For academic related stuffs please email to:-

dinuunni@gmail.com

Salary Tax

Money which you earn from different sources is taxed differently. So if you are a salary earner, your salary income to be taxed will be calculated in a different way from gains. The term "Salaries" includes remuneration in any form for personal service, under an expressed or implied contract of employment or service. Section 17 of Income Tax Act defines salary to include:-

Wages
Pensions or Annuities
Gratuities
Advance of Salary
Any cess, commission, perquisites or profits in lieu of or in addition to salary or wages.
Any encashment of leave salary.
Any amount of credit to provident fund of employee to the extent it is taxable.

Therefore "salary" includes basic salary, encashment of leave salary, advance of salary, arrears of salary, various allowances such as dearness allowance, entertainment allowance, house rent allowance, conveyance allowance and also includes perquisites by way of free housing, free car, free schooling for children of employees, etc.

The following are the essential conditions for income to be treated as salary income:-

There must be relation of employer and employee between the payer of income and receiver of income.
Salary may be from more than one employer.
#Salary may be received from not just the present employer but also a prospective employer and in some cases even from a former employer for example pension received from a former employer.
Salary income must be real and not fictitious there must an intention to pay and receive salary.
Forgoing of salary ie if an employee surrenders his salary to the central government, then the salary so surrendered will not be treated as taxable income of the employee.

Salary paid tax free - Tax free salary means the salary on which income tax is borne not by the employee but by the employer. Tax free salary is also taxable in the hands of the employee.

Salary is taxable in the year of receipt or in the year of earning of the salary income, whichever is earlier. i.e. if the salary has been received first, then it will be taxable in the year of receipt. If it has been earned first but not yet received then it will be taxable in the year of earning. Salary income is taxable in the hands of individuals only. No other type of person such as a firm or HUF, companies can earn salary income.

Allowances # Leave Encashment # Perquisites of Tax

Allowances ....

House Allowances

The exemption of House Rent Allowance (HRA) received is exempt to the least of the following:

HRA received the period during which the rental accommodation is occupied by the employee in the previous year.

Excess of rent paid over 10 percent of salary.

50% of the salary, if the rented accommodation is situated at Mumbai, Calcutta, Delhi or Chennai and 40% of salary in other cities. The salary is taken for the period during which the rental accommodation is occupied by the employee in the previous year.

Salary:

Includes basic salary and dearness allowance if terms of employment so provide but does not include any other allowance. However, any commission payable at a fixed percentage of turnover achieved by the employee is included.

Entertainment Allowances

Any amount received by the employee, as entertainment allowance is taxable as salary. However, deduction is available to the employee if he has been:

In continuous service with the present employer from a date before April 1, 1955, and Receiving Entertainment Allowance from his present employer continuously from a date before April 1, 1955 till the year for which the income is to be taxed.

The amount of deduction available is restricted to least of the following:
In case of government employees: Rs. 5,000; 20% of salary; or amount of entertainment allowance granted during the previous year.
In case of non-Government employees: Rs. 7,500; 20% of salary; amount of entertainment allowance granted during the previous year, or
Amount of entertainment allowance received during the financial year 1954-55. Salary means basic salary and excludes all allowances, benefits or perquisites.

Transport Allowances
Transport allowance provided to an employee for commuting between his residence and the place of his duty shall be exempt up to Rs. 800 per month. However, in case blind or orthopaedically handicapped employee's, a sum of Rs. 1,600 per month is exempt from tax.

Education Allowances
Education allowance of Rs. 50 per month per child for up to 2 children of the employee is exempted. In case the children are in hostel, the exemption available is Rs.150 per month per child for up to 2 children.

Special Allowances
The following allowances are exempt from tax:
Expenses incurred on conveyance in the performance of duties of office;
Cost of travel on tour or on transfer;
Daily ordinary charges incurred by the employee on account of absence from his normal place of duty during a tour;
Expenditure on a helper where such helper is engaged for the performance of the duties of office;

Allowances granted for encouraging the academic research and training pursuits in educational and research institutions; or
Expenditure incurred on the purchase or maintenance of uniform for wear during the performance of the duties of office.

