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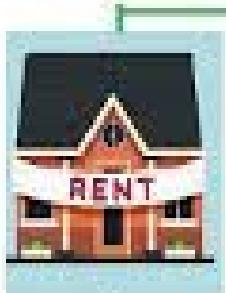
Income from Salary



FIVE HEADS OF INCOME



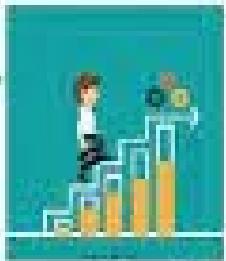
Salary



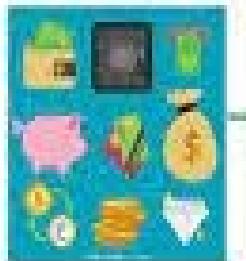
House Property



Capital gain



Business & Profession



Other Sources

All kinds of taxable income of an assessee fall under any of the following five head income. Those incomes which do not find place under any of the first four heads and are taxable, fall under the fifth head of income. In order to calculate the taxable income under each head certain deductions have to be made from gross income of that head. These deductions are different for each head. There are separate sections in the Income Tax Act for computing the taxable income under each head, which are as under:

5 Head of Income

FIVE HEADS OF INCOME

Income from Salaries-Sections 15 to 17

*Income from **House Property**-Sections 22 to 27*

*Income from Profits and Gains of **Business or Profession**
Sections 28 to 44*

*Income from **Capital Gains**-Sections 45 to 55*

*Income from **Other Sources**-Sections 56 to 59*

No deduction of expenses incurred in relation to exempted incomes (Sec. 14A)



In computing total income, no deduction shall be allowed in respect of expenditure incurred by the assessee in relation to income which does not form part of total income.

The Assessing Officer may determine the expenses incurred to earn income which does not form part of total income, in accordance with such method as may be prescribed.

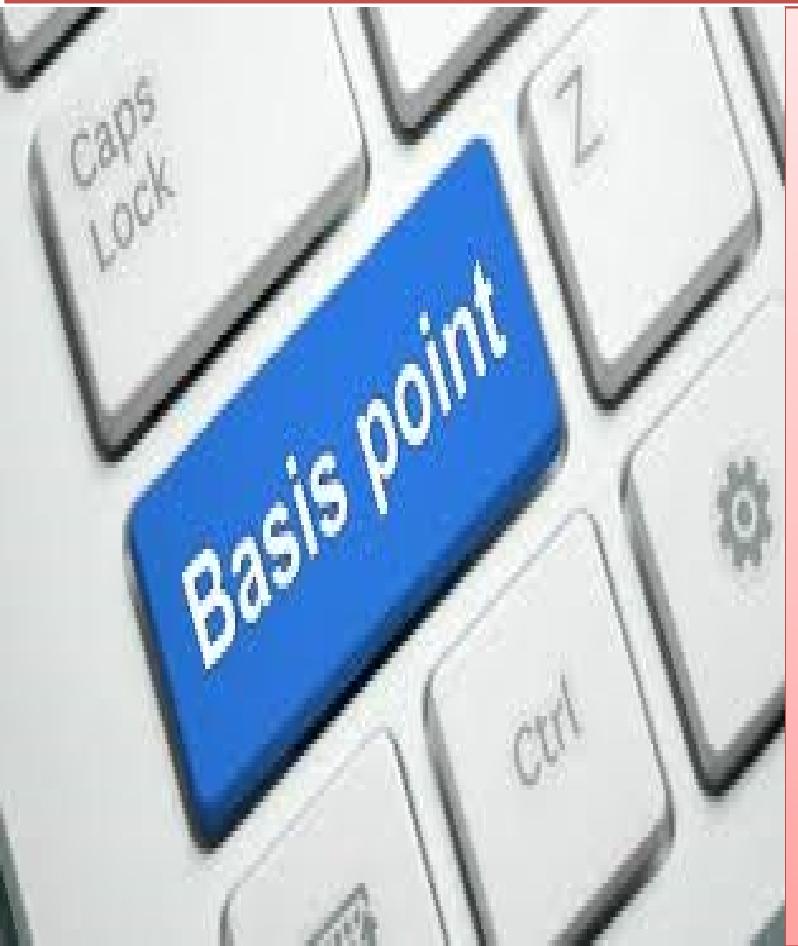
The method of computing the taxable income under different heads will now be discussed in detail in this and the subsequent chapters.

SALARIES



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 (Section 15)



Under section 15, the following incomes are taxable under the head 'Salaries':

- (a) *The salary due from an employer or former employer to an assessee in the previous year, whether paid or not;*
- (b) *The salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him;*
- (c) *Any arrear of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income tax for any earlier previous year.*

Explanation 1: If any salary paid in advance is included in the total income of any person for any previous year, it shall not be included again in the total income of the person when the salary becomes due.

Explanation 2: Any salary, bonus, commission or remuneration due to or received by a partner of a firm from the firm shall not be regarded as salary for the purposes of section 15.

EXAMPLE

If A draws his salary in advance for the month of April 2023 in the month of March 2023 itself, the same becomes chargeable on receipts basis and is to be assessed as income of P.Y. 2022- 23 i.e., 2023-24. However, the salary for the A.Y. 2024-25 will not include that of April 2023.

EXAMPLES

If the salary due for March 2023 is received by A later in the Month of April 2023, it is still chargeable as income of the P.Y. 2022-23 i.e., A.Y. 2023-24 on due basis. Obviously, salary for the A.Y. 2024- 25 will not include that of March 2023.

Place of Accrual of Salary [Sec. 9(1)(ii)]

SECTION - 9 (INCOME DEEMED TO ACCRUE OR ARISE IN INDIA)



- (i) If any income taxable under the head 'Salaries' is earned in India, it is deemed to accrue or arise in India.*
- (ii) If a person employed in India goes on leave outside the country and draws his salary for the leave period there, the leave salary shall be deemed to have been earned in India.*
- (iii) If a person, after having served in India, retires from service and settles outside India, the pension drawn by him in the foreign country will be deemed to have been earned in India and will be treated as Indian income.*
- (iv) In the case of a citizen of India, who is a government employee and is transferred to one fits offices outside India, will be liable to pay tax to the Indian Government on his salary which he earns and receives outside India. Allowances and perquisites received by him in the foreign country from the Indian Government are exempt from tax.*

SOME IMPORTANT POINTS REGARDING SALARIES



(1) Salaries



Every kind of remuneration of every kind of servant, public or private, and however highly or lowly placed he may be, is covered under the scope of this term used in the Income Tax Act. It means that for the purposes of the Income Tax Act, there is no distinction between the wages of labourer and salaries of high officials.

