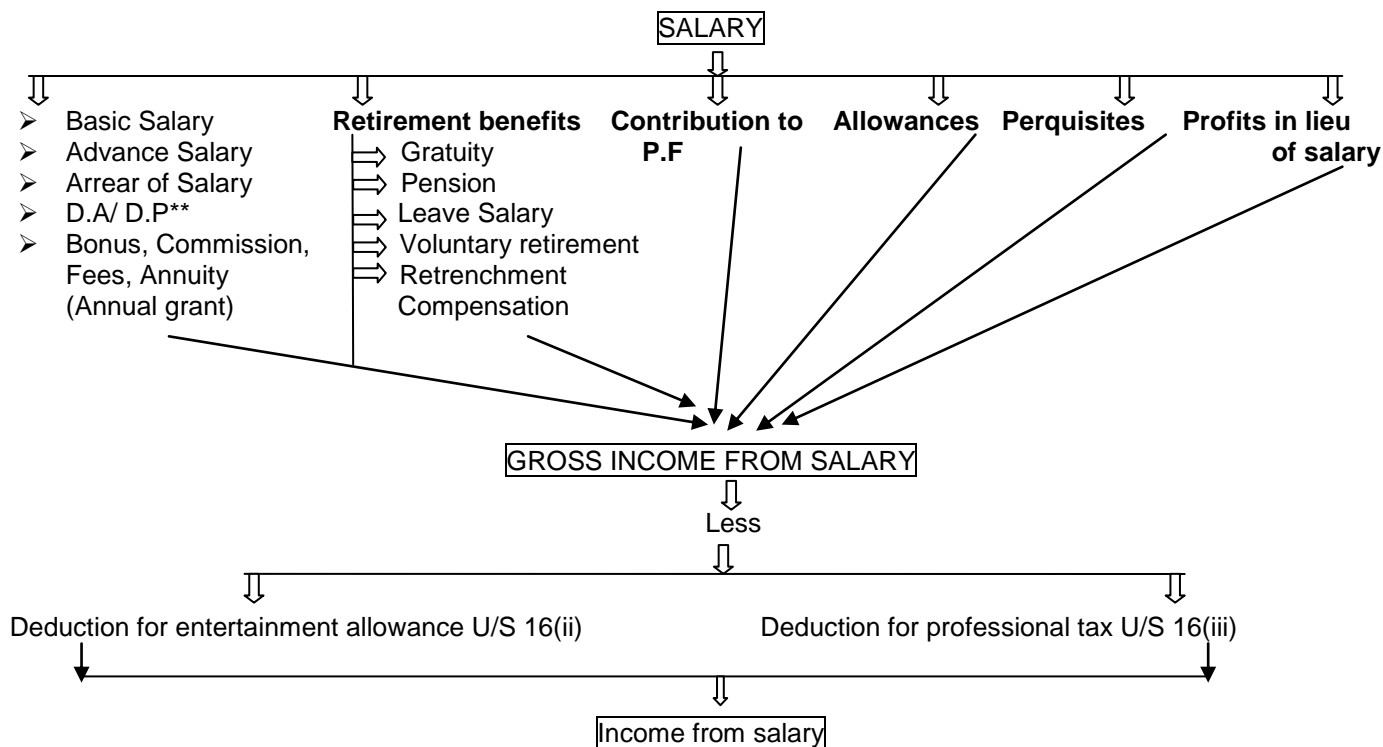


INCOME FROM SALARY

Definition: Any remuneration paid by an employer to his employee in consideration of his services is called salary. It includes monetary value of those benefits and facilities provided by the employer which are taxable.

Basis of charge (Sec. 15): Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.

Condition for chargeability: There must be an 'employer – employee' relationship between employer and employee.



** DP is that part of D.A which enters into computation of employees' retirement benefits such as Provident Fund, Pension, and Gratuity according to terms of employment.

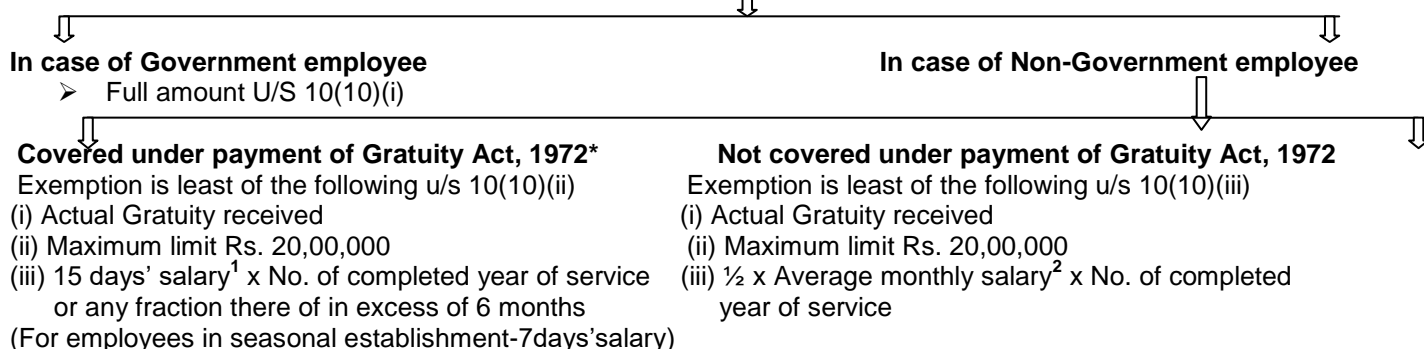
Retirement benefits:

Gratuity[Sec.10(10)]: It is a payment made by the employer to an employee in appreciation of the past services rendered by the employee.

