Step By Step

Direct Tax

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Relevant for –CA-IPCC Students

Income from Salary [Section 15 to section 17]

- The computation of Income under each five heads of income will have to be made independently and separately.
- No deduction or adjustment on account of expenditure can be made except as provided by the Act.
- Place of accrual :- Section 9(1):- At place where services are rendered except in case of Indian citizen who is government employee and rendered any service outside India. In such case salary received by him would be treated as "income deemed to be received in India".
- Salary means any payment from employer to employee
- Such payment should arise on account of employer – employee relationship between payer and payee.

Basis Of Charges

Income chargeable under the head salary would include:-

(a) Salary due during the previous year
(b) Salary paid or allowed during the previous year
(c) Arrears of salary paid or allowed during the previous year

Thus salary is taxable on due or receipt basis whichever is earlier**.**

- Salary may be from present/past or prospective employer.

Example:- Mr. Bajrang is an employee of Tata Ltd getting a salary of Rs.72000/- p.m. which become due on the last day of the month but it is paid on the 7th of the next month. Salary for which months will be taxable for AY 2014-15?

Example-2 :- Mr. Bajrang is an employee of Bata Ltd and getting salary Rs. 27000/- p.m. salary becomes due on the last day of the month..In March 14 he received a salary of April 14 & May 14 in Advance. Compute taxable salary for AY 2014-15 and for AY 2015-16

Pay scale/Grade system of Salary:-Under this system, annual increment to be given to the employee are already fixed in advance and stated in grade.

Example-3:- Mr.Bajrang joins the service in the grade of 10000-1000-15000-2000-25000. On 01.08.2010 at a salary Rs.13000/- Compute taxable salary for AY 2014-15

CKB-3 Mr. Bajpai joins the service in the grade of Rs. 24000—800—28000—1000—36000 on 01st July 2004 Compute his basic salary for the A.Y. 2014-15.

CKB-4 Ms. Ruchi joined a service on 1st May 2006 in the pay sacle Rs.24000- 400- 26000-600- 32000 and her salary was Rs.26400 at the time of joining. Calculate her basic salary for AY 2014-15.

Salary paid in Foreign Currency:- T.T.Buying rate of last day of the month immediately preceding the month in which salary is due or paid in advance or in arrear.

→Forgoing of salary -----taxable

→ Surrender of salary ---Not taxable if surrendered to Central Government.
→Salary to MP/MLA ---- Not taxable under the head 'Salary'
→Salary to partner by the Firm ---- Not taxable under the head 'Salary'
→Salary to M.D./Wholetime director ----- Taxable as Salary
→Subsistence Allowance to Suspended employee --- Taxable as Salary
→Salary to judges of SC/HC ----- Part of Salary
→Salary paid by Foreign Govt/Enterprise to ist employee in India---- Taxable as Salary
→Annuity ------(a) If received from Present employer—Taxable as Salary
(b) If received from former/past employer—Taxable as 'Profits in lieu of Salary'
→ Bonus ---- Taxable as salary and on receipt basis
→Salary in lieu of Notice period----Taxable in P.Y. in which received.
→Overtime premium-----???????????????
→Advance salary --- Taxable on receipt basis irrespective of the facts whether due or not
→advance against salary---- ????

Allowances

Fully Taxable	**Fully Exempt**
Dearness Allowance	Any allowance to Indian citizen employed abroad by Indian Government.
Additional D.A.	Allowance to High Court & supreme Court
Fixed medical Allowance	Allowance from UNO to its employee
Tiffin Allowance	Notified allowance to chairman & member of UPSC
Servant Allowance	
Non-practicing Allowance	
Hill Allowance	
Warden/proctor Allowance	
Deputation Allowance	
Overtime Allowance	
Family Allowance	
Project Allowance	
Marriage Allowance	
Telephone Allowance	
Dinner Allowance	

<table>
<tr><td rowspan="2">Allowances exempt <u>to the extent of expenditure incurred</u></td><td colspan="2" rowspan="2">Exempt <u>Maximum up to certain limit</u> Section 10(14(ii)</td><td rowspan="2">Exempt to the <u>certain percentage of amount received</u></td></tr>
<tr></tr>
<tr><td rowspan="5">Travelling Allowance
Daily Allowance
Conveyance Allowance
Helper Allowance
Academic Allowance
Uniform Allowance</td><td>Name of Allowance</td><td>Exemption limit</td><td rowspan="5">Allowance to Transport's employee exempt Lower of following:-
(a) 70% of the amount received or
(b) Rs.10000/- P.M.</td></tr>
<tr><td>Children Education Allowance</td><td>Rs.100/- per child per month for maximum 2 child</td></tr>
<tr><td>Hostel Allwance</td><td>Rs.300/- per child per month for maximum 2 child</td></tr>
<tr><td>Transport Allowance</td><td>Rs.800/- but
Rs.1600/- P.M. in case of Blind/orthopedically handicapped employee</td></tr>
<tr><td>Tribal/Schedule/Agency area Allowance</td><td>Rs.200/- per month</td></tr>
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Special Compensatory Hilly Area / high Altitude Allowance	Rs.300 to Rs.7000/- P.M.
Boarder/Remote/disturbed area Allowance	Rs.200/- to Rs.1300/- P.M.
Compensatory/Modified Field Area Allowance	Rs.1000/-P.M.
Counter Insurgency Allowance	Rs.3900/- P.M.
Underground aloowance	Rs.800/-P.M.
High Altitude Allowance	(i) Rs.1060/- P.M. in case of 9000 Fts to 15000 Fts. (ii) Rs.1600/- P.M. in case of beyond 15000 Fts.
Special Compensatory highly active field area Allowance	Rs.4200/- P.M.
Island (duty) Allowance (i.e. Andman & Nicobar and Lakshadweep)	Rs.3250/- P.M.

House Rent Allowance Section 10(13A) and Rule-2A

Exempted portion	**Taxable Portion**
Least of Following is exempt :- (a) Actual HRA Received (b) Rent paid minus 10% of Salary © 50% of salary if rented house is located in Kolkata, Chennai,Mumbai,Delhi or 40% of Salary in other locations	Actual HRA Received during the P.Y. XXXXXX **Less:-** Exempt amount XXXXXX (As calculated in colimn -1) Taxable Amount **XXXXXX**

Salary means:- Total of
- (a) Basic Salary
- (b) D.A. to the extent forming part of retirement benefits
- © Commission based on fixed percentage of Turnover achieved by the employee during the P.Y.

Note:- (1) Salary is to be considered on 'due' basis for relevant period
(2) No HRA exemption if no rent paid in relevant period
(3) Do not calculate HRA on annual basis if there is any change in salary,Rent paid, HRA or place of residence in the relevant previous year

HRA-CKB:-- Mr. Sharukh khan is employed in CKB Ltd on the basis of salary of Rs.60000/- He is getting DA Rs.12000/- P.M. (70% is part of retirement benefit. He is getting HRA Rs.30000/-PM. With effect from he got promotion and his salary increased by Rs.10000/-PM & DA by Rs.2000/-PM. He was staying with his parent till 30.09.2013 and from 01-10-2013 he took a house on rent of Rs.25000/-PM in NOIDA and in January 01,2014 he shifted in delhi where he pays rent Rs.30000/0 PM. Compute his taxable salary for AY 2014-15.