempt, in other case—amt. paid)
- IV. Use of motor car
- V. Free or concessional private journey,
- VI. Any other amenity, benefit or service.

Specified employee: an employee shall be specified employee, if he falls any of the following three categories:

- A. Director of the company, or
- B. The employee has substantial interest in the company, or
- C. His income under the head salaries more than RS.50000. **P.A and only consider to monetary payments.**



Note: if furniture is also provided then 10%per annum of cost of furniture or actual cost of hires if taken on rent, shall be added in the value calculated above. **(SALARY=COLUMN 6)**

RFA shall not taxable in the following cases:

- A. **House located in area:** 40 kms. Away from city having population not and exceeding 20000 based on latest survey.(2000 censuses survey) and
- B. **It is provided to an employee who working in mining site and onshore.**

Monetary obligation of the employee discharged by employer (taxable perquisite)

Following amount paid or reimbursed by employer shall be taxable in the hand of employee:

- Gas electricity paid or reimbursed;
- Children education paid or reimbursed;
- Medical expense reimbursed exceed Rs.15000
- Income tax or professional tax paid by employee
- Life insurance premium paid or payable by employer

Note: all the above monetary obligation of employee paid by employer shall be taxable in the hand of both whether he is specified employee or other employee.

Fringe benefit perquisite which shall be taxable in the hand of all employee:

- **Interest free concessional loan** (loan amount not exceed Rs.20000 or loan taken for specified disease not taxable) interest always charged on monthly outstanding balance of loan amount.
- **Travelling, touring, accommodation** or any other expense bear by employer.
- **Free food and non alcoholic beverages** (tea snacks in working hour , meal cost not exceed Rs.50 and meal facility in remote area not taxable)
- **Any gift, voucher or token**(up to Rs.5000 exempt in kind, gift in cash fully taxable)
- **Expense of credit card**(for official purpose-exempt, for personal purpose-taxable)
- **Club membership expense**(for official purpose-exempt, for personal purpose-taxable)
- **Use of moveable assets**(use of laptop &computer-exempt, assets other than laptop &computer—10%p.a of actual cost OR rent paid)
- **Transfer of moveable assets:**

Item	Method of dep.	Rate of dep.	Year
Computer and electronic items	WDV	50% of actual cost	Each complete year
Motor car	WDV	20% of actual cost	Each complete year
Any other assets	SLM	10% of actual cost	Each complete year

Note: depreciation shall be calculated from the date on which assets have been put to use in business.

- **Any other benefit** provided by employer.

Tax free perquisite for all employee:

- **Medical facility**
- **Medical reimbursement**(limit Rs.15000)
- **Training of employee**
- **Use of health club and sports club facility** by employer to their employee.
- **Expense of telephone and mobile phone**
- **Employer contribution**(limit Rs.100000)
- **Motor car** (other than wholly for personal purpose)
- **Food and beverages** (limit-Rs.50, during working hour no limit)
- **Loans to employee** (limit-Rs.20000 ,in case of specified diseases-no limit)
- **Perquisite provided outside India**
- **Rent free house facility** (rent free official resident)
- **Accommodation in remote area**
- **Education facility for children** (limit-Rs.1000)
- **Tax paid by the employer on non monetary perquisite**

Valuation of medical perquisite (section-17(2))

❖ **In India**

- A. Expenditure incurred or reimbursed by employer to their employee or any member of his family is fully exempt without limit, for treatment in any hospital dispensary etc.
 - Maintained by employer
 - Maintained by govt.
 - Maintained by any local authority or
 - Approved for a specified disease only for treatment of specified diseases.
- B. Health insurance premium reimbursed for insurance on the health of employee or any member of the family is fully exempt.
- C. Reimbursed by employer of any amount actually spent by the employee for obtaining his or his family members treatment in any hospital up to maximum of Rs.15000

