# <u>Income from Salary</u>

1. Components of salary which are fully taxable:
   - Basic pay/Salary,
   - Advance Salary,
   - Arrears of Salary,
   - Any Allowances
   - Fees,
   - Bonus,
   - Commission,
   - Remuneration for extra Work (Over Time),
   - Gratuity,
   - Pension and
   - Provident Fund.
2. Components of salary which are not fully taxable:

   **A.** **<u>Gratuity Fund</u>:** It is a benefit given by the employer to his employee at the time of Death cum Retirement u/s 10(10).

   i. In case of **Government Employee** any amount received as gratuity is fully exempted from tax in Death cum retirement scheme.

   ii. Any amount received as gratuity by the Civil services, defence services, local authority is fully exempted.

   iii. Non – Government Employee covered under The Payment of Gratuity Act, 1972 : The lower of the following should be considered for exemption:

   - Rs. 3,50,000.00 or
   - Actual amount received by the individual as gratuity or
   - 15 days salary for each completed year of service or part there of in excess of 6 months ( 15/26 X Last Drawn Salary X No of years of Service)

   **Note: Salary = Basic Salary + Dearness allowance (Salary = Last Drawn Salary)**

iv. Non - Government employee not covered under The Payment of Gratuity Act, 1972 : The lower of the following should be considered for exemption:

- Rs. 3,50,000.00 or
- Actual amount received by the Individual or
- Half month average salary for each COMPLETED year of service (1/2 X Average of Last 10 Months Salary X No of fully completed years of Service).

**Note: Salary = Basic pay + Dearness allowance considered for Retirement benefits + Fixed percentage of commission on turn over.**

**B. Pension:** Pension is a periodical payment paid by the employer to his employee after retirement. Again it is classified in to Commuted and Uncommuted.

i. Commuted Pension: It is a lump sum amount paid by the employer to his employee after retirement instead of periodical payment.

- In case of Government Employee any amount received under pension scheme is fully exempted from tax.
- In case of a Non - Government Employee receiving Gratuity, is Amount received less (–) 1/3 of the full value of the pension he is entitled to receive.
- In case of Non - Government Employee not receiving Gratuity, is Amount received less (–) 1/2 of the full value of the pension he is entitled to receive.

ii. Uncommuted Pension: It is the amount paid by the employer to his employee every month after retirement instead of lump sum amount.

- In case of Central Government Employee and Defence, Armed forces are fully exempted.
- In case of Family pension received by family members of Central Government Employee who had received or awarded Gallantry Awards (E.g.: Bhartha Rathna, Padma Bushan, etc.,) is fully exempted.
- In case of Government or Non – Government Employees receiving uncommuted pension is fully taxable.
- In case of Central Government Employee who had joined on or after 01.01.2004 and received pension is also fully taxable.

**C.** **Leave Encashment Salary:** It is also a component of salary provided by the employer to his employee in case of Encashment of Leaves.

i. Tax Liability: Tax liability of individuals in various cases:

- In case of a retiring individual either government or non – government employee receives any amount in the scheme Leave Encashment is fully exempted for taxation.
- In case of an individual who is in service either government or non – government employee receives any amount in the scheme Leave Encashment is fully taxable.

ii. Computation of Tax Liability : The lower of the following should be considered for exemption:

- Rs. 3,00,000.00 or
- Actual amount received by the Individual or
- 10 months salary on Average basis.

**Note: Salary = Basic pay + Dearness allowance considered for Retirement benefits + Fixed percentage of commission on turn over (Should be provided in Terms of Employment).**

**D.** **Entertainment Allowance:** Any allowance given by the employer to his employee u/s 16(2) of the Income-tax Act to meet the expenditure incurred by the employee for entertainment is exempt from tax subject to the certain limits.

i. In case of **Government Employee** the least to be considered as exemption:

- A sum equal to one-fifth of his salary or
- Five thousand rupees or
- The actual amount received.

ii. In the case of **Non-Government Employee**, allowance will be given only

- If the allowance is regularly received by him from his present employer from a date prior to 1st April, 1955. or
- Allowances paid or allowed outside India by the Government or
- Section 10(7) provides for exemption of any allowance or perquisite paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India.

E. **<u>House Rent Allowance:</u>** Any allowance given by the employer to his employee u/s 10(13A) of the Income-tax Act to meet the expenditure incurred on payment of rent (by whatever name called) for residential purpose is exempt from tax. The lower of the following should be considered as exemption:

i. Actual Amount Received or

ii. One – Tenth of his Salary or

iii. If accommodation is situated in Bombay, Calcutta, Delhi or Madras it is 50% of the salary or 40% of the salary.

