Chapter- 3
Income from Salary

Meaning of 'Salary'

- Every payment made by an employer to his employee for service
- The term 'salary' for the purposes of Income-tax Act will include both monetary payments (e.g. basic salary, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest free loans etc).

Condition for Charging Income U/H "Salaries"

Employer & Employee relationship
- ✓ For the income to be taxable under this head, relation of employer and employee must exit between the payer and payee.
- ✓ Any payment received by an individual from a person other than his employer cannot `be termed as salary.

Examples:
- Remuneration received by a lecture from his college is salary but remuneration received from another university is not salary. Hence it will be taxable under the head "Income from other sources", not under the head "salaries". (E.g. remuneration for setting question paper of another university).

- If director is working in a company in the capacity of employee, then commission or director's sitting fee or any other amount received by him from that company should be taxable as a "Salary income", otherwise as a "Income from other sources ",

Basis of Charge - Sec. 15

The following Income shall be chargeable to income tax under the head **"Salaries"**

a) Any salary DUE in the Previous year, whether paid or not.
b) Any salary paid in the previous year, though it is not due.
} **Whichever is Earlier**

Any arrear of salary paid in the previous year, if not charged to tax for any earlier previous year on due basis

Explanation - 1 Where any salary paid in advance is included in the total income of the person for any previous year it shall not be included again in the total income of the person when salary become due.

Explanation - 2 Any salary, commission, bonus or remuneration due to or received by a partner of a firm from the firm not be regarded as "salary" u/s 17(1)

Important Point kept in the mind

- *It does not matter whether the employee is a fulltime employee or a part-time*
- *Advance salary is taxable when it is received by the employee irrespective of the fact whether it is due or not.*
- *Loan is different from salary. The loan amount cannot be brought to tax as salary of the employee.*
- *Normally speaking, salary arrears must be charged on due basis.*
- *MLAs or MPs are not treated as an employee of the Government; therefore remuneration received by these people is not taxable under the head "Salaries", but taxable under the head "Income from other sources",*
- *Salary received by a partner from a partnership firm is taxable under the head "Business and profession".*

Meaning of Salary

Particulars	**Rs.**	**Rs.**
Basic salary		xxx
Dearness allowance		xxx
Bonus		xxx
Commission		xxx
Pension		xxx
Employer's contribution in excess of 12% to RPF.		xxx
Interest in excess of 9.5 % on RPF		xxx
Taxable allowance		xxx
Taxable perquisites (after proper valuation)		xxx
Taxable part of gratuity		xxx
Taxable part of computation of pension		xxx
Lump sum received from URPF to the extant employer's contribution and interest thereon		xxx
Taxable part of compensation received		
Gross salary		
Less : Deduction u/s 16		
(i) Entertainment allowance	xxx	
(ii) Employment tax	<u>xxx</u>	(xxx)
Taxable salary /net salary		xxx

<u>Important Notes</u>

Dearness allowance (DA)

- ***If in question DA is given, then it will not be treated as forming part of salary unless question specifically says that –***
  - ✓ *If forming part of retirement benefit /*
  - ✓ *Under the terms of employment /*
  - ✓ *Consider for retirement benefit.*
- ***Dearness pays (DP)***
  It means it is forming part of retirement benefit unless question says otherwise.

Gratuity – Sec. 10(10)

1. **Government Employees (CG/SG)**:
   Any death cum retirement gratuity is fully exempt from tax

2. **Non-government**

   Case:1 - Employees covered by the Payment of Gratuity Act, 1972

   Any death cum retirement gratuity is exempt from tax to the extent of least of the following:

   1. ***Rs.10,00,000*** ***[Amended in FA-2010]***
   2. Gratuity actually received
   3. 15/26 × Last drawn salary × No. of years of completed service or part thereof in excess of 6 months

   Note:

   1. *Salary = Last Drawn Basic Salary + DA*
   2. *No. of days in a month for this purpose shall be taken as 26.*

   Case:2- Employees not covered by the Payment of Gratuity Act, 1972

   Any death cum retirement gratuity is exempt from tax to the extent of least of the following:

   1. ***Rs.10,00,000*** ***[Amended in FA-2010]***
   2. Gratuity actually received
   3. 1/2 × Average salary × No. of fully completed years of service (fraction to be ignored)

   Note:

   Salary = Last Drawn Basic Salary + DA (R.B.) + Commission as a % of Turnovers

Important Notes

(1) Gratuity received during the period of service is fully taxable.