1. Gratuity received while in service is fully taxable.
2. Gratuity received by an employee on his retirement is taxable under the head 'Income from Salary'
3. Gratuity received by the legal heir of the deceased employee shall be taxable under the head 'Income from other sources'

In last two cases, however, Section 10(10) provides for certain exemptions.

Extent of Exemption



*The payment of Gratuity Act applies to a concern in which 10 or more employees are employed or were employed, on any day of the preceding 12 months (every factory, mine, oilfield, port and Railway Company).

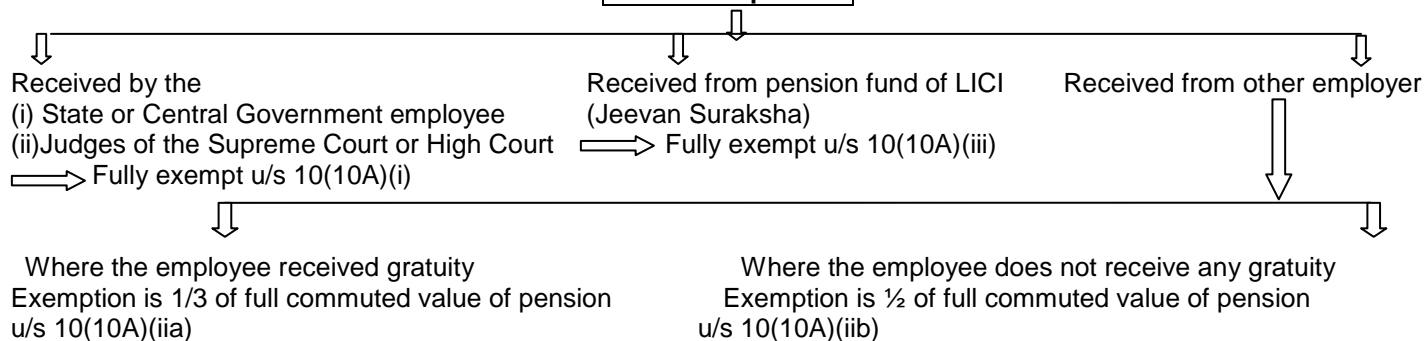
1. 15 days' salary = $\frac{\text{Last months' salary (Basic + D.A.)}}{26} \times 15$

2. Average monthly salary = Average of the salary for 10 months immediately preceding the month of retirement. Here salary means Basic + D.A.+ Commission based on fixed percentage of turnover.

Pension [Sec. 10(10A)]: It is a payment made by the employer after the retirement/death of the employee as a reward for past services. There are two types of pension:

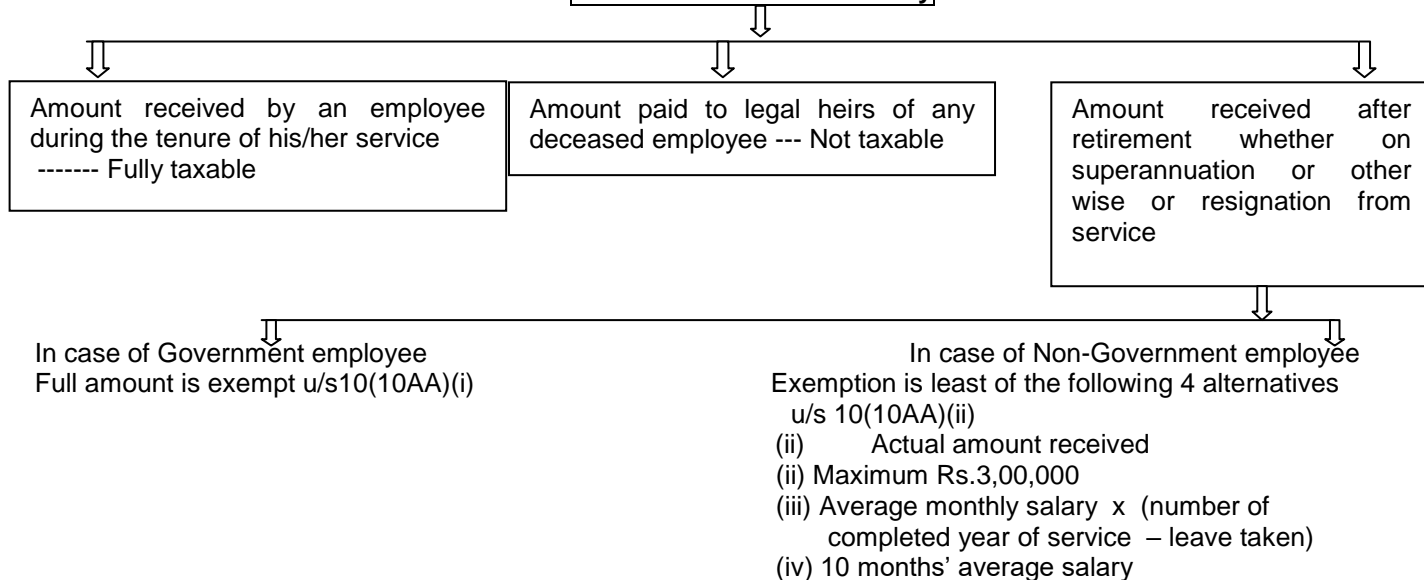
- (i) **Uncommuted pension:** It is a periodical payment of pension – Fully taxable in the hands of Government as well as Non-Government employee.
- (ii) **Commuted pension:** It means a lump sum payment of pension.