**Note: Salary = Basic pay + Dearness allowance (Excludes all other Allowances)**

F. **<u>Professional Tax</u>**: Any deduction of any sum paid by the employer on account of a tax on employment to the State or to any one municipality, district board, local board or other local authority in the State by way of taxes on professions, trades, callings and employments can be claimed as deduction under the head salary and it should not exceed two thousand and five hundred rupees per annum.

G. **<u>Special Allowance</u>:** These are the allowances come under special Allowances :

- H - Helper allowance
- R - Research allowance
- D - Daily allowance
- U - Uniform allowance
- T - Traveling Allowance
- C - Conveyance allowance

For these allowances the exemption can be claimed upon the expenditure incurred

i. The amount utilized for the specific official purpose for which it is given

ii. The amount of allowance received which ever is less

The following allowances can be claimed exemption to the extent as mentioned above.

3. Components of salary which are fully taxable:

- Dearness allowance
- City compensatory allowance

- Capital compensatory allowance
- Lunch allowance
- Tiffin allowance
- Project allowance
- Overtime  allowance
- Deputation allowance
- Warden ship allowance
- Fixed medical allowance
- Water and electricity allowance
- Servant allowance
- Marriage  allowance
- Family allowance
- Non - Practicing allowance
- Any other cash allowance

There are some more expenses which are to be taxed according to rule 2BB, tax liability is as follows:

i. The amount of the allowances which are actually received (in case of two Children) or

ii. Amount specified in rule 2BB.

Which ever is less has to be considered.

| **Name of Allowance** | **Nature of Allowance** | **Specified in rule 2BB** |
|---|---|---|
| Educational Allowance | Allowance for Children's education | Rs.100.00 p.m. subject to a max. of 2 children |
| Hostel Expenditure Allowance | Allowance For Hostel Expenditure | Rs.300.00 p.m. per child subject to a max. of  2 children |
| Underground Allowance | For coal mine workers. | Rs. 800.00 p.m. |
| Transport Allowance (Conveyance) | It is an allowance given to meet the expenditure of commutation between the | Rs.800.00 p.m. |

| | | |
|---|---|---|
| | place of his residence and the place of his duty | |
| Island Duty Allowance | It is an allowance given to an employee who is working in island<br>Eg.andaman nicobar islands | Rs.3,250.00 p.m. |
| Allowances for Transport Employee | It is also called running flight allowances. It is an allowance of transport system to meet his personal expenses in the course of running of such transport from one place to another place. | 70% of such allowance<br>or<br>Rs. 6,000.00 Per month<br>Which ever is less |

4. Perquisites: It is a benefit given by the employer to his employee in addition to his salary or wages.

It is exempted from tax, provided it should be a:

- Free refreshment provided by the employer to his employee during working hours, or
- Free meals provided in a remote area, or
- Recreation facilities provided to the employees, or
- Computer, or Laptop or Motor car given to a employee for personal purpose, or
- Value of any shares or debentures given at free of cost or at concessional rate, or
- Perquisite allowed by govt. to its employee posted abroad, or
- Amount spent on trainee management reference course, education, or
- Employee / Family members getting medical treatment in the hospital maintained by the employer, or
- Employee / Family members getting medical treatment in the Govt. hospital and the amount is paid or re-imbursed by the employer, or

- Employee / Family members getting medical treatment in the hospital approved by the chief commissioner on income tax and the amount is paid or re-imbursed by the employer, or
- Medical insurance / Health insurance paid by the employer on behalf of employee or his family members, or
- Any unfurnished provided to the judge of supreme court or high court , or
- Any rent free unfurnished house provided by the employer to his employee in a remote area.

Other than the above all points it is taxable, such as:

a. Value of perquisite in respect of domestic servant (Sweeper, Watchmen, Gardner, cook etc...)

| **Individual** | **Company** |
|---|---|
| Domestic Servant was appointed by employee but the salary was paid by the company (employer) | Domestic servant was appointed by the company and salary was paid by the company.<br>Free Domestic servant provided by the company. |
| ALL EMPLOYEES | SPECIFIED EMPLOYEE |
| Value of perquisite =<br>Amount paid by the employer – Amount paid by the employee(if any) | If yes, Value of perquisite =<br>Amount paid by the employer – amount paid by the employee(if any)<br>If No, Value of perquisite = Nil |

b. Value of perquisite in respect of Gas, Water and Electricity:

| | |
|---|---|
| "Bills are issued in the name of the employee but the amount is paid/re-imbursed by the employer " | Bills are issued in the name of the employer.<br>Free Gas / Water/ Electricity provided |

