INCOME UNDER HEAD SALARY

BASIC CONCEPTS

IS RELATIONSHIP OF ER & EE NECESSARY?

- ✓ The **RELATIONSHIP** of **PAYER AND PAYEE** must be of employer and employee for an income to be categorized as salary income. As such the existence of "employer-employee" relationship is the "sine-qua-non" for taxing a particular receipt under the head salaries.
- ✓ The employer and employee relationship is the relationship of a ***MASTER AND SERVANT***, instead of principal and agent. Primarily, the degree of control of the employer over the employee (viz. require ***CONTRACT OF SERVICE***) would be a deciding factor, as the agent is generally not under the complete Control and Supervision of his principal.
- ✓ It does not matter whether the employee is a ***fulltime employee or a part-time*** one. Once the relationship of employer and employee exists, the income is to be charged under the head "salaries".

E.g.: Check your Progress

Particulars	Salary	Not Chargeable to Salary
Managing Director	✔	
Retainer Fee/Remuneration paid to Advocate by Govt.		✔
Remuneration received by Judge	✔	
Salary received by Partner from Firm		✔
Salary by MP/MLA		✔
Chartered Accountant in Service/Employment	✔	
Chartered Accountant in Practice/Retainer Fee		✔

CHARGEABLE TO TAX WHEN?

- ✓ Salary is chargeable to tax on **DUE OR RECEIPTS BASIS** whichever is ***Earlier***
  i) Due basis – when it is earned even if it is not received in the P.Y. (***Arrears***)
  ii) Receipt basis – when it is received even if it is not earned in the P.Y. (***Advance***)

WHAT IS THE PLACE OF ACCRUAL OF SALARY? [Refer Sec. 9]

- ✓ The place of accrual of salary is the place of employment, i.e. where service rendered.

- ✓ **SERVICE RENDERED IN INDIA**: Sec. 9, Salary earned in India is deemed to accrue or arise in India even if –
  (a) Paid outside India.
  (b) Paid or payable after the contract of employment in India comes to an end.
- ✓ Salary paid by Government of India to a foreign citizen shall be chargeable to tax if service is done in India.
- ✓ Leave salary paid abroad in respect of leave earned in India is deemed to accrue or arise in India. If an employee gets pension paid abroad in respect of services in India, the same will be deemed to accrue or arise in India.
- ✓ **SERVICES RENDERED OUTSIDE INDIA**: Sec. 9, Income chargeable under the head "Salaries" payable by the Government to a citizen of India for service provided outside India will be deemed to accrue or arise in India.

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- ✓ i.e., if a citizen of India service outside India and receives salary from India, it would be taxable as salary to have accrued in India.
- ✓ Any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India is exempt from tax [Sec. 10(7)].
- ✓ If a Foreign citizen renders service in India, any way salary is taxable in India & the employer is duty bound to deduct TDS.

- ✓ **ARREARS OF SALARY**- which were not due and received earlier are taxable in P.Y. when due or received, whichever is earlier. Arrear of salary means that salary which was not due in the earlier year, since this portion is due and paid in the current year then it would be taxable in the current year itself and tax will have to be paid on such an amount.

- ✓ **ADVANCE SALARY** – where any salary paid in advance is assessed in the year of payment, it cannot be taxed again when it becomes due. Similarly, if arrears of salary have been assessed on the 'due' basis in the past, they are not liable to be taxed again when they are paid.

- ✓ **No double taxation**: once salary is taxed on due/receipt basis, it will not be taxed again on receipt/falling due, as the case may be. The assessee can claim relief u/s 89(1) for arrears or advance salary.

- ✓ Loan from employer is not salary. Advance salary is taxable, while advance against salary is not taxable.

- ✓ **FOREGOING OR SACRIFICING OF SALARY**: Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income tax.

- ✓ **SURRENDER OF SALARY**: If an employee surrenders his salary to the Central Government u/s 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered would be ***exempt*** while computing his taxable income.

- ✓ **SALARY PAID TAX-FREE**: This means that the ***employer bears*** the burden of the tax on the salary of the employee.
  In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer. This means both the salary and the tax paid thereon will be taxable in the hands of the employee.

- ✓ Salary received from **ONE OR MORE EMPLOYER** is included in this head.

- ✓ **VOLUNTARY PAYMENTS**: Whether the payment from an employer is based on a contract or not, it constitutes salary in the hands of the employee. However, many employers give personal gifts and testimonials to the employees.

For example, employees who complete 20 years of service may be given a wrist watch. The question arises whether the value of the watch can be taxed in the hands of the employee. Courts have taken the view that such gifts are not taxable. However, in these cases it is important that such gifts must be given to employees pursuant to a scheme applicable to employees in general. If gifts are given purely on a selective basis they will become chargeable in the hands of the recipient.

P 1. CHARGING SECTION – [SECTION 15]

INCOME CHARGEABLE U/H SALARY

1. Any Salary **DUE** from an employer or a former employer to an assessee in the P.Y., whether paid or not, [i.e., ***SALARY DUE IN A PREVIOUS YEAR IS TAXABLE, EVEN IF IT NOT RECEIVED***]; Bonus is taxable on receipt basis and is included in the gross salary in the year in which the bonus is received.

2. Any Salary **PAID OR ALLOWED** to him in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him, [i.e., ***SALARY RECEIVED IN A PREVIOUS YEAR IS TAXABLE, EVEN IF IT IS NOT DUE***];

3. Any **ARREARS** of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year [i.e., ***ARREARS OF SALARY RECEIVED DURING THE CURRENT PREVIOUS YEAR SHALL BE TAXABLE IN THE CURRENT YEAR IF NOT CHARGED TO TAX IN AN EARLIER PREVIOUS YEAR***].

[*Explanation 1*]—For the removal of doubts, it is hereby declared that where any salary paid in **ADVANCE** is included in the total income of any person for any P.Y. it shall not be included again in the total income of the person when the salary becomes due.

[*Explanation 2]*—Any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a **PARTNER OF A FIRM** from the firm shall not be regarded as “salary” for the purposes of this section.]

EXCEPTION to SALARY INCOME:-

1.	Salary received by a partner from his partnership firm carrying on business.	Taxable under head PGBP.
2.	Salary received by a person as MP or MLA.	Taxable under head "Income from Other Sources”. However, Salary received by a person as a Minister of CG / SG is chargeable under the head salaries.
3.	Family pension that is pension received by the members of the family of an employee subsequent to his death.	Taxable under head "Income from Other Sources. However, the pension received by an employee from his former employer is taxable under the head salaries.

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2. DEDUCTIONS FROM SALARY – [SECTION 16]

PROFESSIONAL TAX Tax on Employment [Section 16(iii)]	ENTERTAINMENT ALLOWANCE [Section 16(ii)]
• Levied under a State Act. • Tax on Employment. • Any sum paid by the Assessee as profession tax u/s 276(2) of the Articles of the Constitution, it is allowed as deduction.	• Government EE. • Deduction is allowed least of: 1. 1/5th of Salary (20% of Salary) 2. Rs. 5,000/- 3. Actual E.A. received
✓ *Such deduction is available only on actual payment.* ✓ *If an employer pays professional tax on behalf of his employee, then it will first be included in the Salary as a perquisite u/s 17(2)(iv) and then, allowed as a deduction.*	*This allowance is first included in gross salary under allowances and then deduction is allowed to only central and state govt. EE's.* *Salary includes* **Basic Pay only.**

3. "SALARY" "PERQUISITES" AND "PROFIT IN LIEU OF SALARY" – [SECTION 17]

DEFINITION – WHAT CONSTITUTES SALARY INCOME ?

"**SALARY**" includes—

- wages;
- any annuity or pension;
- any gratuity;
- any fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages;
- any advance of salary;
- any payment received by an employee in respect of any period of leave not availed of by him;
- the annual accretion to the balance at the credit of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax;
- transferred balance in a RPF to the extent it is taxable.
- the contribution made by the Central Government [or any other employer] in the previous year, to the account of an employee under a pension scheme referred to in section 80CCD.
- Money embezzled by an employee constitutes his income.