Leave Travel Assistance
LTA is paid for meeting travelling expenses incurred by an individual as also family members (this includes only the spouse, two children and dependent parents, brothers and sisters) while on holiday in India. The amount of exemption depends upon the mode of journey. This exemption is available in respect of 2 journeys undertaken in a block of four calendar years.

Medical Allowances
This exemption is available in respect of :
Reimbursement upto Rs.15,000 for medical treatment of the employee and family members.
Reimbursement of expenditure incurred by an employee and family members in approved hospitals, dispensaries etc.
Group medical insurance for an employee and family members or reimbursement of premium paid by an employee for medical insurance.
For medical treatment abroad, the actual expenditure incurred, including on travel and stay abroad of the patient and one attendant (if permitted by the RBI). The ceiling for the gross total income excluding the amount to be reimbursed is Rs.2 lakhs.

Lunch and Refreshment
Refreshment at free or concessional rate is not taxable.
Exemptions of medical expenses incurred by or on behalf of the employee
The following medical facilities provided to an employee are exempt from income tax:
Treatment of an employee or his family in any hospital maintained by the employer;
Reimbursement of any medical expenditure actually incurred by the employee for himself or his family :

In any hospital maintained or approved by the Government, any local authority; or For prescribed diseases or ailments in any hospital approved by the Chief Commissioner, or

Up to Rs. 15,000, actually incurred by the employee on medical (other than the treatment referred to above);
Premium paid by the employer towards medical insurance on the health of such employee

Reimbursement by the employer of premium paid by the employee towards insurance on his health or of that of his family .
Expenditure incurred by the employer on
Medical treatment of the employee whose family is outside India;
Travel and stay abroad of the employee or his family including one attendant accompanying the patient for medical treatment.

The expenditure on medical treatment and stay abroad shall be excluded from perks :
only to the extent permitted by the Reserve Bank of India; and the employee's gross total income, as computed before including the said expenditure, does not exceed Rs 2 lakhs.

"Family" in relation to an individual means:
the spouse and children of the individual; and parents, brothers and sisters of the individual wholly or mainly dependent on the individual

SALARY

What your employer offers you as a gross salary package is no indication of what you will take home at the end of the month. A hefty gross salary can get pruned at the net level in the wake of a high tax incidence. And your tax incidence, in turn, depends on how your salary is structured. Ever wondered about the components that make up your salary?

What is salary?

Under Section 17(1) of the Income Tax Act, salary includes the following:

a. Wages

b. Annuity or pension

c. Gratuity

d. Any fee, commission, perquisite in lieu of or in addition to any salary or wages.

e. Any advance of salary

f. The amount contributed by an employer towards a Recognised Provident Fund (RPF) in excess of 12 per cent of the employee?s salary and the interest in excess of 12 per cent on the balance in the RPF.

g. Any payment received in respect of any period of leave not availed.

h. The value of any perquisites and benefits to the employee provided by the employer.

i. Any profit in lieu of salary, that is, any amount or compensation due to or received by an employee from her employer, or former employer, at or in connection with the termination of her employment or modifications of the terms and conditions of the employment.

j. Any taxable amount in the RPF transferred from one employer to the other.

With effect from April 1, 2002, salary also includes the value of any other fringe benefit or amenity provided by the employer to his employee, as may be prescribed.

Salary components

Let's now take a look at a few of the receipts in an employee's hands.

Leave salary

As an employee you are entitled to different kinds of leave. In the case of earned leave, you will have to earn the leave during the course of a year. Thus, you can apply for leave when you have leave to your credit. If, however, you do not exhaust your leave during a year, it can lapse, be encashed or even be accumulated, depending on the service rules of the organisation you work for.

