INCOME FROM SALARIES

<table>
<tr><th>SR NO.</th><th>TOPICS</th><th>PARTICULARS</th></tr>
<tr><td>1</td><td>Basis of Charge</td><td>a) It is taxable on due or receipt basis whichever is earlier.
b) Once salary is taxed on due or receipt basis, it will not be taxable again in any year.
c) Loan from employer is not salary. Hence, advance salary is taxable while advance against salary is not.
d) Salary, remuneration and commission received by partner from partnership firm taxable as business income of partner and not as a salary income.
e) Remuneration received by member of parliament is not taxable as salary income it shall be taxable as income from other sources.</td></tr>
<tr><td>2</td><td>Requisite</td><td>Employer and employee relationship between the payer and payee.</td></tr>
<tr><td>3</td><td>Chargeability</td><td>As per the sec 17(1), salary include the following:
♦ wages;
♦ any annuity or pension;
♦ any gratuity;
♦ any fees, commissions, perquisites or profit in lieu of or in addition to any salary or wages;
♦ any advance of salary;
♦ any payment received by employee in respect of any period of leave not availed by him;
♦ the portion of the annual accretion in any p.y. to the balance at the credit of an employee participating in a recognized p.f. to the extent it is taxable.</td></tr>
<tr><td rowspan="2">4</td><td rowspan="2">Deductions from salary (section 16)</td><td>1.Entertainment allowance:
Only govt. employee can claim the following deduction:
a. Rs. 5000/-
b. 1/5th of the salary (20% of salary) [salary=basic pay]
c. Actual amount received</td></tr>
<tr><td>2.Professional Tax:
- deduction is available in the year in which professional tax is paid
- if PT is reimbursed by the employer, then PT reimbursed by the employer will first be included in salary as perquisite & then the same amount is allowed as deduction.</td></tr>
<tr><td>5</td><td>Specific exemptions</td><td>1.Gratuity[Sec 10(10)]:
<table>
<tr><th>Particulars</th><th>Exemptions</th></tr>
<tr><td>Gratuity received by Govt. & Local Authority Employees</td><td>Fully Exempt u/s 10(10) (i)</td></tr>
<tr><td>Gratuity in case of employee covered by Payment of Gratuity Act, 1972</td><td>Lower of the following:
a. [15/26] * salary last drawn * completed yrs. Of service or part thereof in excess of 6 months
b. Maximum amount Rs. 10,00,000
c. Actually received.</td></tr>
<tr><td colspan="2">Salary = basic pay + D.A.</td></tr>
<tr><td>Gratuity in respect of other</td><td>Lower of the following:</td></tr>
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		employees: a. 1/2 * average salary * completed years of service; b. Maximum amount Rs. 10,00,000; c. Actually received. Average Salary = average salary of last 10 months preceding the month of retirement Salary = basic pay + D.A. (forming part of retirement benefits) + commission based on the % of the Turnover.
		2.**Pension[Sec 10(10A)]**:
		3.**Leave Salary (Encashment) [Sec 10(10AA)]**:
		4. **Retrenchment Compensation[Sec 10(10B)]**:

employees	a. 1/2 * average salary * completed years of service b. Maximum amount Rs. 10,00,000 c. Actually received.

Average Salary = average salary of last 10 months preceding the month of retirement
Salary = basic pay + D.A. (forming part of retirement benefits) + commission based on the % of the Turnover.

2.**Pension[Sec 10(10A)]**:

Particulars	**Exemptions**
Uncommuted pension received by employee (Govt. or Non-Govt.)	Fully taxable as salary
Commuted pension received by Govt. employee	Fully exempt from tax u/s 10(10A)(i)
Commuted pension received by Non-Govt. employee	1.if such employee received Gratuity: - then, 1/3 of full value of commuted pension will be exempt from tax.
	2.if such employee does not received Gratuity: - then, 1/2 of full value of commuted pension will be exempt from tax.