"**PERQUISITE**" includes—

- the value of rent-free accommodation provided to the assessee by his employer;

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- the value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer;
- the value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases—

"SPECIFIED EMPLOYEE"

(a) A director employee [even for a single day anytime during the P.Y.];
(b) An employee who has substantial interest [20% or more equity voting power] in the company;
(c) An employee is drawing in excess of ` 50,000/-: An EE (not covered by the above two categories), whose income under the head "Salaries" (whether due from, or paid or allowed by, one or more employers) (exclusive of the value of all benefits or amenities not provided for by way of monetary payment), exceeds Rs. 50,000/-.

[Explanation.—For the removal of doubts, it is hereby declared that the use of any vehicle provided by a company or an employer for journey by the assessee from his residence to his office or other place of work, or from such office or place to his residence, shall not be regarded as a benefit or amenity granted or provided to him free of cost or at concessional rate for the purposes of this sub-clause;]

Following are excluded from the computation of limit of ` 50,000/-:--

i. all non-monetary benefits;
ii. monetary benefits which are not taxable u/s 10;
iii. deduction of Entertainment allowance & Professional tax.

- any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee;
- any sum payable by the employer, whether directly or through a fund, other than a recognised provident fund or an approved superannuation fund, to effect an assurance on the life of the assessee or to effect a contract for an annuity;
- 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.

"**PROFITS IN LIEU OF SALARY**" includes—

- the amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the
  (a) termination of his employment or
  (b) the modification of the terms and conditions relating thereto;
- any payment due to or received by an assessee from URPF
- any sum received under a Keyman insurance policy [Section 10(10D)] including the sum allocated by way of bonus on such policy.
- 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.]

Both the definition above is 'inclusive' and not 'exclusive'.

3.1 BASIC SALARY

- ✓ All employees are entitled to a basic salary which is fixed as per their respective terms of employment either as a fixed amount or at a graded system of salary.
- ✓ Under this graded system, apart from the basic salary at which the employee will start, annual increments to be given to the employee are pre fixed in the grade.

For example, if a person is employed on 1st May, 2010 in the grade of 12000 – 300 – 15000, this means that he will start at a basic salary of `12000 from 1st May, 2010. He will get an annual increment of `300 w.e.f. 1st May, 2011 and onwards every year on the same date till his basic salary reaches `15000. No further increment is given thereafter till he is promoted and placed in other grade.

3.2 FEES, COMMISSION & BONUS

- ✓ Fully Taxable.
- ✓ Included in Salary.
- ✓ Commission payable may be at a fixed amount or a fixed percentage of turnovers. In both the cases, it is taxable as salary only when it is paid or payable by the employer to the employee.

3.3 TAXABLE VALUE OF ALLOWANCES

- ✓ Allowance is a fixed monetary amount paid by the ER to the EE (over and above basic salary) for meeting certain expenses, whether personal or for the performance of his duties.
- ✓ These allowances are generally taxable and are to be included in gross salary unless specific exemption is provided in respect of such allowance.
- ✓ For the purpose of tax treatment, we divide these allowances into 3 categories:

3.3.1 Fully taxable cash allowances
3.3.2 Partially exempt cash allowances
3.3.3 Fully exempt cash allowances

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3.3.1 FULLY TAXABLE ALLOWANCES

✓ Includes all allowances which are fully taxable.

Dearness Pay / Allowance	Paid to compensate the EE against the rise in price level in the economy.
Medical Allowance	Given for some expenditure has actually been incurred for medical treatment of employee or family.
City Compensatory Allowance	Paid to EE who are posted in big cities. The purpose is to compensate the high cost of living in cities like Delhi, Mumbai, etc.
Tiffin or Lunch Allowance	Given for lunch to EE.
Servant Allowance	Given to engage servant, however, fully taxable whether or not servants have been employed by the employee.
Non-Practicing Allowance	Given to Professionals who are in government service and are banned from doing private practice.
Warden Allowance / Proctor Allowance	Given in educational institutions for working as a Warden of the hostel or as a Proctor in the institution.
Deputation Allowance	Given for when an employee is sent from his permanent place of service to some place on deputation for a temporary period.
Over-time Allowance	When an employee works for extra hours over and above his normal hours of duty, he is given overtime allowance as extra wages.
Other Allowances (Depend upon Co. to Co., Concern to Concern etc.)	Like, Family Allowance Project Allowance Marriage Allowance Education Allowance Holiday Allowance, etc.

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3.3.2 PARTAILLY EXEMPTED ALLOWANCES

✓ Allowances exempt upto certain limit.
✓ Amount of allowance spent for the purpose for which it was received.

Exemptions for salary category

Section 10 (5) to 10 (14) deals with various exemptions.

1. *HOUSE RENT ALLOWANCE [SEC. 10(13A), RULE 2A]*

An allowance granted to a person by his employer to meet expenditure incurred on payment of rent in respect of **RESIDENTIAL ACCOMMODATION** occupied by him is exempt from tax to the extent of least of the following:

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Delhi/Mumbai/Kolkata/Chennai	Other Cities (NCR Also)
• Allowance actually received. • Rent paid (-) 10% of Salary. • **50%** of Salary.	• Allowance actually received. • Rent paid (-) 10% of Salary. • **40%** of Salary.

Salary includes **Basic Pay + D.A. (if for the purpose of retirement benefits) + Commission based on fixed % of turnover**

Factors:

1. Basic Salary + DA + Comm.
2. Rent Paid
3. HRA Received
4. Place of residence - Location

Noted Points:-

- ✓ If an employee is living in his own house and receiving HRA, it will be fully taxable.
- ✓ The exemption shall be calculated on the basis of where the accommodation is situated.
- ✓ If the place of employment is the same for the whole year, then exemption shall be calculated for the whole year.
- ✓ If there is a change in place during the previous year, then it will be calculated on a monthly basis.
- ✓ Exemption should be calculated in respect of the period during which rental accommodation is occupied by the employee during the previous year.
- ✓ Salary for the period during which rental accommodation is not occupied shall not be considered.
- ✓ Salaried employees drawing HRA up to Rs. 3,000 p.m. are exempted from production of rent receipt for the Purpose of TDS only.

2. *ENTERTAINMENT ALLOWANCE*

- First included in gross salary under allowances.
- Then deduction is given to only CG & SG employees under Section 16(ii) above.

3. *SPECIAL/SPECIFIED ALLOWANCE for meeting OFFICIAL EXPENDITURE*

(SEC 10(14) and RULE 2BB)

- ✓ Certain allowances given to the EEs to meet expenses incurred exclusively in performance of official duties.
- ✓ Exempt **TO THE EXTENT ACTUALLY INCURRED** for the purpose for which it is given.

Allowances	Meaning
TRAVELLING ALLOWANCE	To meet the cost of travel on tour or on transfer / relocation.
DAILY ALLOWANCE	To meet daily expenses; Ordinary daily charges which is incurred on account of absent from place of employment.
CONVEYANCE ALLOWANCE	To meet Official Conveyance expenditure in the performance of duties provided free conveyance is not provided by the employer.
HELPER ALLOWANCE	To meet Expenditure on a helper for official duties.
RESEARCH ALLOWANCE	For academic, research and training pursuit in educational and research institute.
UNIFORM ALLOWANCE	To meet Expenditure on purchase or maintenance of uniform.