Commuted pension



Leave Salary [Sec.10(10AA)]: It is the cash equivalent received by an employee for leave not availed of i.e. salary in lieu of leave.

Encashment of Leave Salary



Average salary = Average of the salary for 10 months immediately preceding his retirement
Salary means Basic + D.A. + Commission based on fixed percentage of turnover

Retrenchment Compensation [Section 10(10B)]: Any compensation received by a workman at the time of his retirement, under the Industrial Dispute, 1947 or under any other Act or rules.

Exemption is least of the following three alternatives:

- (i) Actual amount received
- (ii) 15 days' average pay for every completed year of service or part thereof in excess of 6 months
- (iii) Amount specified by the Central Government i.e., Rs.5,00,000

Compensation received on Voluntary Retirement [Sec.10 (10C)]: The compensation received or receivable by an employee of specified institutions at the time of his voluntary retirement, in accordance with any prescribed VRS scheme or termination of service.

Amount of exemption (least of two):

- (i) Actual amount of compensation received
- (ii) Maximum Rs. 5,00,000

Note: The exemption is available to an employee only once.

The amount of compensation does not exceed

- (i) The amount equivalent to 3 months salary for each completed year of service; or
- (ii) Salary at the time of retirement x the balance month of service left.

ENTERTAINMENT ALLOWANCE U/S 16(ii)

In case of Government Employee:

Amount of Deduction (Least of the following)

- (i) Actual entertainment allowance received
- (ii) 1/5 th of Basic Pay
- (iii) Maximum limit Rs.5000

OTHER ALLOWANCES U/S 10(14):**A. When the amount of deduction does not depend upon the actual expenditure:****(i) Children Educational Allowance:**

Amount of deduction:

(Least of the following)

- a) Rs.100 p.m per child for a maximum of two children
- b) Actual amount received

(ii) Hostel Expenditure Allowance:

Amount of deduction:

(Least of the following)

- a) Rs.300 p.m per child for a maximum of two children
- b) Actual amount received

(iii) Transport Allowance:

Amount granted to the employee for the purpose of transport for commuting between his place of residence and place of his duty.

Amount of deduction:

(i) For disabled employee(blind and orthopedically handicapped):

(Least of the following)

- a) Rs.3200 p.m
- b) Actual amount received

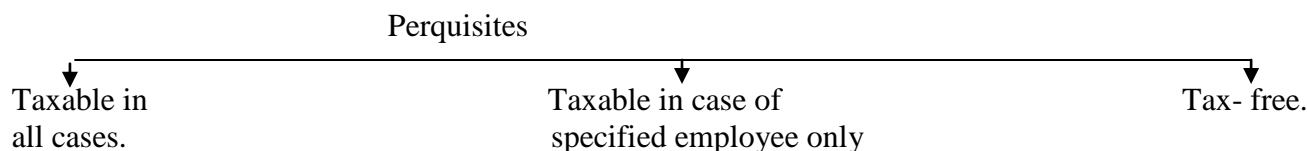
(ii) For other employee: Fully Taxable

B. When the amount of deduction depends upon the actual expenditure incurred by the employee for the purpose of employment:

e.g. Travelling Allowance, Daily Allowance, Conveyance Allowance, Academic Allowance, Uniform Allowances, Helper Allowance, Research Allowance etc.