3.**Leave Salary (Encashment) [Sec 10(10AA)]**:

Particulars	**Exemptions**
Leave encashment during service	Fully taxable as salary
Leave encashment at the time of retirement	1.for Central or State Govt. employees: - fully exempt from tax
	2.for other employees: - lower of the following: a. earned leave months * avg salary b. avg monthly salary * 10 c. maximum amount Rs. 3,00,000 d. actual received

Note: a) Calculation of Earned Leave Months:
1. No. of actual years of service;
2. No. of leave entitlement for each completed year of service;
3. Gross Total Leave (in days) (step 1 * step 2)
4. Less: leave encashed & availed during contribution of service (in days)
5. Period of earned leave (in days) (step 3- step 4)
6. Period of leave in months (step 5/30)

b) Salary = basic pay + D.A. (forming part of retirement benefits) + commission based on the % of the Turnover.

4. **Retrenchment Compensation[Sec 10(10B)]**:
Lower of the following is exempt:
a. 15 days average pay for each completed year of services or part in excess of six months

<table>
<tr><td></td><td></td><td>b. Maximum amount Rs. 5,00,000/-
c. Actual amount received.</td></tr>
<tr><td></td><td></td><td>5. Voluntary retirement Compensation[Sec 10(10C)]:
Lower of the following is exempt:
a. Higher of the following:
1. Last drawn salary * 3 * completed years of service
2. Last drawn salary * remaining months of service
b. Actual amount received
c. Maximum limit Rs. 5,00,000/-</td></tr>
<tr><td rowspan="3">6</td><td rowspan="3">Allowances</td><td>1.Fully Taxable Allowances:
1. City Compensatory Allowance
2. Fixed Medical Allowance
3. Tiffin/lunch/Dinner/Refreshment Allowance
4. Servant Allowance
5. D.A.
6. Project Allowance
7. Overtime Allowance
8. Interim Allowance
9. Any other cash Allowance</td></tr>
<tr><td>2.House Rent Allowance[Sec 10(13A)]:
Least of the following is exempt:
1. 40% of salary [50% for Metro City]
2. Actual received
3. Rent paid – (salary * 10%)

Note: Salary = basic pay + D.A. (forming part of retirement benefits) + commission based on the % of the Turnover</td></tr>
<tr><td>3.Other Allowances:
<table>
<tr><th>Allowances</th><th>Exemption limits</th></tr>
<tr><td>1 Children Education allowance</td><td>Rs. 100 p.m per child maximum 2 children</td></tr>
<tr><td>2 Children hostel exp. allowance</td><td>Rs. 300 p.m per child maximum 2 children</td></tr>
<tr><td>3 Tribal area allowance</td><td>Rs. 200 p.m</td></tr>
<tr><td>4 Transport allowance</td><td>Rs. 800 p.m & Rs. 1600 p.m for blind/handicapped</td></tr>
<tr><td>5 Transport allowance for transport employee</td><td>Least of 70% of allowance or Rs. 10,000 p.m
(Rs. 6,000 till A.Y. 2010-11)</td></tr>
<tr><td>6 Underground allowance</td><td>Rs. 800 p.m</td></tr>
<tr><td>7 Compensatory field area allowance</td><td>maximum Rs 2600 p.m</td></tr>
<tr><td>8 Compensatory modified hill area allowance</td><td>maximum up to Rs. 1000 p.m.</td></tr>
<tr><td>9 Special Compensatory hill area or</td><td>Rs 300 p.m to Rs. 7000</td></tr>
</table></td></tr>
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high altitude	p.m allowance, etc
10 Border area, Remote area, Disturbed area allowance	Rs. 200 p.m to Rs. 1300 p.m.
11 High altitude allowances (Non-congenial climate)	Rs. 1,060 p.m. (Altitude for 9000 ft to 15000 ft), Rs. 1,600 p.m. (Above 15000 ft)

7 Perquisites

1.**Rent Free Accommodation**:

Unfurnished Accommodation				
Government Employees As per govt. rules: Licenses Fees less Rent recovered form employee	Other Employees			In Hotel 24% of salary or actual charges whichever is less ** nothing taxable if accommodation is provided not more than 15 days and on transfer of employee from one place to another
	Owned by employer		**Not owned by employer (on lease or rent)**	
	As per 2001 census		**As per 2001 census**	
	Population >25 lakhs 10 lakh < Population < 25 lakh Population up to 10 lakhs	15%** 10%** 7.5%**	Actual rent or 15% of salary whichever is lower	

Furnished Accommodation:
If the furniture (TV, washing machine) is provided then 10% p.a. of cost of furniture or actual hire charges if taken on rent shall be added with unfurnished house.

