

INCOME FROM SALARY

Salary is defined to include:

- a) Wages
- b) Annuity or Pension
- c) Gratuity
- d) Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages
- e) Advance of Salary
- f) Leave Encashment
- g) Annual accretion to the balance of Recognized Provident Fund
- h) Transferred balance in Recognized Provident Fund
- i) Contribution by Central Government or any other employer to Employees Pension Account as referred in Sec. 80CCD

Points to consider:

- a) Salary income is chargeable to tax on "due basis" or "receipt basis" whichever is earlier.
- b) Existence of relationship of employer and employee is must between the payer and payee to tax the income under this head.
- c) Income from salary taxable during the year shall consists of following:
 - i. Salary due from employer (including former employer) to taxpayer during the previous year, whether paid or not;
 - ii. Salary paid by employer (including former employer) to taxpayer during the previous year before it became due;
 - iii. Arrear of salary paid by the employer (including former employer) to taxpayer during the previous year, if not charged to tax in any earlier ye

Allowances

HOUSE RENT ALLOWANCE U/s 10(13A) Rule 2 A

House rent Allowance	The least of the following exempted
Salary for HRA means	1] Actual HRA Received
1] Basic Salary	2] 50 % of salary in case of ND, K, M & C 40 % of salary for other cities
2] D A if forms part of salary for R B	
3] Commission if it is fixed percentage on turnover achieved by the employee	3] Rent paid – 10% of salary

ALLOWANCE U/s 10(14)(i)

Travelling Allowance	Exempted to the extent spent for official Purpose
Daily Allowance	
Conveyance Allowance	
Helper Allowance	
Academic Allowance	
Uniform Allowance	

ALLOWANCE U/s 10(14)(ii) Rule 2BB

Children Education Allowance	Rs.100/- per month per child – Max 2
Hostel Expenditure Allowance	Rs.300/- per month per child – Max 2
Tribal Area Allowance	Rs.200/- per month
Hilly Area or High Altitude Allowance	Rs.300 to Rs.7000/- per month
Border/remote/disturbed area Allowance	Rs.200 to Rs.1300/- per month
Field area Allowance	Rs.2600/- per month
Modified Field Area Allowance	Rs.1000/- per month
Highly active Field Area Allowance	Rs.4200/- per month
Island Duty Allowance	Rs.3250/- per month
Counter Insurgency Allowance	Rs.3900/- per month
Transport Allowance	Rs.1600/- per month (Double for D A P)
Underground Allowance	Rs.800/- per month
Allowance to Transport Employee (any mode)	Rs.10000/- per month or 70 % of Allowance whichever is less

FULLY TAXABLE ALLOWANCE	FULLY EXEMPTED ALLOWANCE
1] Dearness Allowance	1] Allowance to Govt. Employees rendering service outside India – sec.10(7)
2] City Compensatory Allowance	
3] Medical Allowance	2] Allowance to HC Judges – 22D(b) HCJ Act 1954
4] Lunch/Tiffin Allowance	3] Sumptuary Allowance
5] Overtime Allowance	4] Allowance from UNO
6] Warden Allowance	5] Allowance to serving and retiring chairman and members of UPSC
7] Servant Allowance	
8] Non Practicing Allowance	6] Compensatory Allow to Judges – Art 222(2)
	7] Allowance to Teacher from SAARC

PERQUISITES - Sec 17(2)

Taxable in the hands of all employees (A)	Taxable in hands of Specified employees (B)
Rent Free Accommodation	Director employee
Obligation of employee met by employer	Salary income > Rs.50000/- Holding > 20 % of voting power
Contribution to SAF	In addition to A, all perquisites in the form of facilities
Any other as prescribed	

TAX FREE PERQUISITES

1	Perquisite outside India - section 10(17)
2	Loan less than Rs.20000 Loan for medical treatment under Rule 3A
3	Residence to HC/SC judge
4	Residence to Union Minister, Leader of Opposition, officers of parliament
5	Residence in remote area – 40 km 20000 population , temporarily shelter <800
6	Scholarship to employees' children – sec 10(16)
7	Use of laptop for private purpose
8	Perquisites to serving and retiring members and chairman of UPSC
9	Any tea or snacks provided during working hours, free food at remote area
10	Training, recreation, using of health, sport or similar facilities
11	Expenses on telephone or mobile phone
12	Conveyance to Judges of High Court and Supreme Court

1] RENT FREE ACCOMMODATION

I - UNFURNISHED ACCOMMODATION		
In case of Govt. employees - Licence fee is taxed as perquisite		
In case of Non-govt. employees		
A] If accommodation owned by employer		
If population is < 10 lakh	> 10 lakh <25 lakh	More than 25 lakh
7.5% of the salary	10% of the salary	15% of the salary

B] If accommodation hired by the employer

15% of the salary or actual hire charges(rent) whichever is less is taxed

C] If accommodation provided at hotel

For first 15 days at a new location not taxable thereafter

24% of the salary or actual hotel charges whichever is less is taxed

Exemption: 1] Accommodation provided at a remote area(40 km away from a town with Population of 20000)

2] High/supreme court judges, Union Minister, Leader of Opposition, Parliament officials, chairman/member of UPSC.

