INCOME FROM SALARY

Any income will be chargeable under salary head if there "Employer Employee Relationship"

Employer Employee Relationship

Yes	No
a) Contract of services	a) Contract for service
b) Relationship of master & servant	b) Principal agent relation
c) Dependent Employee	c) Independent employee
d) Teacher's Remuneration	d) Teacher is paper setter
e) Person having a charge of ministry	e) MP/MLA's salary
f) Salary of Chartered Accountant.	f) Salary of judge
	g) Retainership fees received by advocate

CHARGING SECTION ➔ 15

Following Income shall be chargeable under salary head

a) **Salary Taxable on Due Basis**: Any salary Due from an employer or former employer to an Assessee in the previous year.

b) **Salary Taxable on Receipt Basis**: Any salary paid or allowed to him in previous year from employer to former employer even such salary has not been due.

c) **Arrear of Salary Taxable on Receipt Basis**: Any arrear of salary + Income Tax not charged in any previous year.(Subject to Marginal relief)

Special Notes

1.) Salary Received by partners of firm to be taxable **under PGBP**.

Important Terms

a) PAY SCALE

- FIXED PAY SCALE → Employee received certain fixed amount for specified period e.g. Rs.30000 per month
- GRADED PAY SCALE → Employee Received Annual Increment in his salary e.g. 30000 – 2000 – 40000 – 3000 - 70000

b) Tax Free Salary :- Tax paid by employer on such salary

Taxable amount for Employee = **Net amt paid to employee + Tax on such salary.**

C)

- ADVANCE SALARY → Taxable on receipt basis under "Salary Head"
- LOAN/ ADVANCE AGAINST SALARY → Employee take advance against salary & same adjusted in subsequent salary → Not taxable under salary head

d)

- Foregoing of salary → Employee waves his salary after it becomes due to him. → Taxable
- Surrender of salary → Employee surrender salary to the central government. → Exempt

Deduction available from salaries [Section 16]

1) Entertainment Allowances [section 16(ii)]

- **For government employee**
  - a) **First include** in income
  - b) Then get deduction **LEAST** of following
    - I. Actual amount received
    - II. Rs.5000
    - III. 20% of basic salary
  - ** → **BASIC SALARY** excludes all allowances, benefits or other perquisite.
- **For other Employee**
  - Taxable

2) Employment Tax [Section 16(iii)]

→ Deduction allowed subject to maximum Rs.2500(but any **amount paid by Employer** will be first added in Salary and thereafter deducted from Salary)

Taxability of Allowances

1) House Rent Allowances [Section 10(13A)]

a) Following **LEAST** amount shall be Exempt

I. Actual HRA Received
II. Rent paid – 10% of salary**
III. 40% / 50% of salary**

➔ **Salary = Basic pay + DA ( ) + % Of Commission on turnover.

➔ For **MUMBAI, DELHI, CHENNAI & KOLKATA** --> 50% of salary

➔ For rest → 40% of salary.

b) Exemption Not Applicable

I. If residential accommodation occupied by assesse is owned by him

II. Assessee has not actually incurred expenditure on payment of rent in respect of residential accommodation occupied by him.

Special Notes :-

a) If there is a chance in HRA Received, Rent paid, salary or any place then we calculate exemption on monthly basis.

2. Fully Taxable Allowances

DTO CS & PF Milkar **M**eri **W**aat laga di

1) **D**earness allowances
2) **T**iffin allowances
3) **O**vertime allowances
4) **C**ity compensatory allowances
5) **S**ervant allowances
6) **P**roject allowances
7) **F**amily allowances.
8) **M**edical allowances
9) **W**arden allowances

Partly Taxable Allowances

I. Allowances exempt from tax to the extent of amount expended for the purpose for which they are given [section 10 (14) (i)]

- Traveling Allowances
- Conveyance Allowances (Meet office duties)
- Uniform Allowances
- Daily Allowances
- Research Allowances
- Helpless Allowances