(2) Where gratuity is received from 2 or more employers in the same year then aggregate amount of gratuity exempt from tax cannot exceed Rs. 10,00,000.

(3) Where gratuity is received in any earlier year from former employer and again received from another employer in a later year, the limit of Rs.10,00,000 will be reduced by the amount of gratuity exempt earlier.

(4) The exemption in respect of gratuities would be available even if the gratuity is received by the widow, children or dependents of a deceased employee.

Taxable Gratuity

Particulars	Rs
Amount Received as Gratuity	xxx
Less : Exemption Received as above **Case:1** or **Case :2**	xxx
Taxable Gratuity	**xxx**

Differences

	Basis of difference	Covered by gratuity Act	Not Covered by gratuity Act
1	Components of Salary	Basic + D.A	Basic + D.A (R.B.) + Comm. (F.R)
2	Part of Salary	In excess of 6 month = 1 Yr	Fraction to be ignored
3	No. of Days in a month	26 Days	30 Days
4	Salary of which period	Last Drawn	Average of 10 months

Pension – Sec. 10(10A)

Nature of pension	Received by	Amount taxable
Uncommuted Pension	Government and Non-Government Employees	fully taxable
Commuted Pension	Government Employees	fully exempt from tax
	Non-Government Employee who is receipt of gratuity	Amount received = xxx Less: Exemption = (xxx) Taxable amount = xxx **Note-Exemption =** $\frac{\text{Ammount of commuted pension}}{\text{\% of Commution}} \times 100 \times \frac{1}{3}$
	Non-Government Employee who is not receipt of gratuity	Amount received = xxx Less: Exemption = (xxx) Taxable amount = xxx **Note-Exemption =** $\frac{\text{Ammount of commuted pension}}{\text{\% of Commution}} \times 100 \times \frac{1}{2}$

Important Note

- ✓ Judges of the Supreme Court and High Court will be entitled to exemption of the commuted portion not exceeding ½ of the pension.
- ✓ Any commuted pension received by an individual out of annuity plan of the Life Insurance Corporation of India (LIC) from a fund set up by that Corporation will be exempted.
- ✓ Government Employee = CG, SG, LA, including Judges of HC & SC
- ✓ Uncommuted Pension = Periodical payment of pension
- ✓ Commuted Pension = Lump sum payment of pension

Leave Encashment – Sec. 10(10AA)

1. **Govt. Employee (CG/SG):** wholly exempt from tax
2. **Non-Govt. Employee:** to the extend of the least of the following is exempt
   a) Amount of cash equivalent (based on average salary of least 10 months, preceding the date of retirement) to unveiled leaves to the credit of the employee at the time of retirement (calculated @ 30 days entitlement for each completed year of service).
   b) 10 months salary (based on average salary of last 10 months, preceding the date of retirement).
   c) Rs. 300000
   d) Leave encashment received

   Notes:

   1) Leave salary received during the period of services is always taxable for all employees.

2) Where leave salary received from two or more employers in the same previous year then amount of leave salary exempt cannot exceeds Rs 300000.
3) In case where employee has received leave salary in any earlier year from his former employer and also receives from another employer in a later year, the limit of Rs. 300000 will be reduced by the amount of leave salary exempt from tax in any earlier years.

Retrenchment Compensation – Sec. 10(10B)

Least of the following amount is EXEMPT

a) 15 days (out of 26 days) salary for every completed year or services or part thereof in excess of 6 months (according to Industrial Dispute Act – 1947).
b) Rs. 500000
c) Actual amount received

Average pay

Monthly paid workmen	-	3 completed calendar months.
Weekly paid workmen	-	4 completed week.
Daily paid workmen	-	12 full working days.

Meaning of salary
Salary includes-

✓ Basic + All allowance + Value of all benefit
✓ But does not included-
  - Bonus
  - Employer's contribution to any retirement benefit scheme.
  - Gratuity.

Compensation on Voluntary Retirement – Sec. 10(10C)

Condition of claiming Exemption:-

a) It should be received on his voluntary retirement
b) It should be received by employees of Central/State Govt., Public sector undertaking, any other company, statutory corporation, local authority, university, IIT or notified institute of management.
c) It must be received in accordance with the scheme of VRS which is famed in accordance with prescribed guideline of the government
d) If exemption is claimed in one A/Y then exemption shall note be allowed another A/Y.