4. SPECIAL/SPECIFIED ALLOWANCES to meet PERSONAL EXPENDITURE

- ✓ Certain Allowances given to the employees for specific personal purposes.
- ✓ The amount of **EXEMPTION IS FIXED** i.e. not dependent on actual expenditure incurred in this regard. These allowances include:

Allowances	Meaning	Exemption
TRANSPORT ALLOWANCE	• Given to EEs. • To compensate the cost incurred in commuting between place of residence and place of work.	• **UPTO** ` 800 p.m. • **UPTO** ` 1,600 p.m. – in case of blind and handicapped persons.
CHILDREN EDUCATION ALLOWANCE	• Given for Child Education.	• **UPTO** ` 100 p.m. per Child • **MAX. 2**
CHILDREN HOSTEL ALLOWANCE	• Granted to an EE to meet the hostel expenditure on child.	• **UPTO** ` 300 p.m. per Child • **MAX. 2**
UNDERGROUND ALLOWANCE	• Underground allowance granted to an employee who is working in uncongenial, unnatural climate in under- ground coal mines.	• **UPTO** ` 800 p.m.
OUTSTATION ALLOWANCE	• Granted to an EE working in any transport system to meet his personal expenses in performance of his duty in the course of running of such transport from one place to another.	Least of: • **UPTO** 70% of Allowance • Or ` 20,000 p.m.

COMPOSITE HILL ALLOWANCE	• ` 300/- p.m. provided the place is located at a height of 1000 meters above from sea level. • ` 800/- p.m. in certain notified areas • ` 700/- p.m. in Siachen area of Jammu and Kashmir
TRIBAL AREA ALLOWANCE	• ` 200/- p.m. is exempt (Assam, Bihar, Karnataka, Madhya Pradesh, Orissa, Tripura, Tamil Nadu, UP)
SPECIAL ALLOWANCE	• Border area Allowance ` 200/- • Remote area Allowance ` 300/- • Difficult area Allowance ` 750/- • Distributed area Allowance ` 1,050/-
SPECIAL ALLOWANCE FOR ARMED FORCE	• Special compensatory allowance highly active field allowance ` 4,200 p.m. • Island duty allowance of ` 3,250/-
COUNTER INSURGENCY ALLOWANCE	• Exempt up to Rs 3,900/- p.m. to the members of armed force operating in areas away from their permanent locations for a period of more than 30 days.
HIGH ALTITUDE ALLOWANCE	• Exempt ` 1,060 p.m. for the altitude of 9000 to 15000 Ft. • Exempt ` 1,600 p.m. for the altitude above 15000 Ft.

3.3.3 FULLY EXEMPTED ALLOWANCES

- ✓ Allowances exempt fully with no certain limit.
- ✓ Amount of allowance given to highly status person.

Allowances	Meaning
FOREIGN ALLOWANCE	Paid by Govt. to its employees. Being Indian citizen posted out of India for rendering services abroad.
ALLOWANCES FROM UNO ORGANISATION	To its EEs are exempt.
TO HC & SC JUDGES	Any nature of Allowance exempt.
Chairman or a retired Chairman or any other member or retired member of the UPSC	*Any allowance or perquisite paid, as may be notified by the Central Government in the Official Gazette in this behalf.[F.A. 2011]*

LEAVE TRAVEL ALLOWANCE OR ASSISTANCE [SEC 10(5) & RULE 2B]

- ✓ Received by EE from his ER or Former ER.
- ✓ On leave to **ANY PLACE IN INDIA**.
- ✓ Travel is must.
- ✓ While on leave or after retirement.

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OTHER POINTS

CONDITIONS FOR CLAIMING THE BENEFIT:

(a) An individual can avail the benefit of LTA offered by his employer, twice in a block of four years.

(b) The present block of four years applicable for A.Y. 2011-12 is calendar years 2010-2014.

(c) LTA may be provided by the employer to the employee and his family:

- In connection with his proceeding on leave to any place in India, while in service.
- Proceeding to any place in India after retirement or termination from service.

WHEN TAXABLE:

- LTA encashed without performing journey is fully taxable.
- Expenses reimbursed other than the fare like boarding or lodging is fully taxable.
- Amount received from employer in excess of the cost of traveling on the shortest route.
- Exemption is available in respect of 2 journey performed in a block of 4 calendar years.
- One journey can be carrying forwarded and can be claimed as a deduction in the succeeding block of calendar year.

QUANTUM OF DEDUCTION

If journey Performed by Air	***Other than Air***		
	Rail is Available	Rail is Not Available	
		Recognized Public transport doesn't exist	Recognized Public transport exist
Amount doesn't exceed the air economy fair of national carrier to the shortest route of place of Journey.	Amount doesn't exceed A / C First class to the shortest route of place of Journey.	Amount doesn't exceed A / C First class to the shortest route of place of Journey	Amount doesn't exceed First class or deluxe class of such public transport to the shortest route of place of Journey.

Family means Spouse, Children (two), Dependent Parent; Brothers and Sisters.

Taxation of Income from Remuneration of Non - residents / Non - citizens

Contents

P EXEMPTION TO FOREIGN NATIONAL [SEC. 10(6)]

In case of an Individual who is not a citizen of India following shall be exempt.

Remuneration of officials of embassies etc. [Sec. 10(6)(ii)]

1. Remuneration as officials or as a member of the staff of following categories (involve with foreign affairs) shall be allowed as an exemption:
   a) Official of Embassy b) High Commission c)Consulate
   d) Trade representatives of a foreign state

Remuneration of employees of foreign enterprises [Sec, 10(6)(vi)]

Such remuneration for services rendered during stay in India is exempt if:-

a) The foreign enterprise is not engaged in any trade or Business in India.
b) His stay in aggregate does not exceed 90 days during the previous year.
c) Such remuneration shall not be deductible from income chargeable in India.

Remuneration for employment on a foreign ship [Sec. 10(6)(viii)]

Remuneration of a non-resident for services rendered in connection with his employment on a foreign ship is exempt from tax if his total stay in India does not exceed ninety days in the previous year.

Training Stipend [Sec. 10(6)(xi)]

Remuneration received by him as an employee of the foreign Government during his stay in India in connection with his training in any enterprise owned and controlled by Government of India or Government company or any subsidiary owned by Government company.

P EXEMPTION TO INDIAN NATIONAL [SEC. 10(7)]

Any perquisite or allowance paid to a citizen of India in connection with abroad employment is exempt from Tax.

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DEATH-CUM-RETIREMENT GRATUITY [SEC. 10(10)]

- ✓ Received by EE from his ER or Former ER.
- ✓ Gratuity received during the period of service is always taxable.
- ✓ Gratuity is exempt only when it is received on (a) retirement, or (b) becoming incapacitated prior to such retirement; or (c) resignation; or (d) termination or services.
- ✓ If gratuity not received from former employer then completed year of Service = total period of both the employers.
- ✓ Exemption is also available to gratuity received by the widow, children or dependants of the employee on his death.
- ✓ If the employee receives gratuity from more than 1 employer then the aggregate amount of Gratuity exempt doesn't exceeds the limits prescribed.
- ✓ If Gratuity received from former employer was exempted, then the exempted amount shall be reduced from ` 10,00,000/-

COVERED BY PAYMENT OF GRATUITY ACT, 1972		***NOT COVERED BY PAYMENT OF GRATUITY ACT, 1972***		***TO LEGAL HEIRS (Gratuity Act covered or not)***	
⇩		⇩		⇩	
Govt. EE's*	Others (Non-Govt.)	Govt. EE's*	Others (Non-Govt.)	Govt. EE's*	Others
⇩	⇩	⇩	⇩	⇩	⇩
Exempt	*Taxable*	*Exempt*	*Taxable*	*Exempt*	*Taxable*
	Exempt: **LEAST** of following are exempt: 1. Actual Gratuity received 2. 15/26 x Salary# last drawn x no. of completed years** 3. ` 10,00,000/-		*Exempt:* **LEAST** of following are exempt: 1. Actual Gratuity received 2. 15/30 x 10 months Avg. salary# x no. of fully completed years** of service. 3. ` 10,00,000/-	Received by widow or other legal heirs of any EE who dies in active service shall be exempt [Circular No. 573]	Income from Other Source
#Salary means **Basic Pay + D.A.** ***Completed years of service or part in excess of 6 months-* 10 years 7 months= 11 years 10 years 5 months= 10 years 10 years 6 months=		*#Salary means* **Basic Pay + D.A. (retirement benefits) + Commission (Fixed %) preceding the month of retirement** ***Completed fully years of service –* 10 years 7 months= 10 years 10 years 5 months= 10 years			
In the case of seasonal employment, 7 days shall be considered instead of 15 days above for calculation.					
** Gratuity received by Govt. EE's or EE's under Civil Services Fully Exempt from Tax. The Exemption is available even if the EE after leaving the Govt. services joins Private sector.*					
As per Board's letter F.No. 194/6/73-IT(A-1) Dt. 19.06.73 exemption in respect of gratuity is permissible even in cases of termination of employment due to resignation. The taxable portion of gratuity will qualify for relief u/s 89(1).					