PERQUISITES

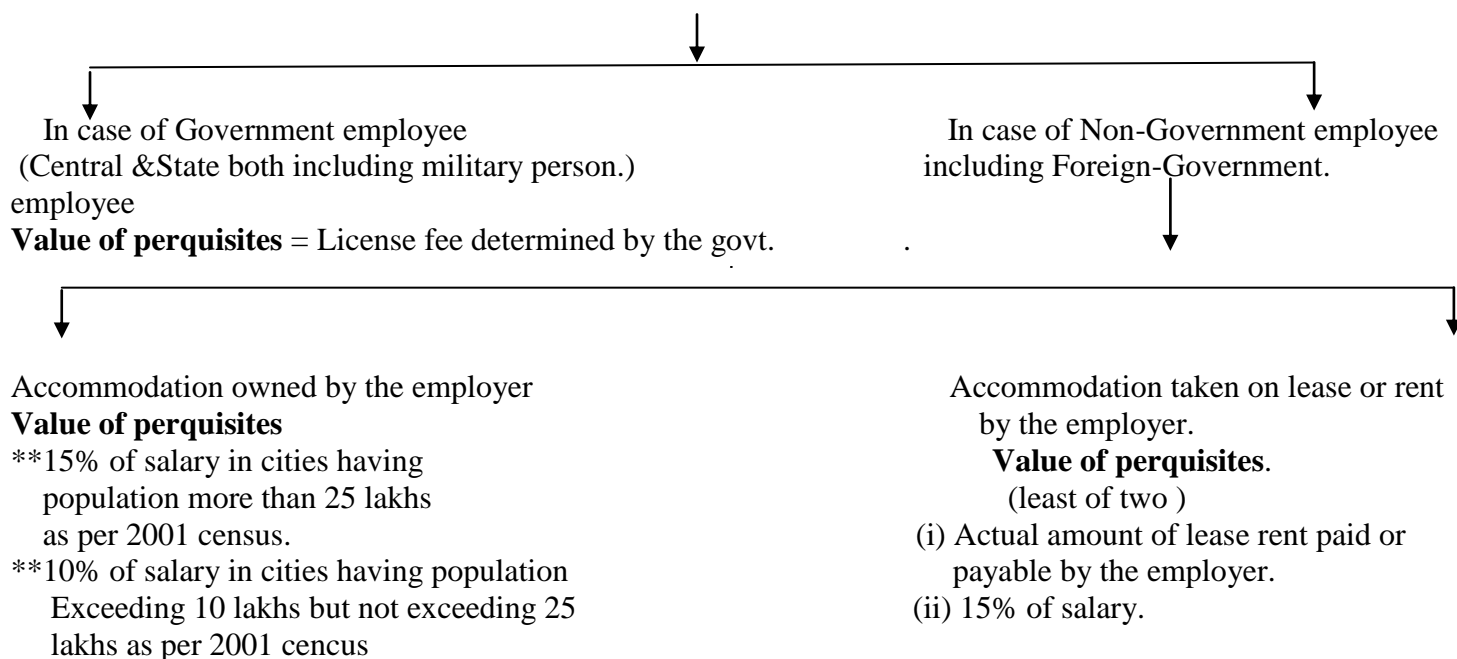
Perquisites are the benefits in addition to normal salary to which the employee has a right by virtue of his employment.



Taxable in all cases:

- (a) Rent free accommodation (furnished or unfurnished) provided by the employer [u/s17(2)(i)].
- (b) Accommodation provided by the employer at concessional rate [u/s17(2)(ii)].
- (c) Obligation of the employee paid by the employer [17(2)(iv)].
- (d) Payments made by the employer to effect life assurance or annuity contract for employees [17(2)(v)]
- (e) Certain other notified fringe benefits (e.g. interest free loan, sale and transfer of movable assets.) [17(2)(vi)].

(a) Valuation of perquisites in respect of rent free unfurnished accommodation [Rule 3(1)]



Note: If the employee pays any rent, the value so determined shall be reduced by the rent actually paid or payable by the employee.

If accommodation provided in a Hotel

=> **Value of perquisites**

(Least of following two)

- (i) 24% of salary
- (ii) actual charges paid or payable to such hotel

[No perquisite value if accommodation is provided for a period not exceeding 15 days and it has been provided on the transfer of the employee from one place to another.]

Salary includes the Basic pay, D.A. (if forms part of salary for retirement benefits), bonus, commission, taxable allowances, and any monetary income.

If the accommodation is furnished

Value of furnished accommodation =

Value of unfurnished accommodation + 10% of original cost of furniture + actual hire charges paid or payable by the employer (if furniture hired by employer)

*Furniture includes Refrigerator, Television, Radio, Air conditioning & other household appliances etc.

(b) Valuation of accommodation provided at concessional rate

Value of rent free accommodation	Rs. ***
<u>less:</u> rent payable by the employee to employer for the above facility.	***
Taxable value of perquisites	***

(c) Obligation of the employee paid by the employer [u/s17(2)(iv)]

1. payment of employees loan.
2. personal gas & electricity bill of the employee.
3. payment of income tax & professional tax of the employee.
4. payment or reimbursement of education bill of the employee's children.
5. payment for domestic servants when the employee employs such servants.
6. re-imburement of medical expenses (full amount is exempt for Govt. hospital treatment).

(d) Valuation of perquisite in respect of life insurance premium or deferred annuity premium paid by the employer u/s 17(2) (v): Any sum payable by the employer is taxable.

(e) Allotment or transfer of specified security or sweat equity shares free of cost or at concessional rate u/s 17(2)(vi): Value of perquisite: Fair Market Value – Amount actually paid

(f) Contribution to approved superannuation fund by the employer as per section 17(2)(vii): Taxable in excess of Rs. 1.5 lakh p.a.