<u>Guidelines for the purposes of section 10(10C) – Rule 2BA</u>

(1) it applies to an employee who has completed 10 years of service or completed 40 years of age;
(2) it applies to all employees (by whatever name called) including workers and executives of a company or of an authority or of a co-operative society, as the case may be, excepting directors of a company or of a co-operative society;
(3) the scheme of voluntary retirement or voluntary separation has been drawn to result in overall reduction in the existing strength of the employees;

(4) the vacancy caused by the voluntary retirement or voluntary separation is not to be filled up;

(5) the retiring employee of a company shall not be employed in another company or concern belonging to the same management;

(6) <u>**Quantum of Exemption**</u>

Least of the following is exempt:-

1) Last drawn salary x 3 months x No. of completed years of services
OR
Last drawn salary x Balance of months of service left

} **Whichever is HIGHER**

2) Actual amount received

3) Statutory limit Rs. 500000

Salary = Basic salary + D.A. (**forming part of retirement benefit**) + fixed % of turnover

Provident Fund

Tax treatment of provident fund

Particulars	Statutory	Recognized	Unrecognized	Public
Employee contribution	Deduction u/s 80C available	Deduction u/s 80C available	Deduction u/s 80C available	Deduction u/s 80C available
Employer's contribution	Not taxable	Amount exceeding 12% of salary is taxable	Not taxable at the time of contribution	Not applicable
Interest on provident	Fully exempt	Amount in excess of ~~9.5%~~ 8.5 % p.a. ***[Amended in FA-2010]*** is taxable	Not taxable yearly	Fully exempt
Repayment of lump sum amount on retirement /resignation/termination	Fully exempt u/s 10(11)	See Note (1)	Employee's contribution is not taxable but interest thereon is taxable under Income from Other Sources. Employer's contribution and interest thereon is taxed as Salary.	Fully exempt u/s 10(11)

Note -1

Amount received on the maturity of RPF is fully exempt in case of an employee who has rendered continuous service for a period of 5 years or more.

Condition of 5 years not applicable if the service had been terminated due to

- ✓ employee's ill-health or
- ✓ discontinuance or contraction of employer's business or
- ✓ other reason beyond control of the employee

Note -2

Meaning of Salary = Basic salary + dearness allowance (if provided in the terms of employment for retirement benefits) + commission (as a percentage of turnover).

Allowance

Meaning of allowance
Allowance is a fixed monetary amount paid by the employer to the employees for meeting some particular expenses, whether personal or for performance of his duties.

House rent allowance (HRA) [Sec. 10(13A)]

Least of the following is exempted-
a. Actual HRA received
b. Rent paid- 10% of salary
c. 40% of salary [in case of 4 metro cities 50% of salary.]

For the purpose of (c) (i.e. 40% /50% limit), place of resident is relevant, and not the place of service

Meaning of salary
Basic + DA (if forming part of salary) + Fixed commission on turnover.

Four factors
The exemption in respect of HRA is based upon the following **four factors;**
a. Salary
b. Place of residence
c. Rent paid
d. HRA received

Note- *When these four are same throughout the previous year, the exemption u/s 10(13A) should be calculated on "annual "basis. But wherever these are a change in any of the above factors it should be separately calculated till the next change*

Exemption not available
✓ Where an employee lives in his own house ; or
✓ In a house for which he does not pay any rent; or
✓ Pays rent, which does not exceed 10% of salary.

Specific notification special allowance [Sec. 10(14)]

These allowances are of 3 types-

(a) Allowance, which are exempted to then extent of actual amount received or the amount spent for specific purpose for which these were received, (whichever is less).

(b) Allowance, which are exempted to the extent of amount received or the limit specified, (whichever is less).

(c) Allowance where exemption is allowed up to certain percentage of amount received.

Allowance exempted up to amount spent for specific purpose

S.N.	Allowances	Exemption
(i)	**Daily allowance**	Any allowance whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty.
(ii)	**Conveyance allowance**	Any allowance granted to meet expenditure on conveyance in performance of duties of an office. ***Note-*** *Expenditure for covering the journey between office and residence is not treated as expenditure in performance of duties of the office and, consequently, such expenditure is not exempt*
(iii)	**Helper allowance**	Any allowance to meet the expenditure on a helper where such helper is engaged for the performance of official duties.
(iv)	**Academic allowance / Research allowance.**	Amt allowance granted for encouraging the academic research and professional pursuits.
(v)	**Uniform allowance**	Any allowance granted to meet the cost of travel non tour or on transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on such transfer.)
(vi)	**Traveling allowance / Transfer allowance.**	Any allowance granted to meet the cost of travel on tour or on transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on such transfer.)