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PENSION [SEC. 10(10A)]

- ✓ Received by EE from his ER.
- ✓ Types of Pension are cover below.

UNCOMMUTED PENSION Pension which is received by the EE periodically and Chargeable to tax u/s 15.		***COMMUTED PENSION*** Commuted pension refers to taking lump sum amount by commuting the whole or part of the pension. Where an employee had commuted his pension then the remaining portion will be received periodically.			***PENSION TO LEGAL HEIRS***	
Govt. EE's*	Others	Govt. EE's*	Others (Non-Govt.)		Govt. EEs or Others	
Taxable	*Taxable*	*Exempt*	*Taxable*		*Exempt*	*Taxable*
			If **RECEIVED** Gratuity *Exempt:* *Commuted of 100% Pension x 1/3*	If **NOT RECEIVED** Gratuity *Exempt:* *Commuted of 100% Pension x ½*	Received by family members of Armed Forces exempt u/s 10(19).	Other cases-Income from Other Source u/s 56. Deduction u/s 57: 1/3 of Pension or ` 15,000 whichever is less.

- ✓ *Pension is received from UNO by the EE's or his family member is not chargeable to tax.*
- ✓ *Any payment in commutation of pension received from fund set up by LIC u/s. 10(23AAB) is fully exempt.*
- ✓ *Judges of the Supreme Court and High Courts will be entitled to the exemption of the 50% of commuted Pension. [Circular No. 623, dt. 6-1-1992]*

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LEAVE SALARY [SEC. 10(10AA)]

- ✓ Received by EE from his ER or Former ER.
- ✓ On leave to **ANY PLACE IN INDIA**.
- ✓ Leave Encashment received during the period of service is always taxable.
- ✓ If the employee receives leave salary from more than 1 employer then the aggregate amount of Leave Salary exempt doesn't exceeds the limits prescribed
- ✓ If Leave Salary received from former employer was exempted, then the exempted amount shall be reduced from ` 3,00,000/-

DURING JOB		***AT THE TIME OF RETIREMENT***		***TO LEGAL HEIRS***	
⇩		⇩		⇩	
Govt. EE's*	Others (Non-Govt.)	Govt. EE's*	Others (Non-Govt.)	Govt. EE's*	Others (Non-Govt.)
⇩	⇩	⇩	⇩	⇩	⇩
Taxable	*Taxable*	*Exempt*	*Taxable*	*Exempt*	*Taxable*
			Exempt: **LEAST** of following are exempt: 1. Amount Leave Encashment received 2. Cash equivalent of leave (on the basis of average of last 10 month salary#) to the credit of the EE at the time of retirement (calculated 30 days credit for each completed year of service) 3. 10 months average salary# 4. ` 3,00,000/-	Died in Service or paid to legal heirs of deceased (During service or at retirement)	
			#Salary means **Basic Pay + D.A. (retirement benefits) + Commission (Fixed %) preceding the date of retirement.**		

- *Relief U/s 89(1) would be admissible in respect of encashment of leave salary by an EE while in service [Circular No. 431].*
- *Sums equivalent of leave salary received by the family of a Govt. servant who died in harness, is not taxable in the hands of the recipient.*
- *The exemption is available in respect of cash equivalent of earned leave at the employee's credit only at the time of retirement, whether such retirement is on superannuation or otherwise [Covers Voluntary retirement by way or resignation].*

RETRENCHMENT COMPENSATION [SEC. 10(10B)]	COMPENSATION ON VOLUNTARY RETIREMENT OR "GOLDEN HANDSHAKE" [SEC 10(10C)] [RULE 2(BA)]
✓ Compensation received by workmen at the time of: (i) closing down of the undertaking. (ii) transfer (irrespective of by agreement/compulsory acquisition) if the following conditions are satisfied: • Service of workmen interrupted by transfer. • Terms and conditions of employment after transfer are less favorable. • New employer is not under a legal obligation whether under the terms of transfer or otherwise to pay compensation on the basis that the employee's service has been continuous and has not been interrupted by transfer.	✓ Compensation on Voluntary retirement or separation. ✓ An individual, who has retired under the VR Scheme, should not be employed in another company of the same management. ✓ He should not have received any other VR Compensation before from any other employer and claimed exemption. ✓ Exemption u/s 10(10C) in respect of Compensation under VRS can be availed by an Individual only once in his lifetime.
✓ Retrenchment compensation received in accordance with any scheme, which is approved by the CG, is fully exempt from tax. ✓ An individual, who receives retrenchment compensation, is entitled for exemption u/s 10(10B).	

RETRENCHMENT COMPENSATION	***VOLUNTARY RETIREMENT***
LEAST of following are exempt: 1. Actual amount received 2. ` 5,00,000/- (Notified) 3. Amount determined in accordance with Sec. 25F (b) of the Industrial Disputes Act, 1947.	**LEAST** of following are exempt: 1. Actual amount received or receivable. 2. ` 5,00,000/- 3. Highest of: (i) 3 months Salary x completed years (ii) Salary x Balance month of service left before retirement
	Salary means Last drawn [Basic Pay + D.A. + Commission % of turnover]

CONDITIONS FOR COMPENSATION ON VOLUNTARY RETIREMENT

Amount received or receivable by the following employees: Exemption allowed only to following employees of:

1. Public sector company
2. Any other company
3. Any authority established under central state or provincial Act
4. local authority
5. Co operative society
6. University
7. IIT
8. Any state government
9. Any Central government
10. Institution having importance throughout India or in any state on the Central government may specify
11. Any institute of Management as Central Government may specify in this connection.

CONDITION UNDER RULE 2 BA

1. It applies to an employee of the company who has completed 10 year of service or completed 40 years of age whichever is earlier (this condition is not applicable if the amount is received at the time of voluntary separation framed by a public sector company).
2. It applies to all the employees including workers and executive of the company and excluding the directors of the company or a co-operative society.
3. The scheme of Voluntary retirement or separation has been drawn up to result in overall reduction in the existing strength of the employee of the company
4. The Vacancy caused by Voluntary retirement or separation is not to be filled up
5. The retiring employee shall not be employed in another company or concern belonging to the same management.
6. The amount receivable on account of Voluntary retirement or separation doesn't exceed the amount equivalent to 3 month salary for each completed year of service or salary at the time of retirement multiplied by the balance month of services left before the date of retirement.

Sec. 10(10C) has been amended w.e.f. A.Y. 2010-11, to provide that the person who has availed a relief u/s 89 in respect of compensation for VR or VS or termination of service, will not be able to claim any exemption u/s 10(10C) for the same A.Y. or any other A.Y.