<table>
<tr><th>ALL EMPLOYEE</th><th>SPECIFIED EMPLOYEE</th></tr>
<tr><td>i. In case of own source:<br>Value of perquisite = Manufacturing Cost – Amount Paid by the employer.<br><br>ii. In case of outside Source:<br>a.If yes, Value of perquisite = Amount paid by the employer – Amount paid by the employee(if any)<br>b. If No, Value of perquisite = Nil</td><td>i. In Case Of Own Source :<br>a. If Yes, Value of Perquisite = Manufacturing Cost- Amount Paid By The Employee (If Any)<br>b. If No, Value of Perquisite = Nil<br><br>ii. In case of outside Source:<br>a. If Yes, Value of Perquisite = Amount Paid By The Employer – Amount Paid By The Employee(If Any)<br>b. If No, Value of Perquisite = Nil</td></tr>
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c. Value of perquisite in respect of Medical Treatment:

<table>
<tr><td>Employee / Family members getting medical treatment in the private clinic and the amount is paid or re-imbursed by the employer.</td><td>Employee / Family members getting free medical treatment in the private clinic, or<br>Employee / Family members getting medical treatment in the private clinic and bills are issued in the name of the employer</td></tr>
<tr><td>ALL EMPLOYEE</td><td>SPECIFIED EMPLOYEE</td></tr>
<tr><td>Value of perquisite = Amount paid by the employer – Rs. 15,000.00</td><td>i. If yes, Value of perquisite = Amount paid by the employer – Rs. 15,000.00.<br>ii. If No, Value of perquisite = nil.</td></tr>
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<tr><td>Employee / Family members getting medical treatment in the abroad and the amount is paid or re-imbursed by the employer.</td><td>Employee / Family members getting free medical treatment in the abroad.<br><br>Employee / Family members getting medical treatment in the abroad and bills are issued in the name of the employer</td></tr>
<tr><td>ALL EMPLOYEE</td><td>SPECIFIED EMPLOYEE</td></tr>
</table>

| | |
|---|---|
| Value of perquisite = Amount paid by the employer – RBI permitted amount. | i. If yes, Value of perquisite = Amount paid by the employer – RBI permitted amount.<br>ii. If No, Value of perquisite = Nil |

d. Value of perquisite in respect of Education Facility:

| | |
|---|---|
| School fees of employees children / family members paid or re-imbursed by the employer. | Education facility is provided to employees children or family members in the employers own institution or in the institution were the employer is having tie up. |
| ALL EMPLOYEE | SPECIFIED EMPLOYEE |
| Value of perquisite = Amount paid by the employer – Amount paid by the employee(if any) | i. Education facility is provided to employees children :<br>a. If the cost of Education does not exceed Rs.1, 000.00 per month per child (No limit in case of children).<br>Value of perquisite = Nil<br>b. If the cost of education exceeds Rs.1, 000.00 per month per child (No limit in case of children).<br>Value of perquisite = Cost of education facility in the similar institution – Rs.1000/- p.m. per child – Amount paid by the employee (if any).<br>ii. Education facility is provided to family members other than employees children<br>a. If Yes,<br>Value of perquisite = Cost of education facility in the similar institution in the locality – Rs.1,000.00 per month per child – Amount paid by the employee(if any)<br>b. If No, Value of perquisite = Nil |

The following perquisites are taxable in the hands of all employees:

e. Value of perquisite in respect of Rent:

- In case of Free Unfurnished House of Rent house is employees divided into 2 categories.

a) Government Employee :

Value of perquisite = Licence Fee.

b) Non-Government Employee :

i. Employer provide his own house

| Population as per 2001 census | Value of Perquisites |
|---|---|
| Exceeding 25 Lakhs | 15 % of salary |
| Between 10 t0 25 Lakhs | 10 % of salary |
| Less than 10 Lakhs | 7.5 % of salary |

ii. Employer taken the house for Rent / Lease, then the lowest is to be considered:

Actual Rent or

7.5% of Employee's salary.

**Note: Salary = Basic pay + Dearness allowance (Excludes all other Allowances) + Fees + Bonus + Commission +All taxable portion of allowances + All monetary Benefit received from the employer pertaining to the year 2006 / 2007.**

- Value of perquisite in respect of Rent free furnished house:

a) Government Employee :

i. Value of perquisite = Licence fee + Value of furniture ( 1.10% per annum of the cost of furniture), or

ii. Actual hire charges if the furniture is hired by the employer.