II- FURNISHED ACCOMMODATION

Value of Unfurnished accommodation as computed above

Add: 10% of the original cost of the furniture, if it is owned by employer

Actual hire charges if it is hired by the employer

III- ACCOMMODATION PROVIDED AT CONCESSIONAL RATE

Value of rent free furnished/unfurnished accommodation as computed above

Less: amount collected/deducted from the employees for this purpose

Salary for the purpose of RFA means Basic pay, DA, bonus, commission, all monetary benefits received, all taxable allow. Etc. but does not included value of other perquisites, employer contribution to PF, any arrear/advance

If accommodation provided to employees at two places because of employment, then compute RFA for both and tax least amount for the first 90 days thereafter tax both.

2] GAS, ELECTRICITY AND WATER SUPPLY

A] Non-specified employees	not taxable / exempted
B] Specified employees	
Purchased outside and provided to employees	Provided to employees from own sources
Actual cost at which it is purchased	Cost per unit X units consumed
Less: any money recovered from employees	Less: any money recovered from employees

3] **FREE DOMESTIC SERVANTS:** It includes sweeper, gardener, watchman or personal attendant

A] Non-specified employees	not taxable / exempted
B] Specified employees	
Provided alongwith RFA owned by employer	Other cases

Salary paid to Gardner is not taxed again	Salary paid by employer to these servant Less: any money recovered from employees
If it is given as Domestic servant allowance, then it is taxable in all cases	

4] EDUCATIONAL FACILITIES

A] Non-specified employees	not taxable / exempted
B] Specified employees	
I] expenditure relating to training employees not taxable	
II] Education expenses to family members taxed as perquisite – tuition fees	
III] Facilities provided to family members at institution owned by employer Calculate reasonable cost at similar institution Less: basic exemption of Rs.1000/- per month per child	
IV] Facilities provided to other family members at institution owned by employer Reasonable cost at similar institution taxed as perquisite	

5] INTEREST FREE /CONCESSIONAL LOAN

TAXABLE	NOT TAXABLE
Take the maximum outstanding loan	If the loan is for medical treatment
Rate offered by SBI as at the beginning of the relevant Asst. year	If the aggregate loan does not exceed Rs.20000/- in a year
Rate at which loan given by employer	
Difference in rate is taxed as perquisite	

6] MEDICAL FACILITIES

If it is given as fixed allowance	Fully taxable
Medical facilities provided in India	Not taxable if
A] Provided at a hospital owned and maintained by employer	
B] Central/State Government or local authority hospitals	
C] Specified medical facilities in a hospital approved CCIT	
D] Health or medical insurance premium paid or reimbursed by employer	
E] Any other medical facilities or expenses paid or reimbursed by employer exempted upto Rs.15000/-	

Medical facilities provided outside India	Not taxable if
Cost of medical treatment and cost of stay abroad of the employees or family members and one attendant	To the extent permitted by RBI
Cost of travelling	Exempted if Gross total income is less than Rs.200000/-

7] MOTOR CAR / ANY OTHER AUTOMOTIVE CONVEYANCE

A] Non-specified employees	not taxable / exempted
B] Conveyance between office and residence	
C] Conveyance to High/supreme court judges, chairman/member of UPSC	
Specified employees	
D] When the car is owned by the employee	
I] Expenses met by employees	Not a perquisite and not taxable
II] Expenses met by employer	
Used wholly for official purpose	Not a perquisite and not taxable
Used wholly for private purpose	Actual expenses incurred by employer Less: any recovery from employee
Partly official and partly personal	Actual expenses incurred by employer Less: 1800 per month <1.6 lit capacity 2400 per month >1.6 lit capacity 900 or higher amount as certified by employer PM as salary to driver Less: any recovery from employee
E] When the car is owned /hired and expenses met by employer	
Used wholly for official purpose	Not a perquisite and not taxable
Used wholly for private purpose	Hire charges or 10% of actual cost Less: any recovery from employee
Partly official and partly personal	1800 per month <1.6 lit capacity or 2400 per month >1.6 lit capacity & 900 or higher amount as certified by employer PM as salary to driver No amount is deductible.