PROVIDENT FUND				
Particulars	**Statutory PF [Sec. 10(11)]**	**Recognized PF [RPF Sec. 10(12)]**	**Unrecognized PF [URPF]**	**Public**
Constituted Under	*Provident Funds Act, 1952*	*EPF and Misc, Provisions Act, 1952 & recognized by the Commissioner of PF and CIT*	*Not recognized by the Commissioner of Income Tax*	*Public Provident Fund Act,1968 Account in SBI or Post Offices*
Contribution By	EE and ER	EE and ER	EE and ER	All assessees independently
Assessee's Contribution	Deduction u/s 80C	Deduction u/s 80C	No Income Tax Benefit	Deduction u/s 80C
Employer's Contribution	***Not taxable***	Amount > 12% of salary is ***taxable*** [Sec.7]	***Not taxable*** at the time of Contribution	Not applicable
Interest Credited	***Fully exempted***	Exempted <= 9.5% p.a. Any ***excess is Taxable*** [Sec. 7]	On **EE's contribution *taxable*** under the head "Other Sources". On **ER's contribution *not taxable*** at the time of credit.	***Fully exempt***
Withdrawal at the time of retirement/ resignation/ termination, etc.	***Exempted*** u/s 10(11)	***Exempted*** u/s 10(12) Subject to conditions	**EE's contribution** and interest thereon is ***not taxable.*** **ER's contribution and** interest thereon is ***taxable*** as Profits in lieu of Salary, under "Salaries".	***Exempted*** u/s 10(11)
Sum received by an Employee under approved Superannuation Fund is also exempt from tax u/s 10(13).				

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ER CONT. TO RPF IS EXCLUDED FROM SALARY	**APPROVED SUPER ANNUATION FUND [SEC. 10(13)]**
The accumulated balance due and becoming payable to an employee in a RPF shall be ***exempt*** in the following case:	Any payment from an approved superannuation fund is ***exempt*** from tax if it is made on the following situations:
1. Rendered **CONTINUOUS SERVICE** of **MORE THAN 5 YEARS** or more. 2. Service has been **TERMINATED** by reason of the employee's ill health or by contraction or discontinuance of the employers business or other reason beyond the control of employee. 3. The accumulated balance is transferred to RPF with other/new ER; the period of **SERVICE UNDER THE FORMER EMPLOYER** shall also be **INCLUDED** in calculating the continuous service.	1. On the **DEATH** of a beneficiary. 2. To an employee in lieu of or in commutation of an annuity on his **RETIREMENT** at or after a specified age or on his becoming in capacitated prior to such retirement. 3. By way of **REFUND OF CONTRIBUTION** on the death of beneficiary.
Salary means Basic Pay + D.A. + Commission % of turnover	

PENSION SCHEME – IN CASE OF AN EE JOINING CG OR ANY OTHER ER   ***On or after January 1, 2004***
As per the Scheme, it is mandatory for persons who come under this scheme, to contribute 10% of salary every month towards their pension account. The Same % is contributed by the ER to the said account.
TAX TREATMENT
1. Contribution by the ER to the notified pension scheme is first included under head "Salaries" in the hands of the EE. 2. Such Contribution is deductible (max. 10% of salary) u/s 80CCD. 3. No deduction will be allowed u/s 80C in respect of amounts on which deduction has been claimed u/s 80CCD. 4. Salary includes D.A. (terms of employment), but excludes all other allowances and perquisites. 5. The aggregate amount of deduction u/s 80C, 80CCC and 80CCD cannot exceed ` 100,000.

3.4 PERQUSITES [SEC. 17(2)]

INCLUDES
1. Value of ***rent free accommodation*** provided by the employer to the employee.
2. Value of ***accommodation*** given ***at concessional rate***.
3. Value of any amenity or benefit provided free of cost or at concessional rate in case of ***specified employee*** [Refer P-5].
4. Any sum paid by the employer in respect of any ***obligation*** on behalf of the employee.
5. Any sum paid / payable by the employer towards ***insurance on the life*** of the individual or annuity payments.
6. The value of any other ***fringe benefit or amenity*** as may be prescribed.
7. Any perquisite or allowance paid to a citizen of India in connection with abroad employment is exempt from Tax.
8. Any contribution to superannuation fund by the employer in respect of assessee to the extent it exceed Rs one lakhs.

FULLY EXEMPT - not includible for the purpose of TDS under section 192.

1. Provision for ***medical facilities subject to limit***.
2. ***Tea or snacks*** provided during working hours.
3. ***Free meals*** provided during working hours in a remote area or an offshore installation.
4. Perquisites ***allowed outside India*** by the Government to a citizen of India for rendering service outside India.
5. Sum payable by ***pension or deferred annuity pension***.
6. Sum payable by an employer through a ***RPF*** or an approved superannuation or deposit-linked insurance fund established under the Coal Mines Provident Fund or the Employees Provident Fund.
7. Employer's contribution to staff ***group insurance*** scheme.
8. ***Leave travel concession*** subject to Sec. 10(5).
9. Payment of annual premium by employer on ***personal accident policy*** affected by him on his employee.
10. Free ***educational facility*** provided in an institute owned / maintained by employer to children of employee provided cost / value does not exceed ` 1,000 per month per child (no limit on no. of children).
11. ***Interest-free/concessional loan*** of an amount not exceeding ` 20,000.
12. ***Computer/laptop*** given (not transferred) to an employee for official / personal use.
13. ***Transfer*** without consideration to an employee of a ***movable asset*** (other than computer, electronic items or car) by the employer after using it for a period of 10 years or more.
14. ***Traveling*** facility to employees of railways or airlines.
15. ***Rent-free official residence to a High Court or Supreme Court Judge.***
16. ***Rent-free furnished residence*** (including maintenance thereof) provided to an Official of Parliament, a Union Minister or a Leader of Opposition in Parliament.

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17. ***Conveyance facility provided to High Court Judges*** u/s 22B of the High Court Judges (Conditions of Service) Act, 1954 and ***Supreme Court Judges*** u/s 23A of the Supreme Court Judges (Conditions of Service) Act, 1958.
18. ***Conveyance facility*** provided to an employee to cover the journey between office and residence.
19. ***Accommodation*** provided in a remote area to an employee working at a mining site or an onshore oil exploration site, or a project execution site or an accommodation provided in an offshore site of similar nature.
20. Accommodation provided on transfer of an employee in a hotel for not exceeding 15 days in aggregate.
21. ***Interest free loan for medical treatment*** of the nature given in Rule 3A.
22. ***Periodicals and journals*** required for discharge of work.
23. ***Tax on perquisite*** paid by employer [Sec.10(10CC)]
24. Other Exempted Payments:
    - Bonus paid to a football player after the World Cup victory to mark an exceptional event.
    - Payment made as a gift in appreciation of the personal qualities of the employee.
    - Payment of proceeds of a benefit cricket match to a great cricket player after he retired from test match.
    - Trust for the benefit of employee's children.

Valuation of Perquisites

Those perquisites which are taxable in the hands of employees are valued in accordance with the Income Tax Rules. Under the rules, perquisites provided by the ER (directly or indirectly) to the EE or any member of his household (by reason of his employment) shall be considered. Member of the household shall include:

a. Spouse (dependent or not);
b. Children and their spouses (dependent or not);
c. Parents (dependent or not);
d. Servants and dependents.

MEDICAL FACILITIES
✓ Allowances which are fixed are fully taxable.
✓ Medical Payment including reimbursements also [Circular No. 603 dt. 6.6.1991]

MEDICAL TREATMENT IN INDIA

Not be treated as Perquisites:

1. Medical Facility / treatment provided to employee or any member of his family in:
   - Hospital maintained by employer.
   - Government Hospital.
   - Approved hospital under central health scheme or similar scheme of SG.
   - Notified hospital for prescribed diseases [Sec. 17(2)(v)].
2. Group Medical insurance paid u/s 36(1)(ib) & Medical Insurance paid u/s 80D - which is approved by the Central Govt. or IRDA w.e.f. A.Y.2007-08.
3. Any other medical expenditure reimbursed subject to a maximum of ` 15,000.

Family includes spouse, children (whether dependent or not) and parents, brothers and sisters wholly dependent on the employee.