(2) Foreign Salary and Pension



Salary and pension received from foreign government is taxable under the head 'Salaries'.

(3) Relationship of employer and employee



It is very essential for a payment to fall under the head 'salaries' that the relationship of employer and employee must exist between the payer and the payee.

Every servant is an employee but an agent may or may not be an employee.



A director of a company holds an office under the company but as a director he is not a servant or an employee of the company and therefore the fees he receives are taxable under the head 'Income from Other Sources' and not under the head 'Salaries'.

Similarly, whether the remuneration paid to selling agents is assessable as business profits or as salary, depends upon the facts and circumstances of each case. The remuneration paid by a mill in their discretion to the selling agents for running and managing a retail cloth shop which was owned by the mill and profit from which belonged to the mill, was held to be assessable as salary; but on the other hand, the profits derived from the selling agency of a manufacturing concern are taxable as business profits, if they are not subject to the control of the mill in the matter of the establishment and organization to be maintained by them.

If an employee does any work for his employer which is not connected with his service; then the remuneration for such a work will not be treated as salary. For example, examiner's remuneration received by a University teacher from his University.

(4) Salaries and professional income



Where the employment is merely incidental to the exercise of a profession the income from such employment would be professional income, taxable under the head 'Profit and gains of business or profession'. For instance, a professional lawyer may be engaged in a case, his remuneration from this engagement will be taxable as professional earnings. If he is employed by a company as its legal adviser and also to work as standing counsel for the company, the remuneration received by him would be taxable under the head 'Salaries'. When a person occupies a regular post or office amounting to service, it is an employment as distinct from mere engagement in the course of the profession.

(5) Receipts from person other than employer



Perquisites or profits or any remuneration received from person other than the employer would be taxable under the head 'Income from Other Sources' even if they accrue to the employee by reason of his employment. For example, remuneration received by a professor of a college for acting as an examiner in a University or Board.

(6) Payment made after cessation of employment



Payment made by an employer to his employee after the cessation of his employment is also taxable under the head 'Salaries'. It is taxable under this head because it represents remuneration for services rendered in the past.

(7) Payments made to employee or to the widow or legal heirs



(a) Lump-sum payment made gratuitously or by way of compensation or otherwise to the widow or other legal heirs of an employee, who dies while still in active service, will not be taxable as income. (Circular No. 573, dated 21-8-1990)

(b) Where a person or his heir receives exgratia payment from the Central Government/State Government/Local Authority/Public Sector Undertaking, consequent upon injury the person/death of family member, while on duty is not liable to income tax. (Circular No. 776, dated 8.6.1990)

(8) Pension



Pension received by an employee after his retirement is taxable as salary.

(9) Application of salary



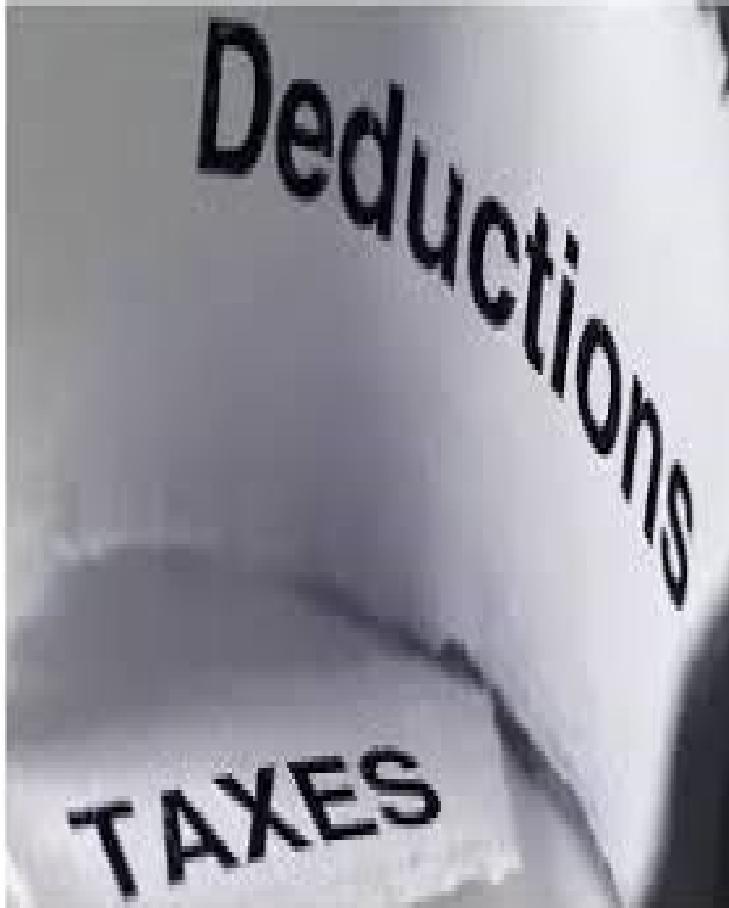
Voluntary foregoing: The voluntary foregoing by an employee of the salary due to him is normally mere application of the income and the salary is nonetheless taxable. It will be taxable on the further ground that salary is taxable if it is due, whether paid or not. But where in reality there is an agreement not to pay any salary, the apparent foregoing of a fictional salary would not attract tax. For example, where a person out of missionary spirit agrees to work as Principal in an institution without accepting any salary from the institution no amount of salary would be taxable in this case, because it has never become due.