(g) Valuation of perquisite in respect of fringe benefits [u/s17(2)(viii)&rule 3(7)]

Fringe benefits are some additional perquisites which are provided by an employer to an employee in addition to salary or wages paid normally.

Interest free loan or loan at a concessional rate [u/s17(2)(viii)&rule 3(7)(i):

- * It is taxable in the hands of all employees
- * For any loan not exceeding Rs.20,000, the perquisite value is nil.
- * Value of the benefit made available to the employee or any member of his household during the relevant previous year.
- * Interest has to be calculated on the maximum outstanding monthly balance and at the rate charged by the SBI p.a.
- * The amount of perquisite shall be reduced by the amount of expenses reimbursed by the employee
- * Loan taken for medical treatment of diseases specified in Rule 3A – the perquisite value is nil.
- * In respect of any loan taken for medical treatment of diseases specified in Rule 3A, the perquisite value is nil.

valuation of travelling/Touring/Holiday Home Facility [17(2)(viii)& rule 3(7)(ii)]

Case	Taxable perquisite
Holiday Home facility	Notional Market value
In case of official tour along with family members	Expenditure incurred on family members
When official tour extended for personal purposes	Expenditure incurred for such extended period

- Value of perquisite will be reduced by the amount paid by employee in case of concessional perquisite

Valuation of perquisite in respect of free meals,tea,snacks etc. [17(2)(viii)& rule 3(7)(iii)]

Cases	Value of Perquisite
Tea or snacks provided during office hours	Nil
Free meals provided during office hours in remote area or on offshore installation	Nil
Free meals provided during office hours either at office premises or through non-transferable paid vouchers and usable only at eating joints.	Nil, if value per meal in either case does not exceed ` 50. If it exceeds ` 50, then meals in excess of ` 50 per meal shall be taxable perquisite
In other cases	Actual expenditure to employer – Amount charged from employee

*Remote area means an area located at least 40 k.m. away from a town having a population not exceeding 20,000 based on latest published census.

Valuation of Gift given by employer [17(2)(viii)& rule 3(7)(iv)]

- Gift in cash or convertible into money : Fully Taxable
- Gift in kind : exempted up to Rs.5,000

Valuation in respect of Credit Card: [17(2)(viii)& rule 3(7)(v)]

- Used for office purpose: nil
- Used for personal purpose: full amount

Valuation in respect of Club Expenditure: [17(2)(viii)& rule 3(7)(vi)]

Case	Taxable perquisite
Expenses incurred for business purposes	Nil
Facility relates to the use of health, club, sports to all employees	Nil
Initial fee of corporate membership paid by the employer	Nil
In other cases	Actual amount of expenditure- Amount recovered from employee

#Use of any moveable assets [17(2)(viii)& rule 3(7)(vii)]

(Other than laptop and computer)

- 1.if the asset is owned by the employer => 10% of the original cost – amount recovered from employee
- 2.if the employer hires the asset => hire charges paid or payable by the employer - amount recovered from employee.

##Valuation of the perquisite in respect of movable asset sold by an employer to its employee [17(2)(viii)&rule 3(7)(viii)]

If the sale price is less than written down value then the difference would be treated as perquisite and taxable in the hands of all employees.

Rates and method of depreciation:

Types of asset	Rate of depreciation	Method of depreciation
Electronic items/ computer etc.		
except household appliances	50%	reducing balance
Motor car	20%	reducing balance
Any other	10%	straight line