Allowance exempted up to limit specified

S.N.	Allowances	Exemption
1	Children education allowance.	Rs. 100/- per month per child (up to maximum of 2 children)
2	Hostel allowance	Rs. 300/- per month per child (up to maximum of 2 children)
3	Tribal area allowance	Rs.200/- per month.
4	Composite hill compensatory allowance Or high attitude allowance etc.	Rs. 300/- to 7000/- per month.
5	Border area, remote area allowance, disturbed area allowance.	Rs. 200/- to 1300/- P.M.
6	Transport allowance (to meet expenditure for the purpose of commuting between the place of his residence and place of duty	Rs. 800/- p.m. Note- Rs. 1600/- in case of an employee who is blind / orthopedically handicapped with disability of lower extremities.
7	Underground allowance	Rs. 800/- p.m.

a) Exempted up to certain percentage of amount received

Allowances	Exemption
Allowance allowed to transport employee	a) 70% of such allowance b) ~~Rs 6000 p.m.~~ **Rs 10000** ***[Amended in FA-2010]*** whenever is less

b) Allowance, which are fully taxable

All other allowances are fully taxable. Some of such allowance is enumerated as under-

- ✓ Dearness allowance /Dearness pay (DA/DP)
- ✓ City compensatory allowance (CCA)
- ✓ Medical allowance
- ✓ Lunch allowance /Tiffin allowance
- ✓ Overtime allowance
- ✓ Servant allowance
- ✓ Warden allowance
- ✓ Non-practicing allowance
- ✓ Family allowance
- ✓ Holiday trip allowance
- ✓ Deputation allowance
- ✓ Marriage allowance
- ✓ Foreign allowance
- ✓ Entertainment allowance (discussed separately)

Perquisites

Meaning

- ✓ Perquisites are the benefits provided by the employer (May be former /present /Prospective) in addition to normal salary.
- ✓ It may be cash or kind and
- ✓ It may be provided at free of cost or at a confessional rate.

Definition (sec 17(2))

Perquisite includes-

(1) Value of rent-free accommodation provided to the employee by employer;

(2) Value of any concession, in case of accommodation provided at confessional rate;

(3) Value of any benefit or amenity granted or provided free of cost or at confessional rate to a specified employee

- ✓ Motor car
- ✓ Sweeper, Gardner, Watchman or personal attendant
- ✓ Gas, Electricity &Water
- ✓ Free Education Facility
- ✓ Free/ Concessional Fare
- ✓ Value of other benefit or amenity, service, right/ privilege

(4) Any sum paid by the employer in respect of any obligation on the behalf of employee.

(5) Sum payable by the employer whether directly or through a fund to effect an assurance on life of the assessee or to effect a contract for an annuity.

(6) The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee.

- ✓ **For this purpose**
  The value of any specified security or sweat equity shares shall be the fair market value of the specified security or sweat equity shares, as the case may be, on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such security or shares.

(7) the amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds Rs. 1,00,000

(8) Value of any other fringe benefit or amenity as may be prescribed.
Prescribed facilities

- ✓ *Interest free / confessional loans*
- ✓ *Travelling, touring & accommodation other than LTC*
- ✓ *Free food & beverages to employee during office hours*
- ✓ *Gift to employee*
- ✓ *Credit card expenses*
- ✓ *Club expenses*
- ✓ *Use of movable assets.*
- ✓ *Transfer of any moveable assets.*

Added in Finance Act -2009

Note **–** *It should be noted that other facilities [(sec.17 (2) (iii)] is taxable only in the specified employee. All other facilities are taxable in the hands of both the employee whether specified or non-specified.*

Specific notification special allowance [Sec. 10(14)]

Rent free accommodation or accommodation provided at confessional rate [rule 3(1)]

Provided by Central Govt. or State Govt.	Licence fee determined by the Government **Less:** Rent recovered from employee
Provided by Employer other than Central or State Government	
(a) owned by employer	1. **In cities having population exceeding 25 lakhs as per 2001 census**: 15% of Salary **Less** Rent actually paid by employee 2. **In cities having population exceeding 10 lakhs but not exceeding 25 lakhs as per 2001 census**: 10% of Salary **Less** Rent actually paid by employee 3. **In other places:** 7.5% of Salary **Less** Rent actually paidby employee
(b) taken on lease by the employer	Rent paid by the employer or 15% of Salary whichever is lower **Less** Rent recovered from employee
(c) Accommodation in a hotel	24% of salary paid/payable or actual charges paid/ payable whichever is lower **Less** Amount paid or payable by the employee