(10) Tax-free salary



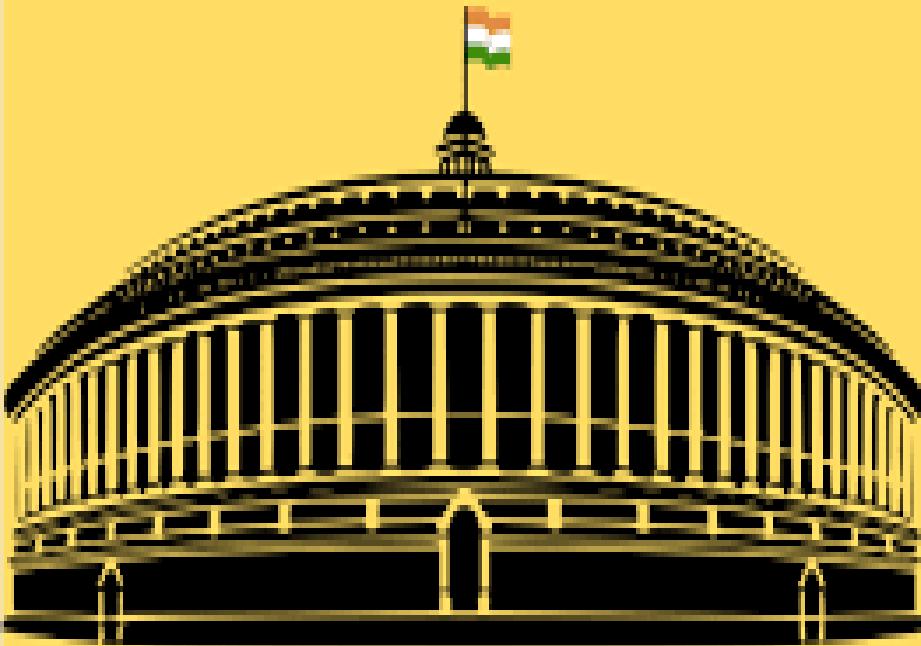
When a salary is paid tax-free, the employee has to include in his total income the gross salary i.e. the aggregate of the net salary received plus the amount of tax paid on his behalf by the employer, except under the provisions of Sec. 10(10CC).

(11) Deductions by employee



Compulsory deductions from salary are also instances of mere application of income. The fact that a portion of the salary has to be devoted compulsorily to some purpose under a contractual obligation does not prevent it from being assessable as income under the head 'Salary', for it is only a case of application of income. For example, an assessee was engaged on fixed salary upon the obligatory condition that the employer should provide him with board and lodging etc., for which he should pay an amount which was deducted from his gross salary before payment. In this case, the tax is chargeable on the gross salary without deducting the compulsory deductions made by the employer.

(12) Salary of a Member of Parliament



— MEMBERS OF PARLIAMENT —

This is not chargeable under the head 'Salaries' as a Member of Parliament is not an employee of the Government. The relation between him and the government is not that of a servant and master. It is taxable under the head 'Income from Other Sources'.

(13) Salary of a Partner



*Any salary received by a partner from the firm in which he is a partner is not chargeable under the head 'Salaries'. It is taxable under the head '**Profits and Gains of Business or Profession**'.*

(14) Family Pension

Family Pension

Rule 54



Any family pension received by the widow or legal heirs of a deceased employee is taxable under the head 'Income from Other Sources'.

(15) Salary grade or Scale of Pay

Salary grade means that at what starting salary any employee is to be appointed and during the entire service period (if there is no revision of grade or no promotion), what will be his increment per year and what will be his maximum salary after which there will be no increment. Here salary means basic salary. For example, if a person is appointed in the grade Rs 2,200-100-3,000-200-5,000-300-8,000, it means that his starting salary will be Rs 2,200 p.m. after one year of service he will get an increment of Rs 100 p.m. i.e., his salary will become Rs 2,300 p.m., and similarly he will get an annual increment of Rs 100 p.m. till his salary reaches 3,000 p.m. Thereafter, he will get an annual increment of Rs 200 p.m. till the salary becomes Rs 75,000 and thereafter he will get an annual increment of Rs 300 p.m. till his salary reaches the maximum amount of Rs 8,000 in this grade. After this there will be no increment and he will continue to draw Rs 8,000 p.m. This will be his maximum salary. This is called salary grade.