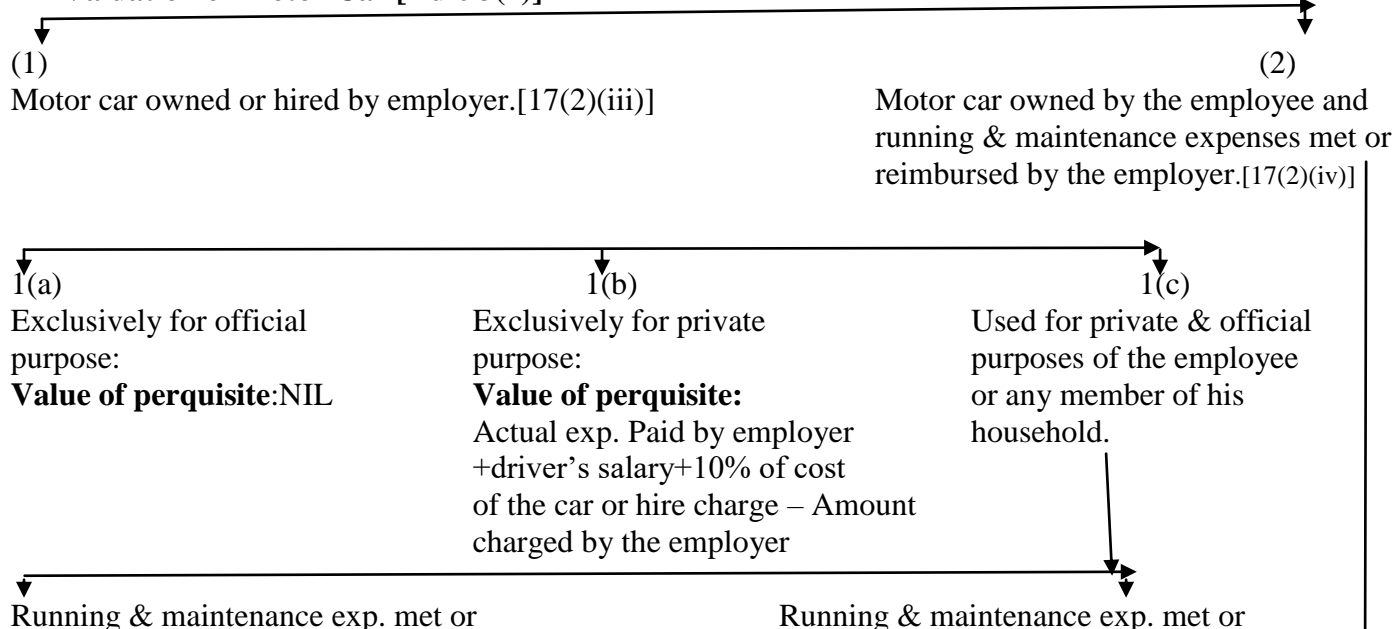
#Perquisite taxable only in the hands of specified employees [17(2)(iii)]

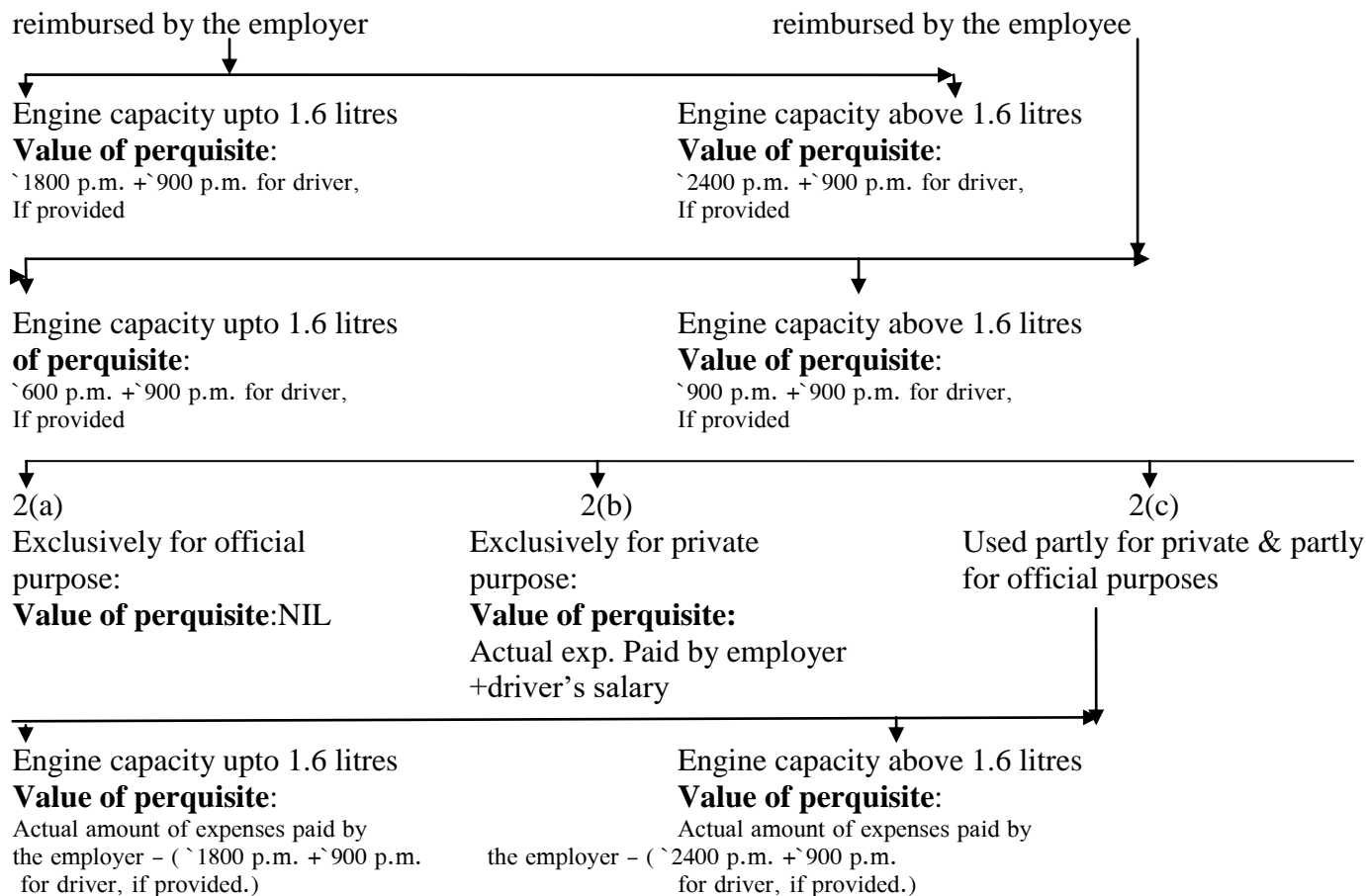
Specified employee includes the following:

- 1.a director employee
- 2.an employee who has substantial interest in the employer company (substantial interest means the employee who holds 20% or more voting power in the employer company)
- 3.an employee whose monetary income exceeds Rs.50,000 per year after deduction u/s 16(ii) and 16(iii).