MEDICAL TREATMENT ABROAD (for the patient and the attendant)

If the EE underwent medical treatment abroad and the expenditure is met by the ER, the exemption will be subject to the following:

1. Medical treatment and stay expenses abroad (both for the patient and the attendant) are exempt from tax, subject to the maximum amount permitted by the Reserve Bank of India.

2. Travel expenditure of the patient and the attendant:

Gross Total Income, before including reimbursement of Foreign Travel Expenditure	Amount of Exemption
Upto ` 2,00,000	Fully exempted
Above ` 2,00,000	Fully taxable

3. **Computation of exemption for foreign travel expenditure:**

Step 1: Compute Gross Total Income of the assessee without considering foreign travel reimbursement but after set-off loss and unabsorbed depreciation.

Step 2: If the Gross Total Income does not exceed ` 2 lakhs, Foreign Travel Reimbursement is not taxable otherwise fully taxable.

Step 3: If Foreign Travel reimbursement is taxable as per Step 2, recomputed the income under the head Salary after including foreign travel reimbursement and Gross Total Income must also be recomputed.

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<table>
<tr><th colspan="5">RENT FREE ACCOMMODATION (RFA)</th></tr>
<tr><th colspan="4">VALUE OF UNFURNISHED ACCOMMODATION</th><th rowspan="2">VALUE OF FURNISHED ACCOMMODATION</th></tr>
<tr><th>CG/SG*</th><th colspan="3">Others</th></tr>
<tr><td rowspan="2">Licence Fee determined by Govt.
Less: Rent payable by the EE</td><td>Owned by ER</td><td>Taken on Lease</td><td>Hotel Accommodation</td><td rowspan="2">
<table>
<tr><th>Particulars</th><th>`</th></tr>
<tr><td>Value of unfurnished accommodation as above</td><td>xxx</td></tr>
<tr><td>Add: Value of Furniture provided
• If owned by employer, 10% p.a. of original cost of such furniture.
• If hired from third party, then Actual hire charges.</td><td>xxx</td></tr>
<tr><td>Less: Any charges paid or payable by the employee.</td><td>xxx</td></tr>
<tr><td>Value of Furnished Accommodation</td><td>xxx</td></tr>
</table>
</td></tr>
<tr><td rowspan="2">
<table>
<tr><th>Cities having population as per 2001 census- where accommodation is provided</th><th>Taxable</th></tr>
<tr><td>> 25 lakhs</td><td>15% of Salary*</td></tr>
<tr><td>> 10 lakhs
<= 25 lakhs</td><td>10% of Salary*</td></tr>
<tr><td>Any other</td><td>7.5% of Salary*</td></tr>
</table>
in respect of the period of occupying the accommodation by the EE

Less: Rent payable by the EE</td><td rowspan="2">Least of:

Rent paid by ER
or
15% of Salary*

Less: Rent payable by the EE</td><td>Least of:

24% of salary
or
actual charges paid / payable*

Less: Rent payable by the EE</td></tr>
<tr><td>*EE's of local authority or a foreign govt. are not covered here.</td><td>Not Taxable if accommodation is:
• Provided <= 15 days.
(+)
• On the transfer of the employees from one place to another.</td><td>Note: Furniture includes radio sets, television sets, refrigerators, air-conditioners and other household appliances.</td></tr>
<tr><td colspan="5">Salary means: Basic Salary + D.A. (terms of employment) + Bonus + Commission + Fees +Taxable Allowances + monetary payment from ER's.
Not include: D.A. (not part of terms) + ER PF + Interest on PF + Exempted Allowances + Perquisites u/s 17(2) + Lump sum payment received at the time of termination of service or superannuation or voluntary retirement, like gratuity, pay leave encashment, retrenchment benefits, commutation of pension etc.</td></tr>
</table>

POINTS TO BE NOTED	
"Salary" shall be determined on "due" basis	*Salary is taken for the period during which RFA is occupied by the EE, whether it is received during the P.Y. or not.*
Salary from 2 or more ER's	*Salary from all ER's in respect of the period during which accommodation is provided will be taken.*
Monetary Payments vs. Perquisites	*Monetary payments which are in the nature of Perquisites shall not be included.*
Gas, Electricity, Water Bills	*Not taken into consideration.*
D.A. shall be considered only when it is part of salary for computing all retirement benefits like: *Pension, Leave encashment, Gratuity, etc.* *If D.A. is part of salary for computing only some (not all) of the retirement benefits, then it is not taken into consideration for this purpose.*	

VALUE N.A.	**VALUATION OF ACCOMMODATION IN CASE OF EMPLOYEES ON TRANSFER**
(a) Employees working at mining site, Onshore oil exploration site, offshore site, Project execution, dam, power generation sites. **(b) <u>Conditions to be fulfilled:</u>** • Accommodation of a temporary nature, and • Plinth area <= 800 sq. ft. • Located at least 8 kms away from local limits of Municipality / cantonment or located in a remote area.	**(a) <u>For the first 90 days of transfer:</u>** Where accommodation is provided both at existing place of work and in new place, the accommodation, which has lower value, shall be taxable. **(b) <u>After 90 days:</u>** Both accommodations shall be taxable.
Remote area means area located at least 40 kms away from town having a population not exceeding 20,000 based on latest published All-India census.	

"Accommodation" **<u>includes</u>**:

- ✓ House, flat, farm house (or part thereof), or
- ✓ Accommodation in a hotel, motel, service apartment, guest house, caravan, mobile home or in ship or other floating structure (House boat).

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Exception:

Rent free official residence is exempt from tax provided to a:

- ✓ Judge of HC or SC;
- ✓ Official of Parliament;
- ✓ A Union Minister and a Leader of Opposition in Parliament.

<table>
<tr><th colspan="3">OTHER FACILITIES AND PERQUISITES TO EMPLOYEE AND HIS HOUSEHOLD
VALUATION OF PERQUISITES IN RESPECT OF</th></tr>
<tr><th>Rule</th><th>Nature of Perquisite</th><th>Taxable Value of Perquisite</th></tr>
<tr><td>3(3)</td><td>Free Domestic Servant [Service of sweeper, gardener or watchman or personal attendant]</td><td>Actual cost to the employer
<u>Less</u>: Amount paid by employee
✓ If an ER provides a RFA (owned by ER) to his EE, expenses (inclusive of salary of gardener) incurred by the ER on maintenance of garden and ground attached to the house, is not taxable separately [Circular No. 122 dt. 19.10.1973].
✓ Domestic Servant Allowance is always taxable chargeable to tax. It is taxable even if the allowance is used for engaging a domestic servant.</td></tr>
<tr><td>3(4)</td><td>Supply of gas, electricity or water for household consumption</td><td><table><tr><th>Hired from outside agency</th><th>Supplied by the ER out of own resources</th></tr><tr><td>Amount paid to outside agency</td><td>Manufacturing cost per unit</td></tr></table>
<u>Less</u>: amount paid by the employee</td></tr>
<tr><td>3(5)</td><td colspan="2">Education facilities to members of his household
<table>
<tr><td>Training of EE’s</td><td>No Taxable</td></tr>
<tr><td>Fixed Education Allowance for Children</td><td>• <u>UPTO</u> ` 100 p.m. per Child (Education)<br>• <b><u>UPTO</u></b> ` 300 p.m. per Child (Hostel) <u>MAX. 2</u></td></tr>
<tr><td>Payment of School Fees of EE’s Children</td><td>Directly paid by ER to Schools is taxable as Perquisites.</td></tr>
<tr><td>Reimbursement of School Fees of EE’s Children</td><td>Taxable as Perquisites.
(Reimb. Of Tuition Fees to the CG EE’s is also covered)</td></tr>
<tr><td>Free education to children in the school maintained by the employer or the school sponsored by the employer - Education facility is provided to EE’s Children</td><td>If the cost of education per child (no limit):
Not exceed ` 1,000 p.m. - then not taxable<br>Exceed –<br>Cost of Education in Similar School in near locality<br>Less: ` 1,000 p.m. per child
Less: amount recovered from employee</td></tr>
<tr><td>Education facility is provided to member of his household</td><td>Cost of Education in Similar School in near locality
Less: Rs. 1,000 p.m. per child
Less: amount recovered from employee</td></tr>
</table></td></tr>
</table>