(16) Due date of Salary

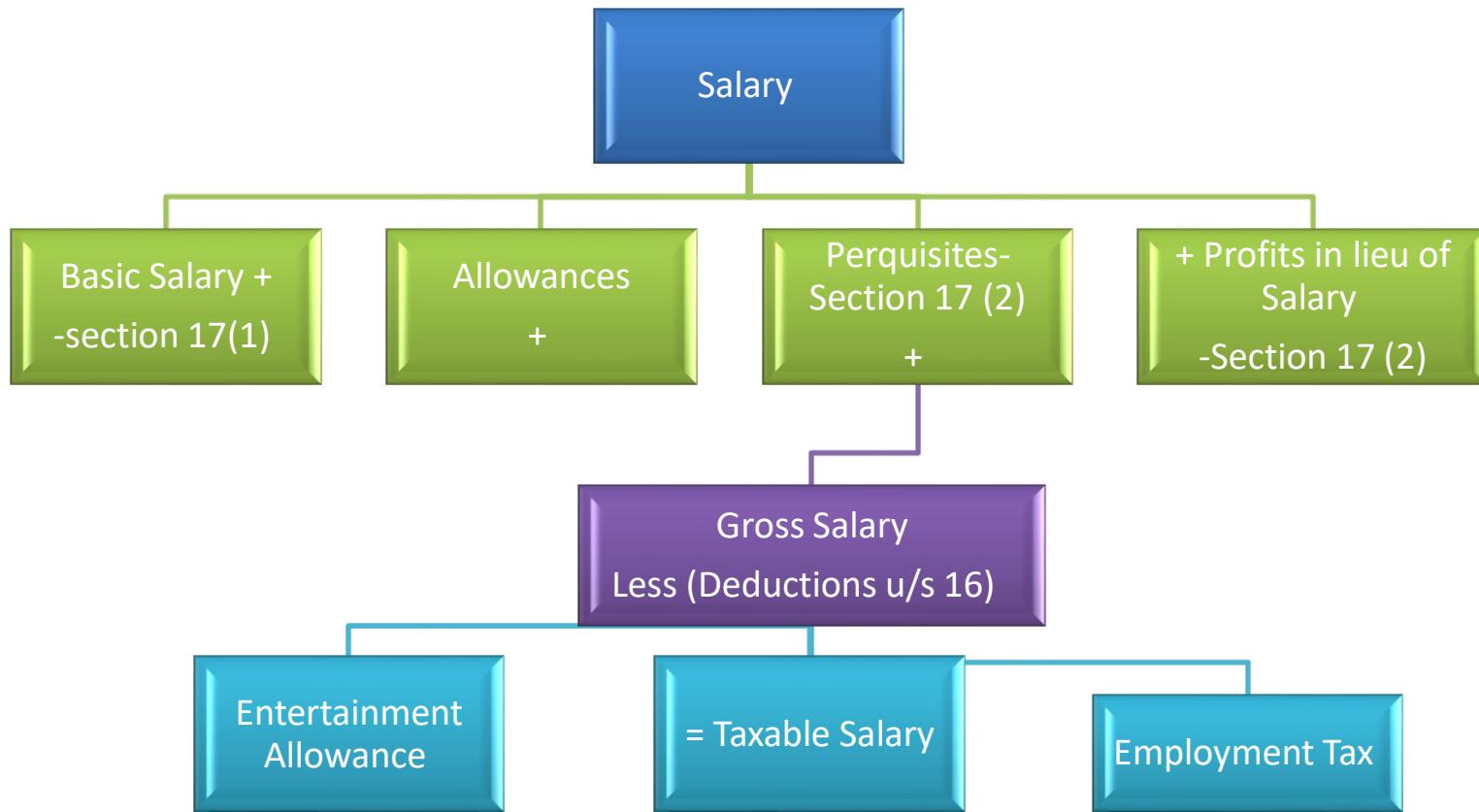


Following are the general rules regarding this :

(a) In the case of employees of the government and semi-government. Salary for a particular month is due on the first of the next month. Thus, in such a case, salary for the month of March of the preceding financial year upto the salary for the month of February of the current financial year is taken into account.

(b) In the case of employees of banks and non-government bodies. Salary for a particular month is due on the last date of the same month. Thus, in such a case salary for April of the current financial year upto the salary for the month of March of the current financial year is taken into account.

Computation of Taxable Salary can be illustrated with the help of the following chart:



Meaning of salary [Sec. 17]



Under section 17 of the Act the following have been defined:

- (1) Salary,*
- (2) Allowances*
- (3) Perquisites and*
- (4) Profits in lieu of salary.*

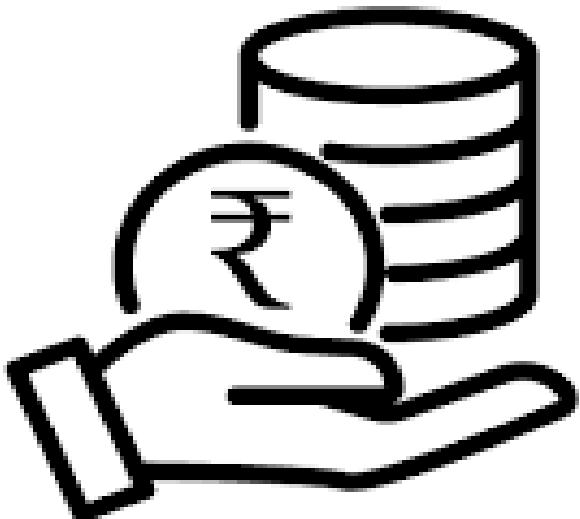
SALARY [Sec. 17(1)]



Salary includes:

- (i) Wages;
 - (ii) Any annuity or pension;
 - (iii) Any gratuity;
 - (iv) Any fees, commission, perquisites or profit in lieu of or in addition to any salary or wages;
 - (v) any advance of salary, but not loan for purchasing a car, cycle, scooter or a house, etc.
 - (vi) Any payment received by an employee in respect of any period of leave not availed of by him;
- [Note:** Encashment of earned leave at the time of retirement whether on superannuation or otherwise is exempt subject to the provisions of Sec. 10(10AA).]
- (vii) The annual accretion to the balance at the credit of any employee participating in a recognised provident fund i.e., employer's contribution in excess of 12% of the employee's salary and interest on provident fund in excess of 9.5% (w.e.f. Assessment Year 2002-03) rate;
 - (viii) taxable portion of the transferred balance;
 - (ix) The contribution made by the Government or other employer, in the previous year, to the account of an employee, under a pension scheme notified by the Central Government.

(1) *Basic Salary*



It refers to the basic remuneration an employee is entitled to, for the services rendered by him to his employer organisation. This form of salary forms the basis for calculating many other benefits to the employee and hence, it is called 'Basic' Salary.

"Basic Salary" includes only the basic salary of relevant previous year and it is fully taxable.

The amount of basic salary may be given as a fixed amount per month or per annum; or given as a pay scale. When given as a pay-scale, the 'basic salary' for the relevant previous year must be ascertained. The following illustration explains the calculation of basic salary, when a pay-scale is given.

Example

Question

Mr. Dayanand joined the services of 'Sevabharathi' on 01.11.2016, in the pay scale of Rs 8,000 -275-9,100 - 550 – 10,750 - 825 - 13,225 per month. Calculate his basic salary for the previous years 2022-23 and 2023-24, if the salary falls due on:

(a) last date of each month; and

(b) First of the following month, but received on fifth.

Solution

The pay-scale given is- Rs 8,000 - 275 - 9,100 - 550 - 10,750 - 825 - 13,225 per month

It is read as follows

During the first year of service, the monthly salary of Dayanand is Rs 8000 per month.

For the second year of service, the monthly salary will be Rs 8,275 per month.

Similarly, Rs 8,550 per month for the third year, Rs 8,825 per month for the fourth year, Rs 9,100 month for the fifth year, will be the basic salary.

Once the basic salary is 59,100 per month, the next increment will not be Rs 275, but Rs 550. month. Hence, for the sixth year of service, the basic salary will be Rs 9,650; and so on.