F] When the car is owned /hired by employer but expenses met by employee	
Used wholly for official purpose	Not a perquisite and not taxable
Used wholly for private purpose	Hire charges or 10% of actual cost Less: any recovery from employee
Partly official and partly personal	600 per month <1.6 lit capacity or 900 per month >1.6 lit capacity & 900 or higher amount as certified by employer PM as salary to driver No amount is deductible.
G] transport facilities to employees by airline or railways	Not a perquisite not taxable
Other organisation	Not taxable in case of non-specified employees
Month means complete month	
If more than one car provided by employer – one is treated partly for official and partly for personal and remaining treated as wholly for private purpose.	

8] OBLIGATION OF THE EMPLOYEES MET BY EMPLOYER

Employees income tax, professional tax, housing loan EMI, etc. paid by employer	Taxed as perquisite in the hands of employees
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9] USE OF MOVEABLE ASSETS

Use of employer's computer / laptop by employees	Not a perquisite and not taxed
In case of any other moveable assets	10% of the actual cost if it is owned Actual hire charges if it is hired

10] SALE OF MOVEABLE ASSETS TO EMPLOYEES AT NOMINAL PRICE

Computer electronic gadgets	Car	Any other assets
Cost of the assets	Cost of the assets	Cost of the assets
Less: 50% P.a. on WDV	Less: 20% P.a. on WDV	Less: 10% P.a. on SLM
Less: Amount collected from employees	Less: Amount collected from employees	Less: Amount collected from employees
Balance if positive taxed as perquisite in the hands of the employees		

11] AMOUNT PAID/PAYABLE BY EMPLOYER ON LIFE OF EMPLOYEES

Amount paid / payable directly or indirectly to effect assurance on the life of employees	Taxed as perquisites
Contribution to RPF, group insurance, employees state insurance schemes, fidelity guarantee scheme, approved superannuation fund (upto 1 lakh p.a.)	Not a perquisite and not taxed

12] FREE FOOD AND BEVERAGE (non-alcoholic)

Provided by employer at remote area in working hours	Not a perquisite and not taxed
Tea, coffee, snacks and non-alcoholic beverage during working hours	Not a perquisite and not taxed
Lunch or dinner in working hours	Not taxable if cost to employer is Rs.50 or less per meal

13] CLUB EXPENDITURE

Expenditure incurred by employer for employee or his household	
Less: expenditure on use for official purpose	
Less: amount, if any recovered from employees	

14] GIFT VOUCHER

Expenditure in the form of gift to employee or his household	
Cash gift	Fully taxable
Gift in kind	Value of gift in kind – Rs.5000 per annum and balance is taxed.

15] CREDIT CARD

Expenditure incurred by employer for employee or his household	
Less: expenditure on use for official purpose	
Less: amount, if any recovered from employees	

16] LEAVE TRAVEL CONCESSION (to employees and family) IN INDIA

Journey performed by air	Economic class of national carrier by shortest route
Journey performed by train	A/c first class fare by shortest route or actual whichever is less
Place connected by rail but journey by other mode	A/c first class fare by shortest route or actual whichever is less
Place not connected by air	
I] where Public transport facilities Available	First class or deluxe class by shortest route or actual whichever is less
II] Where no public transport facilities available	A/c first class fare by shortest route or actual whichever is less

RETIREMENT BENEFITS

1] GRATUITY – section 10(10) It is the gratuitous one- time payment made by the employer on completion of employment based on duration of services

In case of Government employees	Fully exempted u/s 10(10)(i)
In case of Non- government employees	
Covered by Gratuity Act 1972	Not covered by Gratuity Act 1972
The least is exempt U/s 10(10)(ii)	The least is exempt U/s 10(10)(iii)
A] $15 / 26^{\text{th}}$ days salary x length of service	A] half month Average salary x completed service
B] Rs.10,00,000/-	B] Rs.10,00,000/-
C] Gratuity actually received	C] Gratuity actually received
Length of service > 6 months service considered as one year	Even 11 months completed, then it is not a completed service, not considered
Salary = last drawn salary + DA	Average Salary = 10 months immediately preceding retirement
	Salary = as in the case of HRA

2] PENSION –Section 17(1)(iii) – It is either monthly receipt or lumpsum payment received from the employer after retirement.