<table>
<tr><td></td><td colspan="2">Scholarship – Given by ER to children of its EE's at its discretion without reference to the terms of employment is not assessable as Perquisites is exempt u/s 10 (16).</td></tr>
<tr><td>3(7)(i)</td><td colspan="2">Interest –free loan or loan at concessional rate of interest

<table>
<tr><td>A.</td><td>Max. Outstanding balance as on the last day of the month</td><td>x x x</td></tr>
<tr><td>B.</td><td>Charge SBI rate of interest (first day of relevant P.Y.) for each month on Outstanding amount</td><td>x x x</td></tr>
<tr><td>C.</td><td>Less: Interest actual recovered from the EE</td><td>x x x</td></tr>
<tr><td>D.</td><td>Amount taxable as Perquisites</td><td>x x x</td></tr>
</table>

➢ Interest charged by employer is >= than SBI rates. It is not a taxable Perquisite.
➢ If a closely held company gives a loan to an EE who holds at least 10% voting power, such loan will deemed as dividend u/s 2(22)(e). Even in such a case, the Perquisite value of interest-free loan is chargeable to tax.

Exceptions:-
(a) Medical loan for treatment of diseases specified in Rule 3A except loan reimbursed by medical insurance.
(b) Loan not exceeding ` 20,000 in aggregate.</td></tr>
<tr><td>3(7)(vii)</td><td>Use of any movable asset other than computer/laptops/car or other assets already mentioned.</td><td>10% p.a. of Actual Cost if owned by the ER;
or Actual rental charge paid/payable by the ER
Less: Amount recovered from employee</td></tr>
</table>

TRANSFER OF MOVABLE ASSETS TO EMPLOYEES (or any member of his household) [Rule 3(7)(viii)]

Particulars	**Computers & Electronic Gadgets**	**Car**	**Other Movable Assets**
Method of Depreciation	WDV	WDV	SLM
Rate of Depreciation for every completed year	50%	20%	10%
Actual Cost	x x x	x x x	x x x
Less: Depreciation for completed years	(x x x)	(x x x)	(x x x)
WDV at the end of completed years	x x x	x x x	x x x
Less: Sale Value taken from Employee	(x x x)	(x x x)	(x x x)
Taxable Value of Perquisite	x x x	x x x	x x x

Note:
(a) An electronic gadget includes computer, digital diaries and printers, but excludes household appliances like washing machines, microwave ovens, hot plates, mixers, ovens, etc.
(b) Transfer of Assets, which are 10 years old, shall not attract tax liability.
(c) Member of household includes: Spouse(s), children and their spouses, parents, servants and dependents.
(d) Completed year means actual completed year from the date of acquisition of the asset to the date of transfer of such asset to the employees.

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TAXABILITY OF OTHER BENEFITS

Rule	Nature of Perquisite	Taxable Value of Perquisite (TVP)
3(6)	Transportation of goods or passengers at free or concessional rate provided by the ER engaged in that business (other than railways / airlines).	Value at which offered to public Less: amount recovered from the employee
3(7)(ii)	Traveling, touring, accommodation and other expenses met by the employer other than specified in Rule 2B[LTC]. (This shall be calculated only for the period of vacation).	Amount incurred by ER or Value at which offered to public Less: amount recovered from the employee
3(7)(iii)	Free meals (Food or Non-alcoholic beverages) during office hours or Through non-transferable paid vouchers usable only at eating joints.	Actual cost to the ER in excess of ` 50 per meal or tea or snacks [Circular No. 15/2001] Less: amount recovered from the employee ***Not Taxable:*** Free meal in remote area or offshore installation area. Tea or non-alcoholic beverages and snacks during working hours [Working hours include extended office hours (like working on holidays, over-time)].
3(7)(iv)	Value of any gift or voucher or taken [other than gifts made in cash or convertible into money (e.g. gift cheques)] on ceremonial occasion.	In case the aggregate value of gift during the previous year is less than ` 5,000, then it is not a taxable perquisite [Circular No. 15/2001].
3(7)(v)	Expenditure incurred on credit card or adds on card including membership fee and annual fee.	Actual expenditure to employer is taxable Less: amount recovered from employee If it is incurred for official purpose and supported by necessary documents then it is not taxable.
3(7)(vi)	Expenditure on club other than health club or sports club or similar facilities provided uniformly to all employees.	Actual expenditure incurred by the employer Less: amount recovered from employee If the expenditure is incurred exclusively for official purposes and supported by necessary documents or provided at ER's premises then it is not taxable. Initial fee of corporate membership of a club is not a taxable perquisite.
3(7)(ix)	Any other benefit or amenities or service or right or privilege provided by the employer other than telephone or mobile phone.	Cost to the employer Less: amount recovered from employee
Note: Members of household includes: spouse(s), children and their spouses, parents, servants and dependents.		

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TAXABILITY OF PERQUISITES PROVIDED BY EMPLOYERS [TAXABILITY OF MOTOR CAR BENEFITS]

Owner of Car	**Expenses borne by**	**Purpose**	**Taxable Value of Perquisite**
1(a) ER	ER	Fully official	Not a perquisite provided the documents as specified in Rule 3(2)(B) are maintained.
1(b) ER	ER	Fully private	Total of: (i) Actual expenditure on car (ii) Remuneration to chauffeur (iii) 10% of the cost of car (normal wear & tear) Less: Amount charged from employee
1(c)(i) ER	ER	Partly official and partly personal	Cubic Capacity of Car Engine upto 1.6 litres ` 1,800 p.m.+ ` 900 p.m. for chauffeur Cubic Capacity of Car Engine above 1.6 litres ` 2,400 p.m. + ` 900 p.m. for chauffeur
1(c)(ii) ER	Employee	Partly for official and partly for personal	Cubic Capacity of Car Engine upto 1.6 litres ` 600 p.m. + ` 900 p.m. for chauffeur Cubic Capacity of Car Engine above 1.6 litres ` 900 p.m. + ` 900 p.m. for chauffeur
2(i) Employee	ER	Fully official use	Not a perquisite provided the documents as specified in Rule 3(2)(B) are maintained.
2(ii) Employee	ER	Partly official and partly personal	Subject to Rule 3(2)(B) Actual expenditure incurred. Less: Car cubic capacity upto 1.6 litres [i.e. value as per 1(c)(i)] OR Car cubic capacity upto 1.6 litres above 1.6 litres [i.e. value as per 1(c)(i)]
3(i) Employee owns other auto-motive but not car	ER	Fully official use	Not a perquisite provided the documents as specified in Rule 3(2)(B) are maintained.
3(ii) Employee owns other auto-motive but not car	ER	Partly for official use	Subject to Rule 3(2)(B) Actual expenditure incurred by employer. Less: ` 900 p.m.

Note:

1. Using cars from pool of cars 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 1(c)(i)
For more than one car	Valued as per 1(b) as if fully used for personal purpose

2. Documents to be maintained for claiming 'not taxable perquisite' or higher deduction wherever applicable [Rule 3(2)(B)]

(a) Employer should maintain complete details of journey undertaken for official purpose, which includes date of journey, destination, mileage and amount of expenditure incurred thereon.

Certificate of supervising authority of the employee, wherever applicable, to the effect that the expenditure incurred for wholly and exclusively for performance of official duties, should be provided.