The same is presented in the table below up to the relevant previous year

Example

Period	Basic salary per month (Rs)
From November 2016 to October 2017	8,000
From November 2017 to October 2018	8,275
From November 2018 to October 2019	8,550
From November 2019 to October 2020	8,825
From November 2020 to October 2021	9,100
From November 2021 to October 2022	9,650
From November 2022 to October 2023	10,200
From November 2023 to October 2024	10,750

Notes:

The calculation of basic salary' must be considered from the calendar month of joining the service and not the date of joining the service. Irrespective of the date on which employee joins service, the salary for the calendar month of joining the service will be same.

Where Dayanand had joined service on 215 November 2016, he will be paid 10 days' salary @ Rs 8000 per month for that month.

Calculation of Basic Salary under situation (a)

'Salary falling due on the last date of each month' means salary for each month accrues in the month of rendering service. That is, for the month of April 2023 - salary accrues in April 2023, and so on.

Salary being taxable on accrual basis, the salary that accrues during the relevant previous year must be considered. Since, salary for each month accrues in the same month of service, basic salary will be 'salary of April to March'.

For previous year 2022-23: the basic salary is Rs 9,650 per month from April 2017 to October 2017 and Rs 10,200 per month from November 2017 to March 2018. So, the basic salary is –
 $[Rs\ 9,650 \times 7] + [Rs\ 10,200 \times 5] = Rs\ 1, 18,550.$

For previous year 2023-24: the basic salary is Rs 10,200 per month from April 2018 to October 2018 and Rs 10,750 per month from November 2018 to March 2019. So, the basic salary is –
 $[Rs\ 10,200 \times 7] + [Rs\ 10,750 \times 5] = Rs\ 1, 25,150.$

Calculation of Basic Salary under situation (b)

Salary falling due on the first of the following month' means salary for each month of service accrue in the following month. That is. Salary for January 2024, accrues in February 2024 and so on. The date of the following month on which the salary accrues and the date on which the salary is received are irrelevant.

In the month of April of any year, the salary that accrues is that of the month of March, similarly, in the month of May of any year, the salary that accrues is that of the month of April. The salary for the month of January accrues in the month of February, that for February in the month of March and the salary for the month of March, accrues in the month of April of the next financial year.

salary being taxable on accrual basis, the salary that accrues during the relevant previous year must be considered. During any previous year of April to March, the salary that accrues is on the preceding month - i.e., March to February. Hence, under this situation, the salary from the month of March to the following February must be considered.

For previous year 2022-23, the basic salary is Rs 9,650 per month from March 2017 to October 2017 and Rs 10,200 per month from November 2017 to February 2018. So, the basic salary is -
 $[Rs\ 9,650 \times 8] + [Rs\ 10,200 \times 4] = Rs\ 1,18,000.$

For previous year 2023-24, the basic salary is Rs 10,200 per month from March 2018 to October 2018 and 10,750 per month from November 2018 to February 2019. So, the basic salary is –
 $[Rs\ 10,200 \times 8] + [Rs\ 10,750 \times 4] = Rs\ 1,24,600.$

Allowances

Fully Taxable

- (1) Entertainment Allowances
- (2) Dearness Allowances
- (3) Overtime Allowances
- (4) Fixed Medical Allowances
- (5) City Compensatory Allowances (to meet increased cost of living in cities)
- (6) Interim Allowances
- (7) Project Allowances
- (8) Servant Allowances
- (9) Tiffin/Lunch/Dinner/Breakfast/Refreshment Allowances
- (10) Any other Cash Allowances
- (11) Non – Practicing Allowances
- (12) Warden Allowances
- (13) Medical Allowances
- (14) Project Allowances
- (15) Family Allowances
- (16) Any other Transport Allowances for meeting Personal expenses of the Employee

Partially Taxable

- (1) House Rent Allowances
- (2) Special Allowances[u/s 10 (14)]
 - (a) Travelling Allowances
 - (b) Conveyance Allowances
 - (c) Daily Allowances
 - (d) Helper Allowances
 - (e) Academic Allowances
 - (f) Uniform Allowances
 - (g) Children Education Allowances
 - (h) Hostel Expenditure Allowances
 - (i) Transport Allowances to employee other than blind/deaf and dumb/ Orthopedically handicapped employee
 - (j) Any other Allowances

Fully Exempted

- (1) Allowances to High Court Judges
- (2) Allowances paid by the United Nations Organisation
- (3) Compensatory Allowances received by a judge
- (4) Sumptuary Allowances granted to High Court or Supreme Court Judges
- (5) Allowances granted to Government employees outside India
- (6) Any other Allowances for meeting expenses relating to Performance of official duties.

(1) Entertainment Allowances



Entertainment Allowance is an allowance given to employee for enabling him to meet expenses for entertaining visitors and customers of the employer. It is first included in the income from salary under section 15. Entertainment Allowance received by an employee is taxable under "Allowances. However, where the employee is a Government Employee, he can claim deduction for entertainment allowance under Section 16(ii).