4. Allowances Exempt From Tax to The Extent Of Amount Notified in Rules [Section 10 (14) (ii)]

Allowances	Amount Exempt
1) Transport Allowances To Employees Of Transport System.	I. 70% of such allowances II. Rs.10,000 whichever is lower
2) Tribal Area Allowances	Rs.200 P.M.
3) Transport Allowances → For Meet The Expenditure Incurred On Travel Between Residence & Office	General :- Rs.1600 P.M For disable person :- Rs.3200 P.M.
4) Underground Allowances → For Working In Unnatural Climate	Rs.800 P.M
5) Children Education Allowances	Rs.100 P.M per child **for maximum 2 children**
6) Hostel Expenditure Allowances	Rs.300 P.M per child **for maximum 2 children**

5.) Wholly Exempt Allowances

I. Allowances to Indian Citizen who is a government employee & rendering services outside India [Sec 10 (7)].
II. Allowances to high Court Judge.
III. Sumptuary allowances to Judges of High Court & Supreme Court.
IV. Allowances to employees of UNO.

Taxability of Perquisities

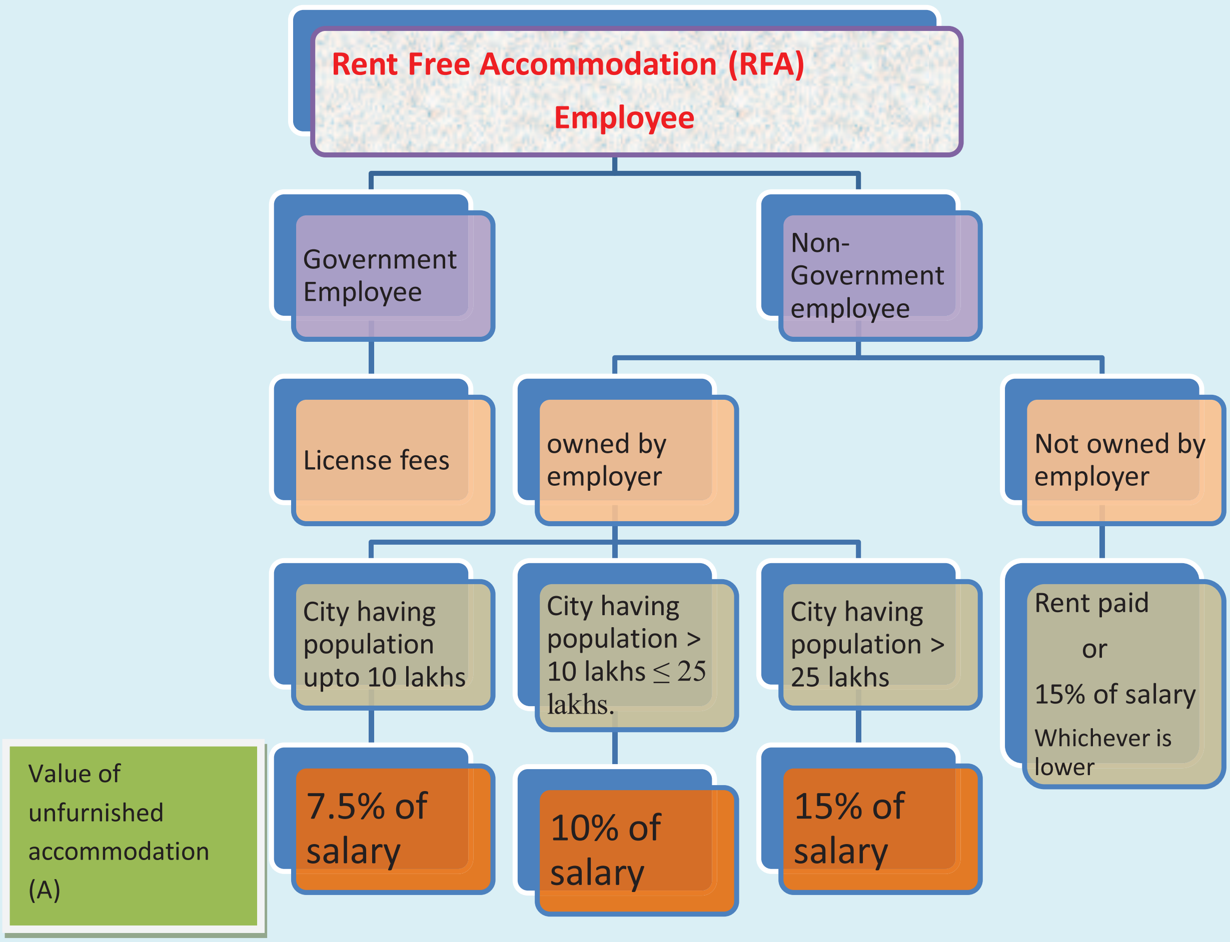
Perquisites means extra benefit granted to employee whether in cash or kind. [Sec 17 (2)]