Flow Chart Form
Unfurnished accommodation

- **Government employees**
  Taxable value= License fee determined by Government
- **Non-Government employees**
  - **If accommodation is owned by**
    - **In cities having population exceeding 25 lakhs as per 2001 census**
      Taxable value = 15% of salary
    - **In cities having population does not exceeding 10 lakhs but not exceeding 25 lakhs census.**
      Taxable value = 10% of salary
    - **In other cities**
      Taxable value = 7.5% of salary
  - **If accommodation is taken on lease or rent by employer**
    Taxable value=
    a. Actual amount of lease or rent paid/ payable by employer; or
    b. 15 % of salary
    (Whichever is lower)
- **If accommodation in Hotels**
  Taxable value-
  (a) Actual Charges paid or payable
  (b) 24% of salary
  Whichever is lower

Note – Rent paid by the employee shall be deducted from the value calculated as above in all cases.

Meaning of salary
Salary includes following –
1. Basic salary
2. Allowance (taxable portion)
3. Bonus
4. Commission (fixed/ variable / on purchase/on sale)
5. D.A. (if from part of retirement benefit)
6. Any monetary payment (which are not in nature of perquisites u/s 17(2)

Example – leave encashment of salary pertaining to the current year or pension received from another employer in included.

Salary does not include following-
1. Employer contribution to P.F.

2. Value of perquisite specified in sec 17(2) (whether received in cash/kind).
3. Exempted allowance
4. Other D.A.

<u>Rent free accommodation provided to judges etc.</u>
Rent free accommodation provided to judges of high court /Supreme Court / official of parliament/ union Minister and Ledger of Opposition in Parliament is exempted.

Furnished Accommodation

	Value of unfurnished accommodation as above	xxx
Add-	**1)** Value of furniture	
	a) If furniture owned by employer – 10% of original cost.	xxx
	b) If hired from 3rd party – Actual hire charges whether paid / payable	xxx
Less-	**2)** Any charges paid or payable by the employee.	xxx
	Value of perquisites	xxx

Note – furniture includes T.V., radio set, refrigerators, other household appliances, A.C. etc.

Valuation in case of transfer of employee

For the first 90 Days of transfer	Where the accommodation is provided both at existing place of work and in new place, the Accommodation, which has lower value shall taxable
After 90 days	Both accommodations shall be taxable.

Valuation of Momentary Obligation of the Employee Discharge by the Employer

The value of these perquisites is the actual expenditure incurred by the employer in this regard is taxable in the hand of employee

Example-

- ✓ Electricity bill of employee paid by the employer ***(Discuss Later)***
- ✓ Professional tax of employee paid by employer ***(Discuss Later)***

Valuation of other fringe benefits and amenities- Rule -3(7)

[Amended in FA, 2009]

1) ***<u>Travelling, touring and accommodation and</u>*** **<u>other expenses borne by the employer - Rule-3(7) (ii)</u>**

	Amount incurred by Employer or value offered to public	xxxx
Less-	Amount Recovered from Employee	xxxx
Taxable Perquisite		**xxxx**

Note- This provision applies in respect of trips other than those which are exempt under section 10(5) read with Rule-2B (i.e., Leave Travel Concession)

2) *Interest-free or concessional loan- Rule-3(7)(i)*

Interest-free or concessional loan

Interest charged by employer ≥ SBI Rate

It is not Taxable perquisite

Interest charged by employer < SBI Rate

Interest at SBI Rate at maximum outstanding Amount	xxxx
Less- Interest charged by Employer on that Loan	xxxx
Taxable Perquisite	**xxxx**

Important notes

- ✓ Nothing is taxable if such loans are made available for medical treatment in respect of diseases specified in rule 3A of the Income Tax rules or where the amount of loans are petty not exceeding in the aggregate Rs.20,000 .
- ✓ Where loans are made available for medical treatment, referred to above, the exemption shall not apply to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.
- ✓ Maximum outstanding monthly balance means the aggregate outstanding balance for each loan as on the last day of each month.

3) *Free or concessional food and non-alcoholic beverages - Rule-3(7)*

Amount of expenditure incurred by the employer	xxxx
Less- Amount, if any, paid or recovered from the employee for such benefit or amenity	xxxx
Taxable Perquisite	**xxxx**

Important notes

- ✓ Free food and non-alcoholic beverages provided by the employer during the working hours at office or business premises up to Rs.50 per meal;
- ✓ Free food and non-alcoholic beverages provided through paid vouchers which are not transferable and usable only at eating joints if the value thereof is up to Rs.50 per meal;
- ✓ Tea or snacks provided during working hours; and
- ✓ Free food and non-alcoholic beverages during working hours provided in a remote area or an offshore installation.