Salary = basic salary + DA + bonus (current year) + commission + taxable portion of all allowance + monetary payment from employer other than PF (not include perquisites)

2.**Valuation of Provision of Domestic Servants:**

Servant appointed by	***Servant's salary paid by***	***Value of perquisite***	***Taxable in the hands of***
Employee or Employer	Employee	Nil	Not applicable
Employee or Employer	Employer	Actual cost incurred by the employer on the servant	All employees

3.**Valuation of supply of Gas, Electricity or water by Employer**:

Facility in the name of	*Value of perquisite*		*Taxable in the hands of*
	Provided from own source	**Provided from outside**	
Employee	Manufacturing cost to the employer	Amount paid to the supplier	All employees
Employer	Manufacturing cost to the employer	Amount paid to the supplier	Specified employees

4.**Valuation of Educational Facilities**:

Facility provided to	*Value of perquisite*		*Taxable in the hand of*
	Provided in the school owned by the employer	***Provided in any other school***	
Children	Cost of such education in similar school (an exemption of Rs. 1000 p.m. per child is available)	Cost of such education (an exemption of Rs. 1000 p.m. per child is available)	Specified employee
Other house hold member	Cost of such education in similar school	Cost of such education incurred	Specified employee

5.**Value of Leave Travel Concession**:
Any concession received by employee for himself or his family for travelling to any place in India is exempt to the extent of amount spent subject to the following conditions:

a. Exemption only for 2 journeys in a block of four years and out of two journeys exemption for one journey can be claimed in the calendar year succeeding the end of block [Current block: 2010-13].
b. Exemption only for 2 children but exemption will be available for all children born before October 1, 1998.

Amount of exemption:

Situations	*Amount of exemption*
Where journey is performed by air	Amount of economy class air fare of the national carrier by shortest route or amount spent whichever is less
Where journey is performed by rail	Amount of air conditioned first class rail fare by the shortest route or amount spent whichever is less
Where the place of origin of journey and destination are connected by rail and	Amount of air-conditioned first class rail fare by the shortest route or

journey is performed by any other mode of transport	amount spent whichever is less.
Where the place of origin of journey and destination are not connected by rail	
a) where a recognized public transport exists	First class or deluxe class fair by the shortest route or the amount spent whichever is less
b) where no recognized public transport exists	Air conditioned first class rail fare by shortest route or the amount spent whichever is less.

6.**Value Of Interest Free Loan**:

a) Calculate interest on the basis of SBI lending rates and interest paid by employee. The difference will be the value of perquisites.

b) Interest on maximum outstanding monthly balance of advance is considered to determine any concession in interest. Maximum outstanding monthly balance means balance of loan on the last day of each month.

c) Nothing is taxable if –

I) loans in aggregate do not exceeds Rs. 20,000 or

II) loan is provided for a treatment of specified disease like neurological diseases, Cancer, AIDS, etc.

7.**Value Of Perquisites In Respect Of Movable Assets**:

Assets given	***Value of benefits***
a) Use of laptops and computers	Nil
b) Movable asset other than Laptops and computers	i. 10% p.a. of the actual cost of such asset, or ii. the amount of rent paid, or payable by the employer iii. Less: amount recovered from employee.

8.**Value Of Perquisites In Respect Of Movable Assets Sold To Employee**:

Assets transferred	***Value of perquisites***
Computers & electronics	Depreciated value of asset [depreciation is computed @50% on WDV for each completed year of usage] less: amount recovered from employee.
Motor cars	Depreciated value of asset [depreciation is computed @20% on WDV for each completed year of usage] less: amount recovered from employee.
Any other asset	Depreciated value of asset [depreciation is computed @10% on SLM for each completed year of usage] less: amount recovered from employee.