Following perquisities taxable in case of specified employees

a) Car facility
b) Provision for sweeper
c) Domestic servant
d) Facility for gas
e) Electricity, Water
f) Education facility
g) Transport facility

Specified employee

I. An employee who is a director of company
II. Any employee having a substantial interest in company i.e. having equity shares > 20% of total value.
III. Any employee whose salary (exclusive of any non monetary facilities > 50000)



Value Of Furnished Accommodation (B)

If furniture **owned** by employer
Then
10% Of Actual Cost

If furniture **hired** by employer
Then
Actual Hire Charges Paid

Value Of Rent Free Furnished Accommodation (A + B) :	Xxxxx
Less : Amount Received From Employee	(Xxxx)
Value Of RFA	Xxxxx

➔ Value of Hotel Accommodation: (Both Pvt & Govt Employee)

24% of salary	xxxx
Or	
Actual amount received	xxxx
Whichever is lower	xxxx
Less: Any amount received from employee	(xxx)
Taxable Value	xxxx

** Special Notes**

- Salary = Basic Salary **+** DA ( ) + Bonus +Commission + All taxable Allowances + any taxable monetary benefit provided by employer

- **Exemption**
  - Hotel accommodation $\leq$ 15 Days → then Value will be NIL
  - Accommodation of temporary nature/remote area

Temporary Area

Area $\leq$ 800 sq feet

+

8 kms away from local limits

Remote area.

Area which is 40 kms away from town

+

Population $\leq$ 20000

2) Double accommodation on account of transfer.

At the time of transfer employee is provided with accommodation at new place & also retaining accommodation at other place then

For first 90 days

Value of perquisites will be value of accommodation whose value is lower.

After 90 days

Aggregate of both accommodation.

- ***Rent free official accommodation provided to Judge of High Court & Supreme Court & Member of parliament is not taxable***

→MOTOR CAR OR OTHER CONVEYANCE FACILITY

a) when motor car is **owned** or **hired** by **employer**.

- When maintenance & running expenses are met or reimbursed by employer
  - Used wholly or private purpose
    ↓
    Amount incurred or

Reimbursed by employer	xxx
Add: Driver's salary	xxx
Add: 10% of car cost	xxx
Amount recovered from employee	(xxx)
	xxx

  - Used partly for official & partly for private purpose
    - If Cubic Capacity ≤ 1.6 Litres
      ↓
      Rs. 1800 P.M (Plus Rs.900 P.M If Driver Is Provided)
    - If Cubic Capacity > 1.6 Litres
      ↓
      Rs.2400 P.M (Plus Rs.900 P.M If Driver Is Provided) [Note :- 3]
- When maintenance & running expenses are met by employee
  - Used wholly for private purpose
    ↓
    10% of actual cost
  - Used partly for official & partly for private purpose
    - If Cubic Capacity ≤ 1.6 Litres
      ↓
      Rs.600 P.M (Plus Rs.900 P.M If Chauffer Is Provided) [Note:- 3]
    - If Cubic Capacity > 1.6 Litres
      ↓
      Rs.900 P.M (Plus Rs.900 P.M If Chauffer Service Is Provided) [Note :- 3]

b) WHEN MOTOR CAR IS OWNED BY EMPLOYEE

Maintenance & Running expenses including remunaretion of the chauffer are ***Met or reimbursed by employer***.