Provided furniture should be provided by Employer.

b) Non - Government employee :

- Find out the value of the perquisite on the assumption that the accommodation is unfurnished and
- To the value so arrived add value of furniture

The value of furniture =

i) 10% per annum of the cost of furniture, if the furniture is owned by the employer

ii) Actual hire charges if the furniture is hired by the employer

f. Value of perquisite in respect of Provident Fund :

| Particulars | Statutory Provident Fund | Recognised Provident fund | Unrecognised Provident Fund | Public provident Fund |
|---|---|---|---|---|
| Employer's contribution | Exempt from tax. | Upto 12% is exempted. | Exempt from tax . | |
| Employee's contribution 'X' Deduction under sec 80c | Available | Available | Not Available | Available |
| Interest credited | Exempt from tax. | Upto 9.5% is exempted. | Exempt from tax. | Exempt from tax. |

**Note: Salary= Basic pay + Dearness allowance (forming part) + Fixed percentage of commission on turn over, Interest = given % - 9.5% / given % X Amount given**

g. In case of movable Assets :

| Owned by the Employer | Hired by the Employer |
|---|---|
| Value of perquisite = 10% of the cost of furniture – Amount paid by the employee (if any) | Hire Charge= Amount paid by the employee (if any) |

h. In case of Interest Free Loan or Loan at concessional rate on interest:

- If the loan amount does not exceed Rs.20,000.00 is a perquisite not taxable.
- If the loan taken for the medical treatment in respect of diseases specified in rule 3 (a) is a perquisite not taxable.
- If the loan taken on any purpose of the following the tax is to be calculated as follows:

| Purpose of Loan | Particulars | SBI Lending Rates |
|---|---|---|
| Housing Loan | Upto 5 years<br>5 years – 10 years<br>10 years - 15 years<br>15 years - 20 years | 8.5%<br>8.75%<br>9%<br>9.25% |
| Car Loan | Upto 3 yrs(Rs.7.5 Lakhs & above)<br>Upto 3 yrs( Below Rs.7.5 Lakhs )<br>Above 3 yrs - upto 5 yrs<br>Above 5 yrs - upto 7 yrs | 8%<br>8.5%<br>8.75%<br>8.75% |
| Two-wheeler Loan | | 11% |
| Education Loan | 1 – 4,00,000.00<br>Above 4,00,000.00 | 10.5%<br>11.5% |
| Personal Loan | | 12.75 |

<u>Method of calculation:</u>

- Find out the outstanding amount on monthly basis,
- Calculate the rate of interest for each month,
- From the total interest deduct the interest paid by the employee if any and
- The balancing amount is the taxable as value of perquisite .

i. In case of Leave Travel Concession: This is taxable in the hands of employer instead of employee.

Value of perquisite = Amount paid by the employer – Amount spent

j. In case of FBT:

1. Any Free or concessional ticket provided by the employer for private journey of his employee.
2. Any Contribution to Super annotation Fund.
3. Expenditure incurred on hospitality, e.g. Free lunch, free Tiffin etc.,

4. Expenditure incurred on employee's welfare, e.g. Ration bill of employee is paid by the employer, LIC premium of employee is paid by the employer.
5. Expenditure incurred on Hotel, Boarding and lodging facilities of
6. Employees paid by the employer
7. Expenditure incurred on running & maintaining motor cars
8. Expenditure incurred on Festival celebration
9. Expenditure incurred on health club or any other club facilities
10. Expenditure incurred on gift
11. Expenditure incurred on scholarship

**Deductions allowed under section 80 C:**

1. Life Insurance Premium for his own life, life of the spouse, children (subject to a maximum Rs.1,00,000.00)
2. Contribution towards Statutory provident fund , Public provident fund and Recognised provident fund
3. Contribution towards National savings approved Super annotation fund
4. Subscription towards national savings certificate(NSC)
5. Contribution in the Unit-Linked Insurance Plan (U-LIP) of the Unit Trust of India.
6. Subscription towards notified Units of Mutual Fund or UTI
7. Any sum paid as Tuition Fees or School Fees
8. Any payment towards the Cost of Resident Property
9. Any investment in Debentures/Equity shares of a public company engage in infrastructure.
10. Amount deposited for a period of 5 yrs or more in accordance with scheme framed by the government.
11. Amount deposited in Equity Link Insurance or Savings Scheme (ELSS).
12. Any repayment of loan taken for Construction or Purchase of Home.

# Thank you,
# - Muraly Krishna.

Note: This is only information provided to you as a guide line to calculate the tax or tax liability only in case of salary. It should neither be regarded as comprehensive nor sufficient for making returns. This note should not be substituted for professional advice, just this is a supplement for Income Tax Act, and Murali Krishna would not accept any liability / responsibility for loss arising from any action taken or not taken by any person using this note.

Users requiring specific help on issues may feel free to contact at:

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