(1) Entertainment Allowances

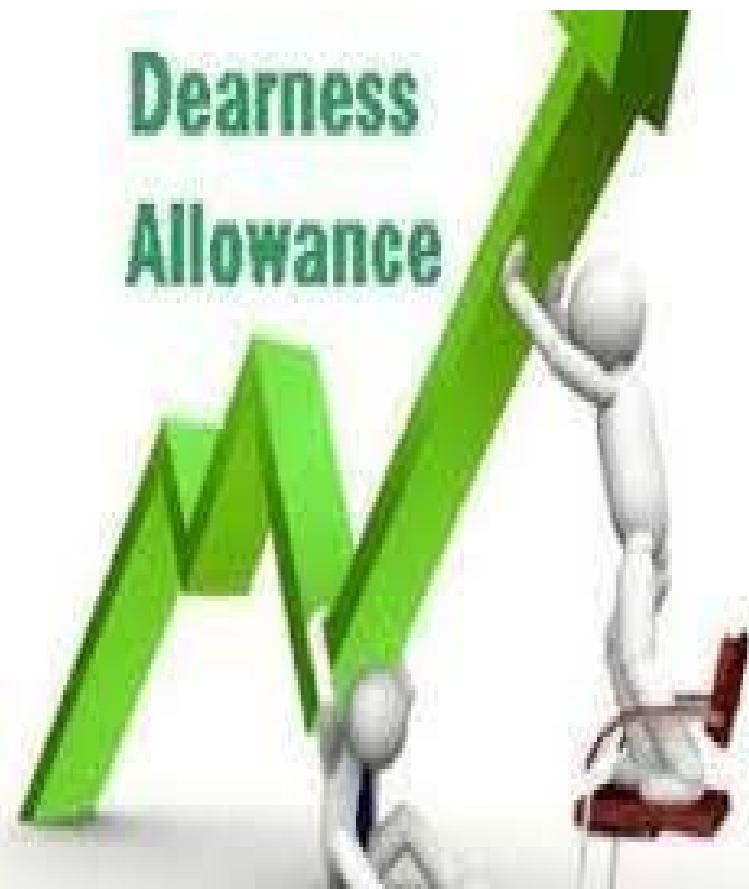


*The amount of deduction is **least** of the following:*

- (a) 20% of 'Basic Salary of the relevant previous year*
- (b) Maximum limit of Rs 5,000*
- (c) Actual amount of Entertainment Allowance for the relevant previous year*

Note: The deduction for entertainment allowance is available only to government employees. The actual amount spent by the employee towards entertaining customers and visitors, is not considered in calculating the amount of deduction.

(2) Dearness Allowances / Pay



An allowance given to enable employee to meet the rising cost of living. It is a very common allowance among all categories of employees and it is usually fixed as a percentage of 'Basic Salary.'

Dearness Pay: When the whole or part of dearness allowance is converted in dearness pay, it becomes a part of basic salary.

(3) Overtime Allowances



*It is an allowance granted to employees who work overtime, for enabling them to meet the cost, if any, incurred during the period of overtime. **In other words,** When an employee works for extra hours over and above his normal hours of duty he is given overtime allowance as extra wages.*

(4) Fixed Medical Allowances

**Fixed Medical
Allowance**



It is a fixed amount paid to the employees as an allowance. This amount is paid to the employees irrespective of whether they submit the necessary bills to prove there was an expenditure. This fixed pay every month is taxable.

(5) City Compensatory Allowances



An allowance given to employees working in cities to enable them to meet the extra cost of living in cities. Similar to Dearness Allowance, this also is usually fixed as a percentage of 'Basic Salary'.

(6) Interim Allowances



It is an allowances given by the employer instead of a final allowances.

(7) Project Allowances



It is an allowance granted when an employee is deputed on special projects.

(8) Servant Allowances



It is an allowance granted to enable employees to engage services of domestic servants.

(9) Tiffin/Lunch/Dinner/Breakfast/Refreshment Allowances



It is an allowance granted to an employee for enabling him to meet his food expenses.

(10) Non – Practicing Allowances



Non-Practicing
Allowance

It is an Extra allowance given to medical professionals who are not engaged in private practice. NPA is currently recognized as 20 % of the basic pay.

(11) Warden and Proctor Allowances



These allowances are given in educational institutions for working as Warden of the hostel and/or working as Proctor in the institution. These allowances are fully taxable.

(12) Medical Allowances



It is an allowance granted to an employee for enabling him to meet the medical expenses of self and family.

(13) Family Allowances



It is an allowance granted to an employee for enabling him to meet his household expenses.

(14) Transport Allowances



It is an allowance granted towards travelling expenses for commuting between place of residence and place of his duty.

*It is **exempt** under Section 10(14) up to Rs 3,200 per month in case of employees who are blind, deaf, dumb or orthopedically Handicapped.*

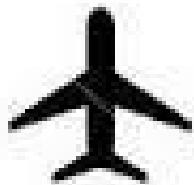
Note: Exemption towards Transport Allowance for other employees has been withdrawn from Financial Year 2018-19 (as applicable from Assessment Year 2019-20). In lieu of this exemption, employees are given a Standard Deduction u/s 16(ia).

(15) *Hill Allowance*



It is given to employees working in hilly areas on account of high cost of living in hilly areas as compared to plains. It is fully taxable, if the place is located at less than 1,000 metre height from sea level.

(16) *Deputation Allowance*



Allowances

When an employee is sent from his permanent place of service to some other place or institution or organization on deputation for a temporary period, he is given this allowance. It is fully taxable.

(17) *Other Allowances*

Mobile Cell Phone Allowance



There may be several other types of allowances, for example, Family Allowance to armed personnel while on field without family, Marriage Allowance, Rural Allowance, Telephone Allowance, Education Allowance, Dinner Allowance, Health Allowance, Holiday Allowance, Special Qualification Allowance, etc. (Circular No. 701 Dated 23rd March, 1995) These are taxable unless specifically exempted.

Partially Exempted



Exemption

(1) House Rent Allowances

House Rent Allowance



"House Rent Allowance' refers to an allowance given to employee, for enabling him to meet the rental expenses of his residential accommodation. This allowance is one among the standard series of allowances given to all categories of employees. Usually, it is fixed as a percentage of 'Basic Salary'. So, where an employee is drawing a basic salary of Rs 25,000 per month and is entitled for a House Rent Allowance @ 20%, then his House Rent Allowance is Rs 5,000 per month.

The taxable amount of House Rent Allowance received by an employee is calculated using the following format, for all categories of employees:

Particulars	Details	Amounts
	Rs	Rs
Actual House Rent Allowance		????
Less: Exempt under Section 10(13A), being least of the following:		????
(a) Actual amount of House Rent Allowance	????	
(b) Excess of 'rent paid' over 10% of "Salary"		
(c) 40% of "Salary", being maximum limit	????	??????
Taxable House Rent Allowance		???????

(2) Special Allowances[u/s 10 (14)(i)]



(a) Travelling Allowances



It is an allowance granted to employee to enable him to meet the cost of travelling for official purposes or for meeting cost of transfer, including cost of packing and transportation of personal effects on such transfer.

For example, Sri Amar Nath has been transferred from Agra to Lucknow. He is granted Rs 2,000 as transfer allowance and Rs 500 for packing etc. He actually spent only Rs 2,000, then the balance of Rs 500 will be taxable income.

(b) Conveyance Allowances



It is an allowance granted to meet the expenditure on conveyance in the extent used for the said performance of duties of an office.