4) *Value of gift, voucher or token in lieu of such gift*- Rule-3(7) (iv)

- ✓ 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
- ✓ from the employer shall be the sum equal to the amount of such gift.

Note

- ✓ If the value of such gift, voucher or token is below Rs. 5,000
- ✓ in the aggregate during the previous year,
- ✓ the value of perquisite shall be taken as nil.

5) ***Credit card or add-on card expenses including membership fees and annual fees- Rule-3(7) (v)***

Amount of expenditure incurred by the employer	xxxx
Less- Amount, if any, paid or recovered from the employee for such benefit or amenity	xxxx
Taxable Perquisite	**xxxx**

Note

If such expenses incurred wholly and exclusively for official purposes would not be treated as a perquisite if the following conditions are satisfied:

- ✓ complete details in respect of such expenditure are maintained by the employer which may, inter alia, include the date of expenditure and the nature of expenditure;
- ✓ the employer gives the certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties;

6) ***Club expenditure- Rule-3(7) (v)***

Amount of expenditure incurred by the employer	xxxx
Less- Amount, if any, paid or recovered from the employee for such benefit or amenity	xxxx
Taxable Perquisite	**xxxx**

Note

There will be no taxable perquisite if the club expenditure is incurred wholly and exclusively for business purposes and the following conditions are fulfilled:

- ✓ complete details in respect of such expenditure are maintained by the employer which may, inter alia, include the date of expenditure and the nature of expenditure and its business expediency;
- ✓ The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

7) ***Use of movable assets- Rule-3(7) (vi)***

S.N	Circumstances	Value of benefit	
(a)	Use of laptops and computer	Nil	
(b)	Movable assets and other than ✓ Laptops and computer and ✓ Asses already specified in the rule (i.e. assets for which separate rules of valuation is given).	✓ If owned by employer	value = 10% p.a. of the original cost
		✓ If hired by employer	Value = Actual rental paid/ payable by employer

Note- Amount paid by the employee shall be deducted from the value calculated as above.

8) ***Transfer of any movable assets- Rule-3(7) (vi)***

S.N	Assets transferred	Value of benefit		
(a)	Computer and electronic items.		Actual cost employer	xxx
		Less	Depreciation @ 50% for ever completed year during which the assets was put to use by the employer under	xxx
				xxx
(b)	Motor car	Same (but depreciation @ 20% under WDV)		
(c)	Other movable assets	Same (but depreciation @ 10% under SLM)		

Notes-
- ✓ ***Amount paid by the employee shall be deducted from the value calculated as above.***
- ✓ **Electronic items** Means
  - Data storage and handling devices like computer, digital diaries and printers.
  - They do not include household appliance (like washing machines, mixers, video camera, fridge, etc.). They will cover under other movable assets.

Taxability of motor Car Benefits – Rule – 3(2)

Owner of Car	**Expenses met by**	**Purpose**	**Taxable Value of Perqisite**
a) Employer	Employer	Fully official	Not a perquisite provided the document specified in Rule 3(2)(B)
b) Employer	Employer	Fully private use	**Sum of the following-** ✓ Actual expenditure on car ✓ Remuneration to chauffeur ✓ 10% of the cost of car (normal wear & tear) ***Less –*** Amount charged from employee
c) Employer	Employer	Partly for official and partly for personal use	✓ **Cubic Capacity of Car Engine upto 1.6 liter** Rs. 1800 p.m. + Rs. 900 for chauffeur ✓ **Cubic Capacity of Car Engine above 1.6 liter** Rs. 2400 p.m. + Rs. 900 for chauffeur
d) Employer	Employee	Partly for official and partly for personal use	✓ **Cubic Capacity of Car Engine upto 1.6 liter** Rs. 600 p.m. + Rs. 900 for chauffeur ✓ **Cubic Capacity of Car Engine above 1.6 liter** Rs. 900 p.m. + Rs. 900 for chauffeur
e) Employee	Employer	Fully official	Not a perquisite provided the document specified in Rule 3(2)(B)
f) Employee	Employer	Partly for official and partly for personal use	Actual expenditure incurred *less* **Cubic Capacity of Car Engine upto 1.6 liter - Rs. 1800 p.m.** **Cubic Capacity of Car Engine above 1.6 liter - Rs. 2400 p.m.** Less : Rs. 900 p.m. for chauffeur

g) Employee owns other auto-motive but no car	Employer	Fully official	Not a perquisite provided the document specified in Rule 3(2)(B)
h) Employee owns other auto-motive but no car	Employer	Partly for official and partly for personal use	Actual expenditure incurred by employer xxxx *Less* Rs. 900 p.m. for chauffeur xxxx xxxx