USE WHOLLY FOR PRIVATE PURPOSES

Actual expenditure incurred by employer	xxxx
less :- any amount recovered from employee	(xxx)
	xxx

PARTLY FOR OFFICIAL & PARTLY FOR PRIVATE PURPOSE

- Actual Exp incurred by employer less ₹ 1800 P.M + (₹900 if chauffer is provided) → If cubic capacity ≤ 1.6 litre
- Actual Exp incurred by employer less ₹ 2400 P.M + (Plus 900 P.M if chauffer is provided) → If cubic capacity > 1.6 litre

C) CONVEYANCE OTHER THAN MOTORCAR (I.E. SCOOTER,MOTORCYCLE)

Used wholly for private purpose

Amount actually incurred by employer	xxxx
less :- Amount recovered from employee	(xxx)
	xxxx

Partly for official & partly for private purpose

Actual expenditure incurred by employer	xxx
(-)Rs.900 P.M	(xx)
	xx

Special Note:-

Note1 **:-** If motor car or other conveyance used for wholly PGBP purpose :- Exempt.

Note2 **:-** If there is a more than once car provided to employee (not used for wholly business purpose) , then

- One car is to be considered or partly official & partly official & partly personal
- Others to be considered as wholly for private purpose

Note3 :- No deduction shall be allowed to the employee for the amount recovered from him.

Note4:- Month :- starting from particular date & ending on date immediately preceding the corresponding date of next month eg. 15^{th} June to 14^{th} july.

3) Sweeper, Gardener, Watchman or Personal Attendant

Salary paid or payable to such person	xxxx
(-) Amount Recovered from employee	(xxxx)
Value of perquisites	xxxx

4) Gas, Electricity or Water facility

- Supplied by employer from his own source
  ↓
  Manufacturing cost per unit × No of unit consumed by employee
- If taken by employer from outside agency
  ↓
  Hire charges paid to such agency

Note :- Any Amount Is Recovered From Such Employeethe Same Shall Be Reduced From Taxable Value.

5) **Education Facility**

Employer incurr cost of education
↓
Actual expenses incurred by employer.

I. Education Institute Owned & Maintained By Employer
II. Free Educational Facility Is Provided In Any Other Institution By Reason Of His Employment With That Employer
↓
Cost Of Such Education In A Similar Institution In Or Near Locality.
↓
But Exempt If
a) Free Education Facility Is Provided To Children Of Employee +
b) Cost Of Education Upto Rs.1000 P.M Per child.

Note :- Any amount is recovered from employee shall be reduced from taxable value.

6) Transport facility to the employee of transport undertaking.

Amount charged from general public	xxxx
less :- Amount recovered from employee.	(xxxx)
	Xxxx

****This rule shall not beapplicable to employee of airline or railway.****

7) Value of employee stock option plan [ESOP] / Sweat equity shares granted by an employer to his employee.

Fair market value on date on which option is excersied by Assessee / Employee [NOTE-1]	xxx
Less :- Amount recovered from Assessee / Employee	(xxx)
value of securities / sweat equity shares	xxx

Note :- 1 FMV of ESOP / Sweat equity shares on rate of transfer

A) In cap of listed equity shares.