For example, Sri Prakash Chandra gets Rs 200 p.m. as conveyance allowance to meet the expenditure for conveyance for official work. He spent only Rs 150 p.m. on conveyance. Here Rs 600 will be his taxable income @ Rs 50 p.m.

(c) Daily Allowances



It is an allowance granted on official tour, or allowance granted for the period of journey in connection with transfer, for meeting the ordinary daily expenses incurred by an employee on account of absence from his normal place of duty.

For example, Mr. Ram Nath is paid 100 per day for 8 days as daily allowance on official tour to meet his expenses. He spent only 600 in eight days, then the balance of 200 will be his taxable income.

(d) Helper Allowances



It is an allowance granted (by whatever name called) for meeting expenditure of employing a helper to provide assistance in the performance of duties of an office.

For example, on account of heavy work-load the employer of Sri Ram Kishan has allowed him to engage one helper and granted to him 500p.m. as helper allowance for this purpose. He appointed one helper @ Rs 400 p.m. Here Rs 1.200 will be his taxable income @ Rs 100 p.m.

(e) Academic Allowances



It is an allowance (by whatever name called) granted for encouraging the academic, research and other professional pursuits of the employee.

For example, Dr. Harigopal is a professor in Lucknow University. He gets academic allowance from the University @ Rs 200 per month for promoting research. In this connection he spent Rs 2,000 during the year. Here Rs 2,000 will be exempt and the remaining 400 will be taxable.

(f) Uniform Allowances



It is an allowance (by whatever name called) granted to meet the expenditure on the purchase or maintenance of the extent used for the uniform for wear during the performance of duties of an office.

For example, Sri Arun Kumar was employed as a foreman in a factory. He has to wear a proper uniform in the factory at the time of his duty for which he gets Rs 200 p.m. for the preparation and maintenance of the uniform. He spends Rs 1,800 for the preparation of the uniform and Rs 400 for its washing etc. Here Rs 200 will be taxable and Rs 2,200 will be exempt. (Notification No. 143(E), dated 21-2-1989, Notification No. 8386, dated 9-6-1989 and Notification No. 267(E), dated 29-3-1990)

Where a foreign technician is deputed to India for the purpose of implementing the project and he receives living allowance (daily allowance) and lodging expenses from his employer (Foreign concern or Indian concern, the amount is exempt u/s 10(14)(i) to the extent such expenses are actually incurred for that purpose even if his stay in India extends beyond 183 days.

(g) Children Education Allowances



It is an allowance given to an employee for enabling him to meet the education expenses of his children.

Children Education Allowance is exempt in the whole of India @ Rs 100 per month per child upto a maximum of two children.

(h) Hostel Expenditure Allowances



It is an allowance given to an employee for enabling him to meet the hostel expenses of his children.

Any allowance granted to an employee to meet the hostel expenditure on his child is exempt in the whole of India @ 300 per month per child upto a maximum of two children.

(I) Transport Allowances to employee other than blind/deaf and dumb/ Orthopedically handicapped employee



It is an allowance granted to an employee working in any transport system, to meet his personal expenditure during the course of running of such transport from one place to another place, provided such employee is not in receipt of daily allowance.

*It is **exempt** under Section 10(14) to the extent of **least** of the following:*

70% of the Allowance

Or

Rs 10,000 per month

(j) Any other Allowances



(i) *Underground Allowance.* It is granted to an employee who is working in uncongenial, unnatural climate in underground mines. It will be exempt subject to a maximum of Rs 800 p.m.

(ii) *Special Allowance to members of Armed Forces.*

(3) Fully Exempted



(a) Allowances to High/Supreme Court Judges

Judge Pay Scale



They refer to allowances given in accordance with High Court Judges Court Judges (*Conditions of Service*) Act, 1954. Any allowances paid to a judge of a high court and supreme court under section 22A(2) of the high court judges (*condition of service*) Act, 1954 and section 23 (1A) of the supreme court judges (*salaries and condition of service* Act, 1958, respectively, is not taxable. Such allowance given to High Court/Supreme Court Judges is fully exempt from tax.

(b) Allowances paid by the United Nations Organisation



*Allowance from
U.N.O. Allowance
paid by a U.N.
Organization to its
employees is fully
exempt from tax.*

(C) Compensatory Allowances received by a judge



Compensatory Allowances received by a judge under Article 222(2) of the constitution is not taxable since it is neither salary nor perquisite.

(D) Sumptuary Allowances granted to High Court or Supreme Court Judges



Sumptuary Allowance refers to allowance given to Judges, which are in the nature of entertainment allowance.

(E) Allowances granted to Government employees outside India



*Any allowance given to Citizen of India, who is a Govt. employee, rendering services outside India. It is **fully exempt** under Section 10(7).*



- (F) Any other Allowances for meeting expenses relating to Performance of official duties.
- (G) Any other Allowances for meeting personal expenses of the employee.

SPECIAL ALLOWANCES UNDER RULE 2BB & EXEMPT U/S 10(14)





Special Allowance

1. Any special compensatory allowance in the nature of special compensatory (hilly area) allowance or high altitude allowance or uncongenial climate allowance or snow bound area allowance or avalanche allowance.
 - (a) Manipur, Arunachal Pradesh, Sikkim, Uttar Pradesh, Himachal Pradesh, specified areas of Jammu and Kashmir ₹800 p.m.
 - (b) Siachen area of Jammu and Kashmir ₹ 37,000 p.m.
 - (c) All other places located at a height of 1000 meters or more above the sea level other than places specified in A and B above ₹ 300 p.m.



Special Allowance

2. Any special compensatory allowance in the nature of Border Area Allowance, Remote Area Locality Allowance or Difficult Area Allowance or Disturbed Area Allowance.

(a) Little Andaman, Nicobar and Narcondam Islands, North and Middle Andamans, throughout Lakshadweep and Minicoy Islands, specified areas of Himachal Pradesh, Chhimtuipui District of Mizoram and areas beyond 25 km from Lunglei town in Lunglei District of Mizoram, Specified area of Jammu and Kashmir, specified districts of Uttar Pradesh, Sikkim ₹ 1300

(b) Installations in the continental shelf of India and the Exclusive Economic Zone of India. ₹ 1,100 p.m.