[Monetary income = basic salary + all taxable allowances + bonus + Commission + cash benefits – deduction u/s 16]

Valuation of Motor Car [Rule 3(2)]





***When the employee owns any other vehicles (Motor Cycle, Scooter etc.):**

- (i) Used for official purpose: Value of perquisite = Nil
- (ii) Used for both purposes: Value of perquisite = Actual amount of expenditure incurred by the employer - `900.

***When the employee is provided with more than one motor car**

- one car to be valued in accordance with item 1(c) and the other car to be valued in accordance with item 1(b).

Services of a sweeper, Gardener, Watchman or Personal Attendant [u/s 17(2)(iii) & rule 3(3)]

1. Appointed by the employer & salary paid or reimbursed by the employer.

Value of perquisite = Amount paid by the employer - any amount paid by the employee u/s 17(2)(iii)

2. Appointed by the employee but salary paid by the employer

Value of perquisite = Amount paid by the employer - any amount paid by the employee u/s 17(2)(iv)

Gas, electricity, water supply for household consumption [u/s 17(2)(iii) & rule 3(4)]

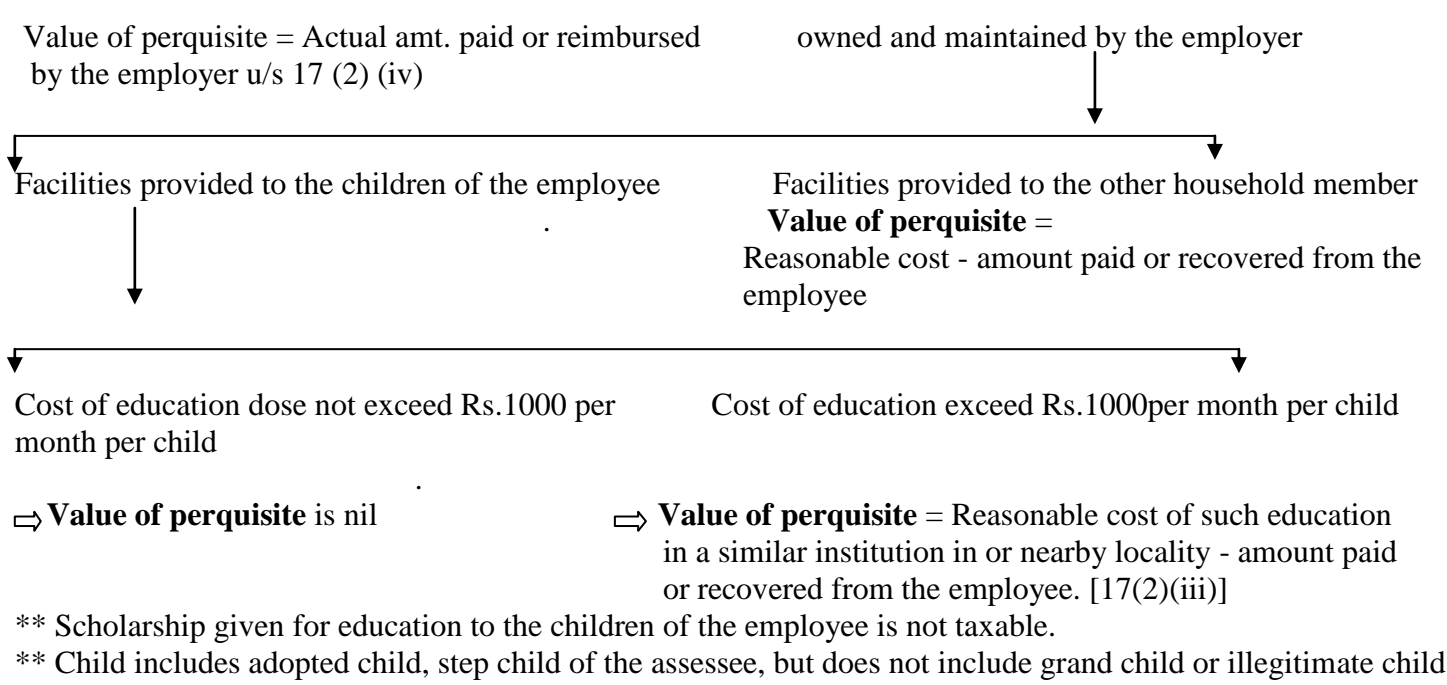
1. Connection is in the name of employer & cost of supply is borne by the employer----taxable u/s 17(2)(iii)