- Listed in one recognised stock exchange
  - Share are traded on that date on exchange → $\frac{\text{Opening price} + \text{Closing price}}{2}$
  - Shares are not traded on that date → Closing price of shares on that RSE immediately preceeding Date closest to date of excercising of option
- Listed in more than one recognised stock exchange
  - Shares are traded on that date exchanges → $\frac{\text{Opening price (Highest volumes)} + \text{Closing Price (Highest volumes)}}{2}$
  - Shares are not traded on date on exchanges → Closing price of shares on any RSE which records highest volume of trading.

*** Opening Price & Closing Price → Sell price will be taken.**

B) Unlisted Equity Shares :- Value determined by "category I Merchant Banker registered with SEBI"

C) Specified securities other than Equity shares :- Value determined by Merchant Banker.

8] MEDICAL FACILITY PROVIDED BY EMPLOYER

Exempt Facility

- Treatment in hospital maintained by employer is exempt
- Treatment in government hospital
- Treatment of Prescribed Disease in a hospital approved by Principal Chief Commissioner or Chief Commissioner
- Health insurance premium paid by employer or paid by employee & reimbursed by employer

Taxable Medical Facility

Other medical expenses

Other medical expenses ↓ Exempt upto Rs.15000 ↓ Incurred for employee or his family member

Medical Treatment abroad

a) **Employee & his family** + **one attendant** ↓ **Exempt to extent permitted by RBI**

b) Cost of Travel → employee & his family + one attendant ↓ **exempt if GTI of employee ≤ Rs.2 lakhs (Excluding this expenses**)

Family means :-

I. Spouse & Childrens.

II. Parents, Brothers & sisters of individual or any of **wholly dependant on individual.**

Value of prescribed Fringe Benefits :- Following Benefit provided by employer or any other person on his behalf to the employee orany member of his household shall be valued as follows :-

A. Interest free or concessional loans.

Maximum outstanding monthly balance x rate Charged P.A by SBI, as on 1st day of P.Y	xxxx
Less :- Interest paid by employee or member of his household	(xxxx)
Value of Benefit (Taxable)	xxxx

** :- Maximum outstanding monthly balance means **aggregate outstanding balance for each loan as on the last day of each month**

Exemption :-

I. If the loan amount in **aggregate ≤ 20000 OR**

II. If loan is made available for medical treatment in respect of diseases specified in rule 3A.but if such loan is reimbursed under any medical insurance scheme then such loan will be taxable.

B. Travelling, Touring, Accommodation & any other expenses paid for or borne or reimbursed by the employer for any holiday, other than leave travel cocession, availed by employee or any member of household.

- Facility not available uniformly to all employees
  ↓
  Value at which such facilities are offered by other agencies to public.
- If employee is on official tour & exp incurred for any household member
  ↓
  Amount so incurred.
- Where official tour extended as a vocation
  ↓
  Expenses incurred to such extension period to stay.

Special notes :- Any amount recovered from employee will be deducted from value of such benefit.

C. FREE FOOD & NON ALCHOLIC BEVERAGES PROVIDED BY EMPLOYER

Amount of expenditure incurred by employer	xxxx
Less :- Amount paid or recovered from employee	(xxxx)
Value of benefit (Taxable)	xxxx

Exemption :-

I. Free food & Non alcholic beverages provided by employer + during working hours at office + Through paid vouchers + such voucher is not Transferable
↓
Then to the **extent of Rs.50 per meal** is exempt & excen amount shall be taxable.

II. Tea or snacks provided during working hours.

III. Fast food or Non alcholic bevrages provided in remote area or off shore installation during working hour.

D. Gift + Voucher + Token received by employee or any member of his household on ceremonial occasion or otherwise :-

Value of Benefit = Sum equal to amount of such gift

Exemption :- Gift + Voucher + Token $\leq$ **5000**, otherwise fully taxable.

E. Credit card facilities provided to employee or any member of his household.

Amount of such expenses (including membership fees or annual fees)	xxx
Less :- any amount recovered from employee	(xxx)
Value of Benefit	xxx

Exemption :-

I. Employer obtained **corporate membership** of club & facility enjoyed by employee or his household member then initial fees paid for acquiring such membership shall be **exempt**
II. Expenses Incurred wholly for **business purpose :- Exempt**
III. If club facilty provided uniformly then it is exempt.