Notes-

(i) Using cars from pool of care owned or hired by employer:

The employee is permitted to use any or all cars for both official and personal use:

- ✓ For one car → Valued as per above point (c)
- ✓ For more than one car → Valued as per above point (b) if fully used for personal purpose

(ii) Documents to be maintained for claiming not taxable perquisite or higer deduction whenever applicable [Rule 3(2)(B)]

- ✓ the employer has maintained complete details of journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon;
- ✓ the employer gives a certificate to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

(iii) Member of household includes-

- ✓ Spouse, Children & their spouse, Parents Servants and Dependent

Perquisites taxable in the hands of only specified employees.

S.N.	Nature of perquisite	Value of perquisite
(1)	**Gas, electricity or water supply for household consumption [Rule 3(4)]**	**Produced from outside agency** → value = amount paid outside agency **Resource owned by employer himself** → manufacturing cost per unit *Note* – Deduction allowed if any amount recovered from employee
(2)	**Services of cook, sweeper, gardener, watchman or personal attendant. [Rule 3(3)]**	Value = Actual cost to the employee (i.e. salary paid/ payable by the employer for such services) *Less* Amount paid by employee

Specified Person shall includes-

a) Director or company, or

b) Employee having 20% or more voting power or beneficial ownership in the employer company, or

c) Employee having salary more than Rs. 50000

Salary means - All monetary payments after deduction u/s 16 (ii) & (iii)

Free Education Facility- Rule 3(5)

Free Education Facility

Where education institution or owned and maintained by the employer and education facility is provided
Or
Where such education facility is provided in any institution by reason of employee's employment with the employer

- Where education facility provided to employee children (no restriction on number of children)
  - Where amount of education or value of such benefit dose not exceeds Rs. 1000 p.m. per child
    - Nil
  - Where such amount does exceeds Rs. 1000 p.m. per child.
    - Cost of such education in similar institution or near the locality
    - **Less – Rs. 1000/- P.M.P.C (**)**
    - **Less-** amount paid/recovered from employee
- Where education facility provided to member of his household including Grand children (other than children)
  - Cost of such education in similar institution or near the locality
  - ***Less –*** Amount paid or recovered from employee

(**)Where – P.M.C.H = Per Month per Child

Transport of goods or passengers at free or concessional rate – Rule 3(7) (ix)

<u>Transport of goods or passengers at free or concessional rate provided by the employer engaged in that business (other than railways/ airlines)</u>

Amount incurred by Employer or value offered to public	xxxx
Less- Amount Recovered from Employee	xxxx
Taxable Perquisite	xxxx

Medical Facility

<table>
<tr><th></th><th>Medical facility</th><th colspan="2">Exemption</th></tr>
<tr><td rowspan="2">Medical treatment in India.</td><td>1. Treatment in hospital maintained by the employer. (For any diseases.)
2. Treatment in hospital maintained by the Government (For any diseases.)
3. Group medical insurance paid
4. Medical insurance paid u/s 80D
5. Treatment in any hospital approved by the Chief Commissioner of income tax for prescribed disease (i.e. notified hospital for prescribed diseases)</td><td colspan="2">Fully exempted</td></tr>
<tr><td>Treatment in any other hospital (i.e. private hospital)</td><td colspan="2">a. Actual expenses incurred or reimbursed by employer ; or

b. Rs. 15,000 in aggregate per annum (which ever is less)</td></tr>
<tr><td rowspan="5">Medical treatment outside India</td><td>Expenses on medial treatment of the employee/ and member of his family.</td><td colspan="2">Expenses to the extent permitted by RBI.</td></tr>
<tr><td>Expenses on stay abroad of the patient (i.e. employee or any member of his family) (+) one attendant.</td><td colspan="2">Expenses to extent permitted by RBI.</td></tr>
<tr><td rowspan="3">Traveling expenses of the patient (i.e. employee or any member of his family) (+) one attendant.</td><td>Gross Total Income before including reimbursement of foreign travel expenditure</td><td>Amount of Exemption</td></tr>
<tr><td>Upto Rs. 200000</td><td>Fully Exempt</td></tr>
<tr><td>Above Rs. 200000</td><td>Fully Taxable</td></tr>
</table>

Important Notes –

1. **Meaning of family**
   - ✓ Spouse
   - ✓ Children (dependent / non dependent / married / unmarried)
   - ✓ Parent, brothers and sisters (*if wholly /mainly dependent on such employee*)

2. **Medical insurance premium**
   All medical insurance payment made under a scheme framed by the GIC or any other insurer approved by the Central Government or Insurance Regulatory and Development Authority. Whether paid directly or reimbursement to the employees shall not to be treated as perquisites.