2. Connection is in the name of employee & cost of supply is borne by the employer----taxable u/s 17(2)(iv)

Case	Value of perquisite
1. If supplied from own sources	manufacturing cost per unit incurred by the employer x no. of units consumed
2. Purchasing the same from outside agency	amount paid by the employer to the supplying agencies

Educational facilities [u/s 17(2)(iii) & rule 3(5)]





Tax free perquisites

1. Tea or snacks provided to employees during working hour in office premises.
2. Free meals provided by the employer during office hours at office or business premises.
3. Free meals provided through paid non-transferable vouchers usable at eating joints.
4. Free meals during working hours provided in remote area.
5. Refreshment provided to any employee at place of work and during working hours.
6. Rent-free official residence and conveyance facilities provided to a Judge of the Supreme Court/High court.
7. Any expenditure incurred by the employer, for providing training to the employees or by way of payment of fees of refresher courses attended by the employees.
8. Any recreational facility provided to a group of employees.
9. Value of any medical treatment provided to an employee or any member of his family in a hospital, dispensary or a nursing home maintained by the employer.
10. Reimbursement or payment by the employer, of expenditure incurred by the employee on his medical treatment or treatment of any member of his family in Government's Hospital.

Medical facilities

Medical facility provided to the employee or any member of his family is exempt under the following circumstances.

1. Fixed medical allowance is taxable irrespective of actual expenditure by the employee.
2. Medical facility in the employer's hospital is exempt from tax.
3. Re-imburement of medical expenses in govt. hospital & cost of medical treatment of prescribed diseases in approach hospitals/nursing homes are exempt from tax.
4. Medical facility provided in a private hospital, clinic etc. : taxable
5. Medical treatment out side India, including cost of stay abroad is exempt up to an amt. approved by the R.B.I. Cost of travel of the employee or any member of family or attendant is exempt, if employees gross total income does not exceed Rs.2 lakhs.
6. Mediclaim insurance /group medical insurance obtain by the employer on the life of the employee or any member of his family is exempt.
(Employee's family means his children, spouse & dependent parents, brothers & sisters).

Leave travel concession (L.T.C)[u/s 10(5)]

(Journey must be performed to any place within India.
Journey may be performed during service or after retirement.)

Different situation	Amount of exemption
1.where journey is performed by air.	Amount of air economy fare of the national carrier by the shortest route or the amount spent, whichever is less.

<p>2. where journey is performed by rail.</p> <p>3. where the places of origin of journey and destination are connected by rail and journey is performed by any other mode of transport.</p> <p>4. where the places of origin of journey and destination (or part thereof) are not connected by rail.</p> <p>a. where the recognized public transport exists.</p> <p>b. where no recognized public transport system exists.</p>	<p>Amount of A.C. first class fare by the shortest route or the amount spent whichever is less.</p> <p>Amount of A.C. first class rail fare by the shortest route or amount spent, whichever is less.</p> <p>First class or deluxe class fare by the shortest route or the amount spent, which ever is less.</p> <p>A.C. first class rail fare by the shortest route (as if the journey had been performed by rail) or the amount actually spent, which ever is less.</p>
---	--

Block period :- Exemption is available in respect of two journeys performed in a block of four calendar year commencing from 1st Jan.86. Current block \Rightarrow 1.1.2018 to 31.12.2021

Carry forward facility :- Where travel concession is not availed during the preceding block (whether on one occasion or both), then any one journey performed in the first calendar year of the immediately succeeding block will be additionally exempted.

Family means :- Spouse or children of the individual and Parents, brothers & sisters of the individual who are wholly or mainly dependent on him.

Restriction on number of children :- Exemption can be claimed for any number of children born on or before 30th. Sept. 98. Exemption is available only for two children born on or after 1.10.98.

However, the children born out of multiple birth, after one child will be treated as one child only.

Fixed amt. paid to employees by way of leave travel allowance would not be exempt u/s 10(5).

Profits in lieu of salary [u/s 17(3)]

1. Any compensation received or due to be received from the employer or any former employer in connection with termination of service.
2. Any compensation received or due to be received from the employer or any former employer in connection with modification of terms of employment.
3. Any amount received from any unrecognized provident fund to the extent it does not consist of employee's own contribution & interest thereon.
4. Any sum received under any keyman insurance policy.
5. Any amt. due or received whether in lump sum or otherwise before joining or after cessation of employment.

Deduction from gross income from salary:

- (1) Standard deduction [u/s 16(i)]:
Least of two: (i) Gross Income from salary (ii) Maximum limit ` 50,000
- (2) Deduction for entertainment allowance [u/s 16(ii)]
- (3) Tax on employment or Professional Tax:
 - (a) Paid by employer : Fully Taxable u/s 17(2)(iv)
 - (b) Paid by employee : Allowed as deduction [u/s 16(iii)]