G. TRANSFER OF ANY MOVABLE ASSET BY EMPLOYER, DIRECTLY OR INDIRECTLY TO EMPLOYEE OR ANY MEMBER OF HIS HOUSEHOLD.

Computer & electronic Gadgets		Motor Cars		Others	
Actual cost	xxx	Actual cost	xxx	Actual cost	xxx
Less:- Dep^{n} @ **50%** under		Less:- **20% Dep^{n}**		Less:- **10% dep^{n}**	
WDV method	(xxx)	Under **WDV**	(xxx)	Under **SLM**	(xxx)
Less:- any amount recovered		Less:- any amt		Less:- any amt.	
From employee	(xxx)	Recovered from		Recovered from emplyee	(xxx)
Value of taxable benefit	xxx	Employee	(xxx)	Value of benefit	xxx
		Value of benefit	xxx		

Special Notes :-

a) Depreciation deduction is allowed for each completed year during such asset put to use by thw employer.

b) Electronic Gadgets Excludes household appliances i.e. washing machines, microwave ovens, mixer,etc.

H. USE, BY THE EMPLOYEE OR ANY MEMBER OF HIS HGOUSEHOLD OF MOVABLE ASSET (OTHER THEN SPECIFIED IN RULE-3) BELONGING TO THE EMPLOYER OF HIRED BY HIM.

10% P.A of actual cost of asset	xxxx
Or	
Rent or hire charges in case of hire	xxxx
Less :- any amount recovered from employee	(xxx)
Value of taxable benefit	xxxx

Exemption :- **Use of Laptop & computers** belonging to or hired by the employer is exempt.

GRATUITY [SECTION 10 (10)]

Government employee

Wholly Exempt

Other employee

Employee covered under Payment of gravity act 1972 **LEAST OF FOLLOWING IS EXEMPT**	Other Employee **LEAST OF FOLLOWING IS EXEMPT**
I. Rs.10,00,000 II. Actual Gratuity Received III. $\frac{15}{26} \times \boldsymbol{last\ month\ salary\ drawn} \times$ $No\ of\ completed\ year\ of\ service$[Approx if part of month exceed 6 month] **<u>Salary = Basic pay + D.A</u>** in case of seasonal establishment 15 days shall be substituted by 7 days.	I. Rs.10,00,000 II. Actual Gratuity Received III. $\frac{15}{30} \times \boldsymbol{Average\ Salary} \times$ $Completed\ year\ of\ service[Fraction\ ignore$ Average Salary :- Average of salary in last 10 months preceding the month of retirement. **<u>Salary = Basic Pay + D.A ( ) + % wise fixed commission on turnover</u>**.

In terms/add to retirement benefit

Special Notes

I. Gratuity received by an Employee while in employment is fully taxable.

II. If an individual receives Gratuity from more than one employer in same previous year, then the total amount of exemption claimed in that previous year shall not exceed Rs.10 Lakhs

III. If Assesse/ employee availed gratuity exemption from any previous year then while computing the current year exemption amount the maximum exemption of Rs.10 lakhs shall be Reduced by amount of exemption already availed.

IV. If employee has rendered services to any other employer in earlier yaers & did not receive any Gratuity from him, Then such period of services reudered to his former employer shall also be included while calculating "Completed years of services"

LEAVE ENCASHMENT [SECTION 10(10AA)]

For Govt. Employee
↓
Exempt

Any other employee
↓
Least of following is Exempt

a) Actual amount received
b) Rs.3,00,000
c) 10 month average salary
d) Average salary × **Leaves at credit of an employee (Taking 30 days in a year) [Fraction of Year will be ignored]

Where

Salary = Basic Pay + D.A (♥) + % Wise Fixed Commission On Turnover

Average Salary = Average Salary drawn is last 10 month immediately preceding the date of retirement.