TAXABILITY OF PERQUISITES (At a glance)

Perquisites	**Specified EE**	**Non-Specified EE**
Rent free / concessional accommodation	Taxable	Taxable
Watchman, gardener, sweeper, personal attendant engaged by employee and expenses met by the employer	Taxable	Taxable
The aforesaid mentioned servants provided in any other manner	Taxable	Non-taxable
Gas, electricity, water, etc. for household consumption and the connection in the name of employee but expenses paid by the employer.	Taxable	Taxable
Above facilities provided in any other manner	Taxable	Non-taxable
Education expenses, if the bills are in the name of employee, but met by employer.	Taxable	Taxable
Above facilities provided in any other manner	Taxable	Non-taxable
Education expenses, if the bills are in the name of employee, the but met by employer	Taxable	Taxable
Above facilities provided in any other manner	Taxable	Taxable
Transport facility provided by transport undertakings Railways and other than Airlines	Taxable	Taxable
Interest free loans or loans provided at concessional rates by the employer to employee	Taxable	Taxable
Holiday home facilities provided	Taxable	Taxable
Club facility provided by employer(other than official purposes)	Taxable	Taxable
Computer / laptop provided by the employer for use by the Employee	Non-taxable	Non-taxable
Other movable assets provided by the employer for use by the employees	Taxable	Taxable
Sale / transfer of movable assets to employees	Taxable	Taxable
Magazines, periodicals, journals, etc. for official work	Not taxable	Not taxable
Medical facilities, if the bills are in the name of employee, employer upto but met by ` 15,000	Taxable	Taxable
Above facility in any other manner	Taxable	Non-taxable
Leave Travel Concession	Not taxable subject to Sec.10(5)	Not taxable subject to Sec.10(5)
Stock option under approved scheme	Not taxable	Not taxable

SALARY MEANING

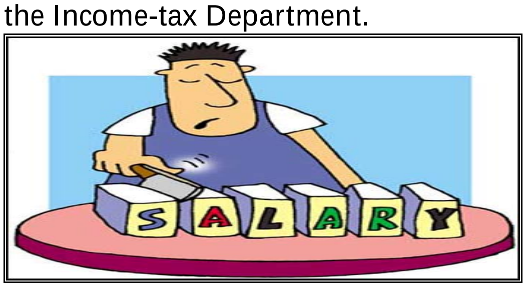
For the Purpose of	Means
Deduction for Entertainment Allowance u/s 16(ii) in case of Govt. employees	Basic pay
Voluntary Retirement Compensation u/s 10(10C)	Basic Pay + D.A.(forming part of salary for retirement benefits)
Exemption for Gratuity covered under Payment of Gratuity Act u/s 10(10)(ii)	Basic Pay + D.A
Exemption for Gratuity not covered under Payment of Gratuity Act u/s 10(10)(iii)	Basic Pay + D.A. (forming part of salary for retirement benefits) + Commission as a fixed % of turnover
Exemption for Leave Salary u/s 10(10AA)	Same as above
Exemption for House Rent Allowance u/s 10(13A)	Same as above

Salary for the purpose of computing exemptions of Gratuity, HRA and Leave Encashment = Basic + Dearness allowance (forming part of retirement benefits) Commission based on the % of turnover (paid in course of employment).

TAX DEDUCTED AT SOURCE [SEC. 192]

- ✓ Section 192 of the I.T. Act, 1961 provides that every person responsible for paying any income which is chargeable under the head 'salary' shall deduct income tax on the estimated income of the assessee under the head salaries.
- ✓ The tax is required to be calculated at the average rate of income tax as computed on the basis of the rates in force.
- ✓ The deduction is to be made at the time of the actual payment. However, no tax is required to be deducted at source, unless the estimated salary income exceeds the maximum amount not chargeable to tax applicable in case of an individual during the relevant financial year.
- ✓ The tax once deducted is required to be deposited in government account and a certificate of deduction of tax at source (also referred as Form No.16) is to be issued to the employee. This certificate is to be furnished by the employee with his income tax return after which he gets the credit of the TDS in his personal income tax assessment.

Finally, the employer / deductor is required to prepare and file quarterly statements in form no.24Q with the Income-tax Department.



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SUMMARY OF SECTIONS

Section	Contents
7	Income deemed to be received
10(5)	Leave Travel Concession
10(10AA)	Leave Salary
10(10)	Gratuity
10(10A)	Pension
10(10B)	Retrenchment Compensation
10(10C)	Compensation on voluntary retirement
10(13A)	House rent allowance
10(14)	Specified allowance- traveling, daily, conveyance, helper, academic, uniform, children education, hostel expenditure, transport, tribal area, underground, hill/border/remote
15	Basis of charge
16	Professional Tax, Entertainment Allowance
17	Salary, perquisite, and profits in lieu of salary
17(2) (iii)	Specified employee
89(1)	Relief when salary is paid in arrears or in advance

ASSUMPTIONS

if nothing mentioned clearly only then make assumption		
1.	DA	It is not under terms of employment (Hence, It is not the forming part of salary)
2.	Dearness Pay	It is under terms of employment
3.	Commission	It is on the basis of fixed percentage of turnover
4.	Gratuity	Employee is not covered under the payment of gratuity act
5.	Govt./Non-govt.	Assume Non-govt. employee
6.	Employee's PF contribution	Basic salary is gross without deducting employee's contribution
7.	Interest free loan	If rate of interest of SBI is not given assume to be 12% p.a.
8.	Specified allowance (HA, TA, DA, CA, AA and UA)	If expenditure is not given assume that fully expended for official purposes.
9.	RFA	If nothing mentioned or only FRV is given then assume that house is owned by employer and if actual rent or lease rent or license fee is given then assume house is not owned by employer
10.	RFA	If house is owned by employer and population not given then assume that city's population is more than 4,00,000
11.	HRA	City is not a Metro City so assume 40%
12.	Education Facility	Employer has no contract with the school and it is not maintained by employer
13.	Medical Facility	In any other hospital and exemption upto Rs. 15,000.

Differences:

	Basis of Difference	Covered by Gratuity Act	Not Covered
1.	Components of Salary		
2.	Part of the year		
3.	No. of days in month		
4.	Salary of which period		

COMPUTATION OF INCOME UNDER HEAD SALARY

Particulars	`	`
Salary or wages (Including advance salary)		XXX
Pension or Annuity (retirement benefit)		XXX
Gratuity or leave salary		XXX
Fee, commission etc		XXX
Taxable allowance		XXX
Taxable perquisite		XXX
Profit in lieu or addition of salary		XXX
Contribution in excess of 12.5 % salary		XXX
Interest credited in excess of 9.5 %		XXX
Taxable balance transferred from UPRF to RPF		XXX
Gross salary		**XXX**
Less: Allowances Exempt u/s 10		**XXX**
Less: Deduction u/s 16:		
Entertainment allowance	XXX	
Professional tax	XXX	**XXX**
Net salary (Income under head Salary) [A]		**XXX**
Income Other than Salaries [B]		**XXX**
Gross Total Income[A+B]		**XXX**
Less: Deduction under chapter VI-A		**XXX**
Net Taxable Income		**XXX**
Tax Payable as per Slab rates		**XXX**
Add: Cess@3%		**XXX**
Total Tax Payable		**XXX**
1/12th of this total tax payable is to be deducted every month by the employer.		**XXX**

Thanks for YOUR SUPPORT!!

ABOUT THE BOOK & AUTHOR

Key Features

- Covers Full Syllabus of ICAI.
- Table Showing Distribution of Marks of Last 10 Attempts.
- Concepts of Revised Schedule VI with Formats.
- Additional Reading Material on Revised Schedule VI with Questions.
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About the Author

CA. Praveen Tawania is a practicing Chartered Accountant and a faculty member, teaching subjects of Accounting, Financial Reporting, AS/IFRS for CA and CWA & CS in Northern Region of the Country. He has also been teaching at various Institutes, Universities and conducting training on whole range of management consultancy services including IFRS, XBRL, Valuations, Foreign Collaborations and Joint Ventures, Taxation, Specialized Audits, ERM, Risk Advisory and Corporate Training services. He is a regular contributor in the various online forums for CA's and CA Students. His contribution is also lies to the "KRN Foundation" for the benefit of Society.

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