In case of Government employees	
Uncommuted pension/ received every month	Entire amount taxed
Commutated pension/lumpsum payment	Fully exempted u/s. 10(10A)(i)
In case of Non- Government employees	
Uncommuted pension/ received every month	Entire amount taxed
Commutated pension/lumpsum payment Partly exempted u/s. 10(10A)(ii)	
If Gratuity also received by employee	If Gratuity not received by employee
1/3 rd of the full pension is exempted	½ of the full pension is exempted

If pension received from UNO	Fully exempt from tax
Family pension received by family members of armed forces	Fully exempt from tax
Family pension received by family members after death of employees	Taxed as income from other sources u/s 57, the least is taxed 1/3 of pension or 15000
Pension from NPS(Contributory pension) those who joined after 01/04/2004	
Contribution made by employee	Eligible for deduction u/s 80 CCD(1)
Contribution made by employer (10% of salary every month by both)	First included in the income and then eligible for deduction u/s 80CCD(2)
Amount received from pension scheme	Fully taxed as salary income
Salary here means salary as used in HRA	

3] Retrenchment compensation – section 10(10B) compensation received by employees at the retrenchment is exempted as under

The least is exempted
A] 15 days average salary for every completed year of service or part in excess of six months (as per Industrial Disputes Act 1947)
B] Actual amount compensation received
C] Rs.500000/-

4] VRS Compensation – Section 10(10C) –when the employees retired voluntarily from service as per Rule 2BA, then the compensation received is exempt from tax

The least is exempted

A] Actual VRS compensation received
B] 3 month salary x completed year of service
C] Salary at the time of retirement x balance months of salary available.
Rule 2BA - Guideline/condition given
1] applies to employees who have completed 10 years of service or 40 years of age
2] applies to all types of employees of company/authority or co-op society (but not to directors)
3] This scheme will result in overall decrease in the employees strength
4] Vacancy because of VRS not to be filled and the employees those who went on VRS should not be employed anywhere in the same management

5] **Provident Fund:** It is sum deducted from the salary of employees every month during service and employer also makes equal contribution and both these will invested in gilt edged securities. At the time of retirement, maturity value alongwith interest will be distributed to the employees. There are different types of provident fund

1] **Statutory Provident fund** – As per Provident fund Act 1925, employees of government, local authorities, Railways, university, etc. statutory contribute to Provident fund at the rate of 6% of their salary.

2] **Recognised Provident fund** – scheme created as per Employees Provident fund and Miscellaneous Provisions Act 1952 and recognised by Provident fund commissioner as well as commissioner of Income tax

3] **Unrecognised Provident fund** - scheme not recognised / not yet recognised

4] **Public Provident fund** – anybody not only employee can contribute to this scheme by opening PF account in SBI or its subsidiaries or other nationalized bank (Rs.500 to 150000 p.a.) repayable after 15 years and interest @8.7%

	SPF	RPF	URPF	PPF
Employer contribution	Exempt	Exempt upto 12% of salary #	Exempt at the time of contr.	No contribution
Deduction u/s 80C	Allowed	Allowed	Not allowed	Contributed by employee
Interest	Exempt	Exempt upto 9.5%	Exempt	Exempt
Lumsum at the time retirement	Exempt	Exempt	##	Exempt
# Salary here means as in the case of HRA (excess of 12% taxed as salary)				

Employer contribution and interest on it taxed as salary

Interest on employee contribution taxed as income from other sources.

Transfer Balance = When an organisation initially maintained URPF and later got approval and RPF status, then balance lying in URPF is transferred to RPF which is technically called as transfer balance.

6] Earned leave encashment: The employees can encash their leave during service or at the time of retirement. Such benefit will be taxed as under:

A] Earned leave encashed during service	
1] Government employees	Fully taxable
2] Non Government employees	Fully taxable
B] Earned leave encashed at the time of retirement or leaving the job	
1] Government employees	Fully exempt u/s10(10AA)(i) but restricted to a maximum of 300 days
2] Non Government employees , the least is exempted as per 10(10AA)(ii)	
[i] period of leave in months at the time retirement X AMS	
[ii] 10 x Average monthly salary {AMS}	
[iii] Rs.300000/-	
[iv] Leave encashment actually received	
Average Monthly salary = Salary as in the case of HRA and salary of 10 months immediately preceding the retirement which should be averaged.	
Leave allowed as per the act is 30 days in a year	

Profit in lieu of salary – Section 17(3) The following amount received by an employee is considered as profit in lieu of salary and taxed

A] Any amount of compensation due or received from the present or former employer in connection with termination or modification of the terms and conditions of employment.

B] Employer contribution and interest on it to URPF

C] Any sum received under Keyman insurance policy including bonus

D] Any amount received before and after employment

E] Any payment due or received from the employer (present/former) other than Gratuity, HRA, Pension, retrenchment compensation, Superannuation fund, PPF, SPF, RPF)

Deduction u/s 16(i) – Standard Deduction

- Not applicable from the Assessment year 2006-2007

Deduction u/s 16(ii) – Entertainment allowance, the least is deductible

1] 20% of salary
2] Rs.5000/-
3] Entertainment allowance actually received by Government employees

Deduction u/s 16(iii) – Professional tax or tax employment

1] Professional tax paid during the year is deductible
2] No monetary limit in the Income tax Act
3] As per Article 276 of Constitution, state Govt. cannot impose more than Rs.2500/- in a year.