3. **Medical allowance-**
   Fully taxable irrespective of actual expenditure incurred by the employee

Treatment of Leave Travel Concession (LTC) -Section 10(5)

The employee is entitled to exemption under section 10(5) in respect of the value of travel concession or assistance received by or due to him from his employer or former employer for himself and his family, in connection with his proceeding—

(a) On leave to any place in India.

(b) To any place in India after retirement from service or after the termination of his service.

<u>The exemption shall be allowed subject to the following:</u>

(i) **<u>Where journey is performed by air</u>** —the air economy fare of the National Carrier by the shortest route to the place of destination;

(ii) **<u>where places of origin of journey and destination are connected by rail and the journey is performed by any mode of transport other than by air</u>** —the air-conditioned first class rail fare by the shortest route to the place of destination;

(iii) **<u>where the places of origin of journey and destination or part thereof are not connected by rail and the journey is performed between such places</u>** — The amount eligible for exemption shall be:

(a) **<u>Where a recognised public transport system exists</u> -** the 1st class or deluxe class fare, by the shortest route to the place of destination; and

(b) **<u>Where no recognised public transport system exists</u>** - the air-conditioned first class rail fare, by the shortest route, as if the journey had been performed by rail.

<u>Exemption will, however, in no case exceed, actual expenditure incurred on the performance of journey.</u>

- The assessee can claim exemption in respect of any two journeys in a block of 4 years.
- If the assessee has not availed of the exemption of LTC in a particular block, whether for both the journeys or for one journey, he can claim the exemption of first journey in the calendar year immediately succeeding the end of the block of four calendar years.

<u>Exemption available only in respect of two children</u>

The exemption relating to LTC shall not be available to more than two surviving children of an individual after 1-10-1998.

***<u>Exception</u>*:** The above rule will not apply in respect of children born before 1-10-1998 and also in case of multiple birth after one child.

<u>Meaning of family for LTC and medical facility/reimbursement</u>

Family for this purpose includes:

(a) the spouse and children of the employee;

(b) Parents, brothers & sisters of the employee, who are wholly or mainly dependent upon him.

Deduction from Salary Section - 16

1. **Standard deduction**
   Deleted by Finance Act, 2005

2. **Tax on employment (Professional Tax) [Sec.16(iii)]**
   ✓ Deduction in available only in the year in which such tax is paid (i.e. on payment basis).
   Note –if it is paid after the end of the previous year, no deduction shall be allowed.

   ✓ If it is paid by employer on behalf of an employee-
   a. It is first included in the salary as perquisite [for all employee], and
   b. Then the same amount is allowed as deduction.

3. **Entertainment allowance [sec.16(ii)]**
   (a) Government employees
   Least of the following is deductible-
   1. Amount actual received
   2. Rs. 5,000
   3. 20% of salary (salary =basic salary)

   (b) Non-Government employees - No deduction

Profits in lieu of salary – Section – 17(3)

"Profits in lieu of salary" includes—

(i) the amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with –
   a) the termination of his employment or
   b) the modification of the terms and conditions relating thereto;

(ii) any payment from an employer or a former employer or from a provident or other fund or any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.

(iii) any amount due to or received, whether in lump sum or otherwise, by any assessee from any person—
   a) before his joining any employment with that person; or
   b) after cessation of his employment with that person.
   c)

Relief when salary is paid in arrears or in advance Section 89

Step 1: Calculate the tax payable of the previous year in which the arrears/ advance salary is received on:

(a) Total Income inclusive of additional salary.

(b) Total Income exclusive of additional salary.

The difference between (*a*) and (*b*) is the tax on additional salary included in the total income.

Step 2: Calculate the tax payable of every previous year to which the additional salary relates

(a) on total income including additional salary of that particular previous year.

(b) on total income excluding additional salary.

Calculate the difference between (*a*) and (*b*) for every previous year to which the additional salary relates and aggregate the same.

Step 3: The excess between the tax on additional salary as calculated under step 1 and 2 shall be the relief admissible under section 89.

If there is no excess, no relief is admissible. If the tax calculated in step 1 is less than tax calculated in step 2, the assessee need not apply for relief.