Gratuity

According to the Shorter Oxford English Dictionary, the word ?gratuity? means a gift or present, often in return for favours or services. In the literary sense, it denotes a gratuitous payment made by an employer to an employee. In the real world, it is no more a gratuitous payment. It is given for ?meritorious services? rendered by an employee ?over a long period?.

Gratuity is exempt from tax to the following extent:

a. Gratuity payments received on the death or retirement of employees of the central/state government and local authorities is exempt without any limit.

b. Gratuity received under the Gratuity Act, 1972, is exempt to the extent it does not exceed 15 days? wages for every completed year of service, calculated on the basis of the last wage drawn, subject to a maximum of aggregate gratuity payment of Rs 3.5 lakh.

c. For those who are not covered by the provisions of the Gratuity Act, 1972, gratuity is exempt to the extent it does not exceed half-a-month?s salary for each year of completed service, calculated on the basis of the average salary for 10 immediately preceding months, subject to a maximum of Rs 3.5 lakh. The ceiling of Rs 3.5 lakh applies to the aggregate of gratuity received from one or more employers in the same or different years.

In addition, any lumpsum payment made gratuitously or by way of compensation or otherwise, to the widow or legal heirs of an employee who dies while in service, is exempt from tax.

Pension

Pension is a periodical payment received by an employee after her retirement, and is taxed as salary. While pension earned and received abroad but remitted in India, is exempt from tax in the case of a non-resident, it is chargeable to tax if the pensioner is resident in the country.

Allowances

An allowance is a fixed sum of money/ benefit doled out regularly (in addition to salary) to meet the expenses for a service rendered to the employer or as compensation for the unusual conditions of that service. The various allowances are:

a. City Compensatory Allowance (CCA)

b. House Rent Allowance (HRA)

c. Special allowance

d. Allowances to government employees posted outside India.

e. Tiffin allowance

f. Fixed medical allowance

g. Servant allowances

h. Sumptuary allowance (given to High Court judges towards expenditure on food and clothes).

Perquisites

According to the Webster?s International Dictionary, a perquisite is an incidental gain or profit from employment in addition to regular salary or wages. It is a personal benefit in cash or in kind provided by an employer.

Valuation of perquisites

Finance Bill 2001 seeks to tax all perquisites, except car and rent-free accommodation, on the basis of the ?cost to the employer?.

Provident Fund

The Provident Fund is a retirement benefit scheme, under which a stipulated sum is deducted from the salary of the employee as her contribution towards the fund. The contributions of the employer and the employee are then invested in government securities. The interest earned on those securities is credited to the Provident Fund account. Thus, the corpus in an account consists of the employee?s and the employer?s contributions and the interest on these contributions.

The accumulated sum is paid to the employee at the time of her retirement or resignation (subject to certain conditions). If the employee were to die before getting the accumulated balance, the corpus would be given to the employee?s legal heirs. Under section 88 of the Income Tax Act, the employee gets a tax rebate of 20 per cent on her contribution. The three types of Provident Funds are:

a. Statutory Provident Fund

b. Recognised Provident Fund

c. Unrecognised Provident Fund

Salary income

Income from salary consists of all remuneration due or paid to a person for services rendered by her as an employee. For an income to be termed as ?salary?, you should share an ?employee-employer relationship? with the payer. Salary is chargeable to tax on a due or receipt basis, whichever is earlier.

Salary from more than one source

If an individual receives salary income from more than one employer during the year, the income from each source is taxable as ?salary? in the hands of the employee. Thus, the salary received from all the employers during the year is taxable in aggregate in the employee?s hands.

Standard deduction

For the financial year 2001-2002 (assessment year 2002-2003), standard deduction will be available as follows:

Where the total salary income of the assessee does not exceed Rs 1.5 lakh: One-third of the salary or Rs 30,000, whichever is less

Where the salary income is between Rs 1.5 lakh and Rs 3 lakh: Rs 25,000

Where the salary income is between Rs 3 lakh and Rs 5 lakh: Rs 20,000

Where the salary income exceeds Rs 5 lakh: nil