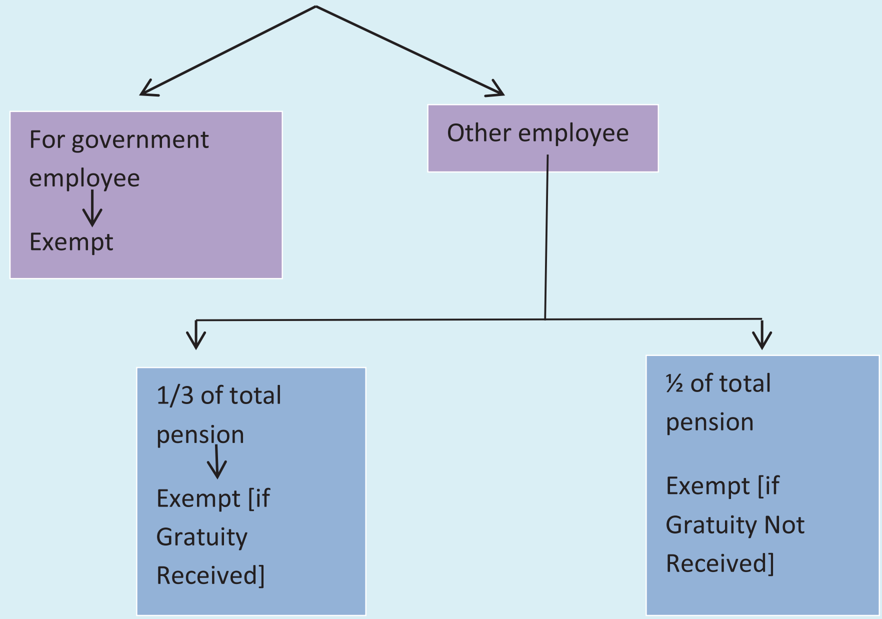
**<u>Leaves standing at the credit of employee :-</u>

Annual Leave entitlement(30 Days) × completed years of service **(ignore round off)**	xxxx
Less:- Leaves actually availed in service	(xxxx)
Leave standing at credit of employee	**xxxx**

Special Notes:-

1) If leave encashment received during continuity of employment then exemption will not be granted.However relief can be availed. U/S 89
2) Same like gratuity point (ii) & (iii)
3) Leave salary paid to widow/legal heirs of assessee who dies during employment will not be taxable

PENSION 10(10A)
COMMUTED PENSION [LUMPSUM]



Special Notes

a) Uncommuted pension is fully taxable for all employees
b) Pension received from UNO is exempt
c) Commuted pension received from LIC or any other approved insurer is exempt [Sec 10(23AAB)]

LEAVE TRAVEL CONCESSION (LTC)

a) Available :- Available to employee & his family
b) Amount of Exemption [Rule 2B]

Situation	Exemption upto the amount not exceeding
1) Journey by Air	Economy fare of national carrier by shortest route
2) In case places are connected by Rail & Journey is performed other than by Air.	1st class AC rail fare by shortest route
3) If places are not connected by Rail &	
I. Recognised transport system exists	1st deluxe class fare on such transport by shortest route
II. No Recognised transport carrier exist	1st class AC rail fare by shortest route (as if the journey had been performed by rail.)

Special Notes :- The amount of exemption shall not exceed the amount actually incurred for such travel.

Family Means

I. Spouse & **2 Surviving** childrens of the individual.
II. Parents, brothers, & sisters of the individualor any of them wholly or mainly Dependent on Individual
III. In case of children & in case birth of multiple children after one child, The multiple children shall be regarded as one child.

Special Notes :-

1) Assessee can claim exemption for any two journeys in a block of 4 calendar years

[current blocks → 2014 – 2017]

2) if any unavailed journey can be carry forward to next block's first year.

