Income from Salary

Taxability of allowances

Meaning

- Allowances are a **fixed monetary amount paid by the employer** to the employees for meeting **<u>some particular expenses,</u>** whether personal or for performance of his duties. It can be divided into following types:-

Types of allowances

Fully exempt allowances

Fully taxable

Partly taxable

A. Allowances, which are fully exempt:-

Citizen of India	• Allowances to a **citizen of India,** who is a Government employee, rendering services outside India.
HC and SC Judges	• Allowances given to **HC and SC Judges.** (Compensatory Allowance or Sumptuary allowance)
Amount received from UNO	• Allowances received by an employee of **UNO from his employer.**

B. Allowances - which are fully taxable:-

Dearness allowances	Lunch allowances	Warden allowances
City compensatory allowances (CCA)	Deputation allowances	Family allowances
Medical allowances	Marriage allowances	Holiday trip allowances
Non-practicing allowances	Foreign allowances	Overtime allowances
Servant allowances	Entertainment allowances	

C. Allowances partly taxable and partly exempt.

C 1 :- House rent allowance

Least of the following is exempt

- Actual HRA received
- Rent paid – 10% of salary
- 40% of salary (50% of salary in case of metro cities)

Other points:-

1]For the purpose of (c) (i.e. 40% / 50% limit), **<u>place of resident is relevant</u>,** and not the place of service.

2] Meaning of Salary

Salary = Basic + DA (if forming part of retirement/ provided in terms of employment) + Commission as a percentage of turnover.

C. Allowances partly taxable and partly exempt.

C 1 :- House rent allowance

No exemption in case of HRA

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

C.2 Allowances, which are exempt to the extent of amount received or the limit specified, (whichever is less).

No	Special allowances	Maximum amount exempt from tax
1	Tribal Area Allowance	Rs. 200/- per month (P.M)
2	Allowance to employees of transport to meet daily exps. (If no daily allowance is given)	70% of allowances is exempted or Rs. 10000/- P.M whichever is lower.
3	Children Education Allowance	Rs. 100/P.M per child (maximum 2 child)

C.2 Allowances, which are exempt to the extent of amount received or the limit specified, (whichever is less).

No	Special allowances	Maximum amount exempt from tax
4	Children Hostel Allowance	Rs. 300/ P.M per child (maximum 2 child)
5	Transport Allowance (between home to office)	Rs. 1600/- P.M. Rs. 3200/- P.M in case of handicapped or blind or deaf and dumb employees.
6	Underground allowance	Rs. 800/- P.M

C3. Allowances which are exempt to the extent spent:-

Travelling allowances/ Transfer allowances

Conveyance allowances

Helper allowances

Uniform allowances

Travelling allowances/ Transfer allowances

Travelling allowances/ Transfer allowances