KEY POINTS FOR REVISION OF INCOME TAX BEFORE EXAM

INCOME FROM SALARY

Point of taxability:-

Salary is taxable on due or receipt whichever is earlier. Therefore advance salary is taxable in the year of **receipt** and arrears of salary are taxable in the year in which it **becomes due. However advance against salary is a loan received from employer and hence not taxable.**

Place of accrual:-

Place of accrual of salary is place where **services are rendered. If services are rendered in India, it is considered as INDIAN INCOME.**

Relationship between employer and employee:-

The relationship between payer and payee shall be **employer and employee. MLAs or MPs are not treated as an employee** of the Government; therefore remuneration received by them is not taxable under the head "Salaries", but taxable under the **head "Income from other sources".**

Salary received by a partner:-

Salary received by a partner from a partnership firm is taxable under the head **"Business and profession"** and not under the head salary.

Period of salary:-

In case of Government employee, the salary become due on the 1st day of the next month therefore salary **from March to Feb.** is taxable. Whereas in case of non – Government employee (including bank employees.), the salary become due on the last day of the same month. Therefore salary from **April to March is taxable.**

Deduction from salary:-

Out of salary income, entertainment allowance (Government employee) and Professional tax are allowed as deduction. In case profession tax is paid by employer on behalf of employee, the amount paid shall be included in gross salary as a perquisite and then deduction can be claimed

Taxability of retirement benefits:-

1. Gratuity and leave encashment received during the period of service are fully taxable.

2. Gratuity and leave encashment received by government employee upon retirement are fully exempt.

3. Maximum exemption available in case of gratuity is Rs. **10, 00,000** and in case of leave encashment is Rs. **3,00,000.**

4. Uncommuted pension is fully taxable irrespective of whether employee is government employee or non government employee.

5. Commuted pension received by government employee is fully exempt and received by non government employee is partly exempt. (1/2 or 1/3rd is exempt.)

6. Family pension received by the legal heirs after the death of the employee is taxable in the hand of legal heirs under **'Income from other sources'.**

7. Amount contributed by employer in excess of **12%** of salary towards RPF is taxable and interest credited to RPF account in excess of 9.5% is taxable.

8. Employees' contribution to RPF or SPF is eligible for **deduction u/s 80C.**

Taxability of perquisites:-

In respect of any loan given by employer to employee or any member of his household, the interest at the rate charged by **SBI as on the first day of the relevant**

previous year at maximum outstanding monthly balance **(aggregate outstanding balance for each loan as on the last day of each month)** as reduced by the interest, if any, actually paid by him or any member of his household shall be taxable.

No perquisite for use of laptops and computers.

If loan given by employer for medical treatment for specified ailments **or** where loans amount in aggregate does not exceed **Rs. 20,000,** than nothing shall be taxable.

Other Points:-

LTC received without performing journey is fully taxable. LTC allowance is also taxable.

Medical reimbursement up to Rs. 15,000 is not taxable. However, **fixed medical allowance is fully taxable.**

Where employee leaves in his own house or does not pay any rent, **HRA is fully taxable.**

Forgoing of salary is taxable but surrender of salary is not taxable.