Retrenchment Compensation

Least of the following Amount will be Exempt.

a) Actual amount received

b) Rs.5,00,000

c) Any amount calculated in acordance with Industrial Disputes Act 1947 i.e. $\frac{15}{26} \times$

$Average\ salary\ of\ last\ 3\ months \times$

$completed\ year\ of\ service(Approx\ to\ next\ year)$

Compensation received on voluntry Retirement/ Seperation

1) **Eligible Employee** :- Employee of the following undertaking
   i. A public sector company, Any other company
   ii. Local Authority, co-operative society, Central Govt or State Govt
   iii. An Indian Institute Of Technology, any approved Institute of management
   iv. A university incorporated under CG/ SG Act
2) **Limit of Exemption**
   a) Actual amount received.
   b) ₹5,00,000
   c) $3\ months \times salary\ last\ drawn \times completed\ year\ of\ service$
   d) $salary\ last\ drawn \times balance\ of\ month\ left\ before\ retirement$

Special Note for Availed this Exemption

1) Employee who hascompleted 10 years of service or completed 40 years of age
2) It applies to all Employee except director of company
3) Exemption will be allowed under this section only one.

TAX TREATMENT OF PROVIDENT FUND

Statistical Provident Fund (SPF) → Set up by Government

Recognised Provident Fund (RPF) → Recognised by commissioner or chief commissioner of income tax

Unrecognised Provident Fund (URPF) → Not – Recognised by commissioner of IT.

Tax incidence of	SPF	RPF	URPF
1) **Employer's** contribution	Exempt	Exempt upto 12% of salary [Note-1]	Not taxable when contribution is made
2) **Employee's** contribution	Already Taxable as Part of basic salary	Already Taxable as Part of basic salary	Already Taxable as Part of basic salary
3) Deduction U/S 80C	Available	Available	Not available
4) **Interest** credited to PF	Exempt	Exempt upto 9.5% P.A	Not taxable when interest is credited
5) **Lumpsum payment** at the time of **retirement**	Exempt U/S 10(11)	Exempt → in some cases not exempt → Fund will be taxed as unrecognised fund from beginning [Note-2]	Employer's contibution • Taxable employer's contribution(Principal + Interest) → **Salary Head** • Interest on employee's contribution→ **Taxable under income from other sources** • **Employee Contribution is Exempt(Same is already taxable as Basic salary)**

NOTES :-

1) Salary = Basic salary + D.A (♡) + wised fixed commission on turnover.

2) Lumpsum payment at the time of retirement or termination of service is exempt tax if :
   a) Employee rendered service $\geq$ 5 years
   b) Service terminated due to ill health of employee or discontinuance of employer's business or any other reason beyond his control
   c) On cessation of employement
   d) The entire balance standing to the credit of the employee is transferred to his account under a pension scheme U/S 80CCD & notified by CG [FA2016 Amendment, w.e.f A.Y 17 – 18]

Tax treatment of approved superannuation fund.

1) Employer's Contribution → Exempt upto Rs.150000
2) Employee's Contribution → Qualifies for deduction U/S 80C

Marginal Relief [Section 89]

A. Relief when available :- If assessee who receives

i. Salary being paid arrears or in advance or
ii. Salary for more than 12 months in any one financial year
iii. Profit in Lieu of salary U/S 17(3)
iv. Family pension as reffered to in section 57(iio) being paid in arrears

Due to which his total income is assesssed at a rate higher than at which it should have been assessed.

B. Calculate of Relief

a) Calculate tax on total income (including additional salary) of previous years in which same received
b) Calculate tax on total income, (excluding the additional salary) of previous years in which sameis received
c) Steps (a) – steps (b)
d) Computre tax on total income (after including additional salary) of previous year in which such salary relates.
e) Compute tax on total income (after including additional salary)in the previous year in which such salary relates
f) Step (d) – Step €
g) Relief U/S 89 = Steps (C) – Step (F)