❖ **Outside India**

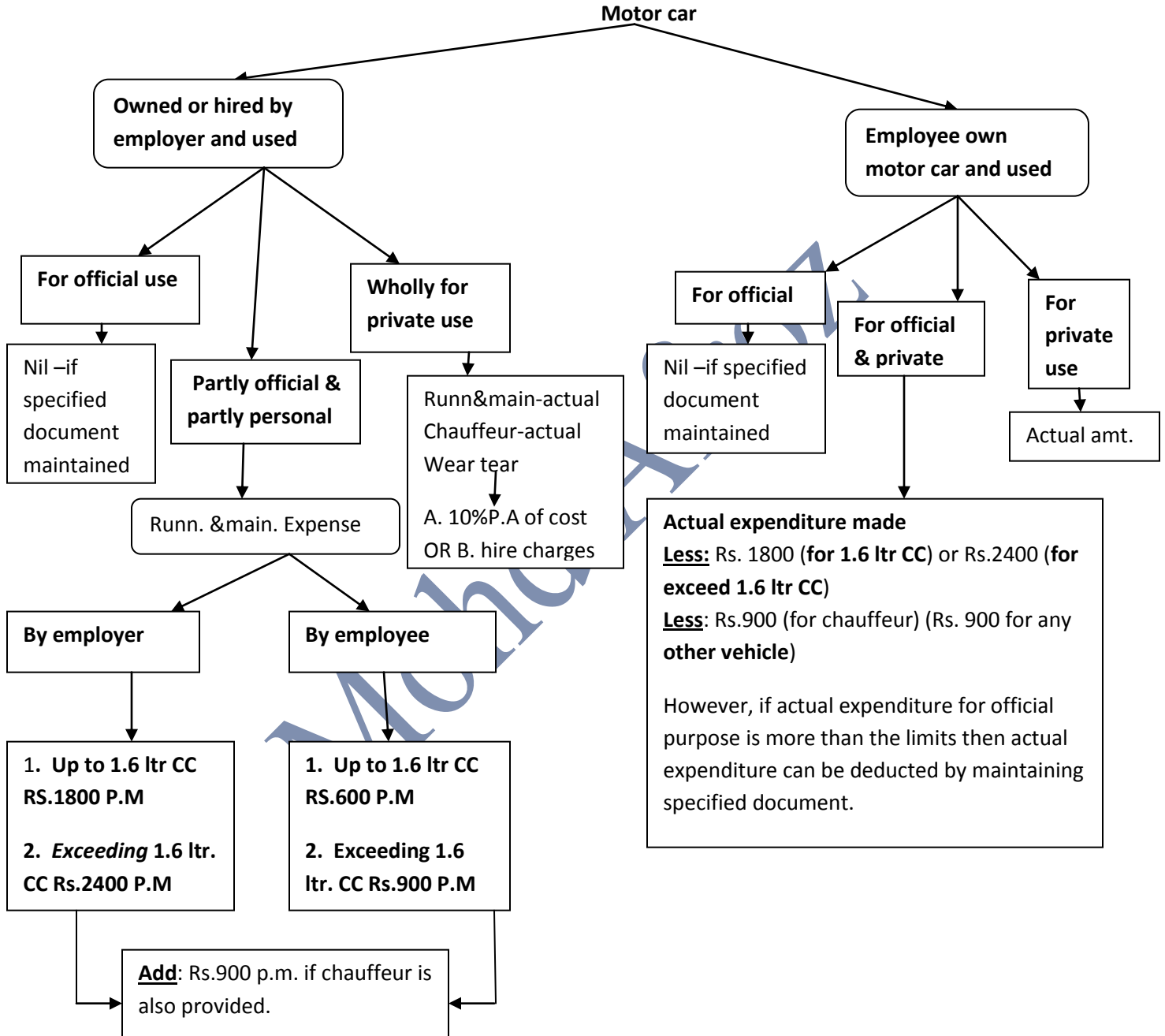
- A. Such medical expense will be exempted if permitted by the reserve bank of India.
- B. Expense on stay abroad of employee or any of his family members with one attendant, who accompany to the patient in connection with such treatment, to be permitted by RBI.
- C. Travel expense of patient with one attendant shall be exempted, if gross total income (before including such travel expense) does not exceed Rs.200000.

Meaning of family for the purpose of medical facility & LTC.

- Spouse and children of the employee, whether dependent or not.

- Parents, sister and brother of the employee who are family dependent of the employee.

Valuation of motor car



Leave travel concession (section-10(5))

Any concession received by employee for him self or his family for travelling to any place in India is exempt ,to the extent amount spent, subject to the following condition:

- ❖ **Exemption can be claimed for two journeys in a block of 4 years** i.e 2006-09, 2010-13 and so on.
 - Out of two journeys, exemption for one journey can claimed in the calendar year succeeding the end of the block.
 - Exemption available only for two children. However this rule is not applicable where child born before October, 1998.
- ❖ **Amount of exemption:** if journey performed by
 - By air: air fair of shortest route.
 - By any other mode:
 - ✓ By rail: 1st class AC rail fair of shortest route.
 - ✓ By bus : 1st class or deluxe AC fare.

Profits in lieu of salary (section-17(3))

These payments are received by the employee in lieu of or in addition to salary or wages. These payments includes to following:

- **Terminal compensation**
- **Payment from RPF**
- **Payment under keyman insurance policy**
- **Any amount due or received before joining or after cessation of employment**
- **Any other sum received by the employee from the employer.**

Meaning of salary for different purpose

1	2	3	4	5	6
HRA (house rent allowance)	Entertainment allowance	Leave salary	Gratuity	PF contribution	RFA(rent free accommodation)
A. Basic B. DA (if terms of retirement benefit) C. Commission (based on fix %age of turnover)	Only basic salary	Same as column 1	If covered BASIC+D A If not cover Same as column 1	Same as column 1	A. Basic B. DA (if retirement benefit) C. Bonus D. Commission E. Taxable portion of all allowances F. Monetary payment from one or more employer It does not include to following: 1. PF contribution 2. Perquisite u/s 17(2)