(c) Arunachal Pradesh, Nagaland, South Andaman (including Port Blair), Lunglei District of Mizoram, specified areas of Tripura, specified areas of Jammu and Kashmir, specified areas of Himachal Pradesh. ₹ 1,050

(d) Aizawl district of Mizoram, Tripura, Manipur, specified areas of Himachal Pradesh, specified areas of Jammu and Kashmir. ₹ 750

(e) Jog Falls in Shimoga District in Karnataka ₹ ₹300

(f) Other places of Himachal Pradesh, Assam and Meghalaya ₹200 p.m.

PERQUISITES UNDER SECTION 17(2)



The term 'perquisite' means any benefit attached to an office or position in addition to salary or wages. Perquisite denotes a personal advantage. It may be given in cash or in kind. If it is given in kind it should be capable of being measured in terms of money. For income tax purposes we limit the scope of perquisites to the benefits received in kind and which are convertible in terms of money. Perquisites received in cash are termed as allowances for income tax purposes.

PERQUISITES UNDER SECTION 17(2)



It refers to benefits provided to employee which results in personal advantage in the employee, and does not fulfill at least one of the following criteria:

- (a) Regular
- (b) Fixed
- (c) Monetary

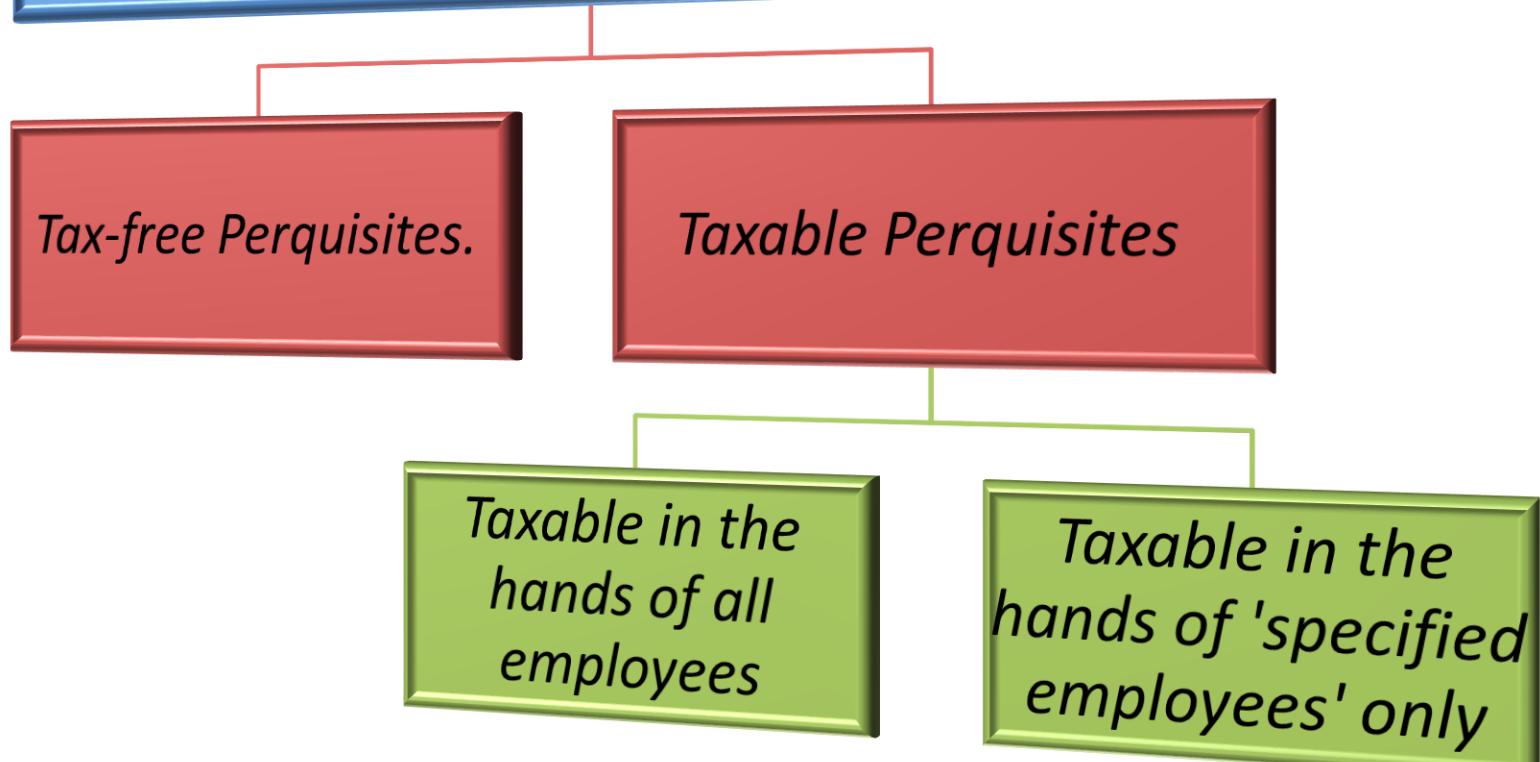
Chargeability of Perquisites



Perquisites are taxable under the head "Income from Salaries" when

- (a) They are given by employer to employee;*
- (b) During service period;*
- (c) For services rendered by employee to employer organisation.*

Classification of Perquisites



Tax Free Perquisites



They refer to perquisites which must not be recognised' for tax purposes. The following is the list of various tax-free perquisites

1. In respect of Rent-free Accommodation





(a) Rent-free official residence provided to Judges of High Court and Supreme Court.



(b) Rent-free residence provided to an Official of Parliament, a Union Minister and a Leader of the Opposition.



(c) Accommodation located in remote area' (i.e., an area located at least 40 kilometers away from a town having a population not exceeding 20000) provided to an employee working at a mining site or an onshore oil exploration site, or a project execution site or a dam site or power generation site or an offshore site.



Shillong Cantonment Board

(d) "Accommodation of temporary nature and having a plinth area of 800 sq. ft or less) which is located at least 8 km away from the local limits of a municipality or a cantonment board provided to an employee working at a mining site or an onshore oil exploration site, or a project execution site or a dam site or power generation site or an offshore site, is not chargeable to tax.



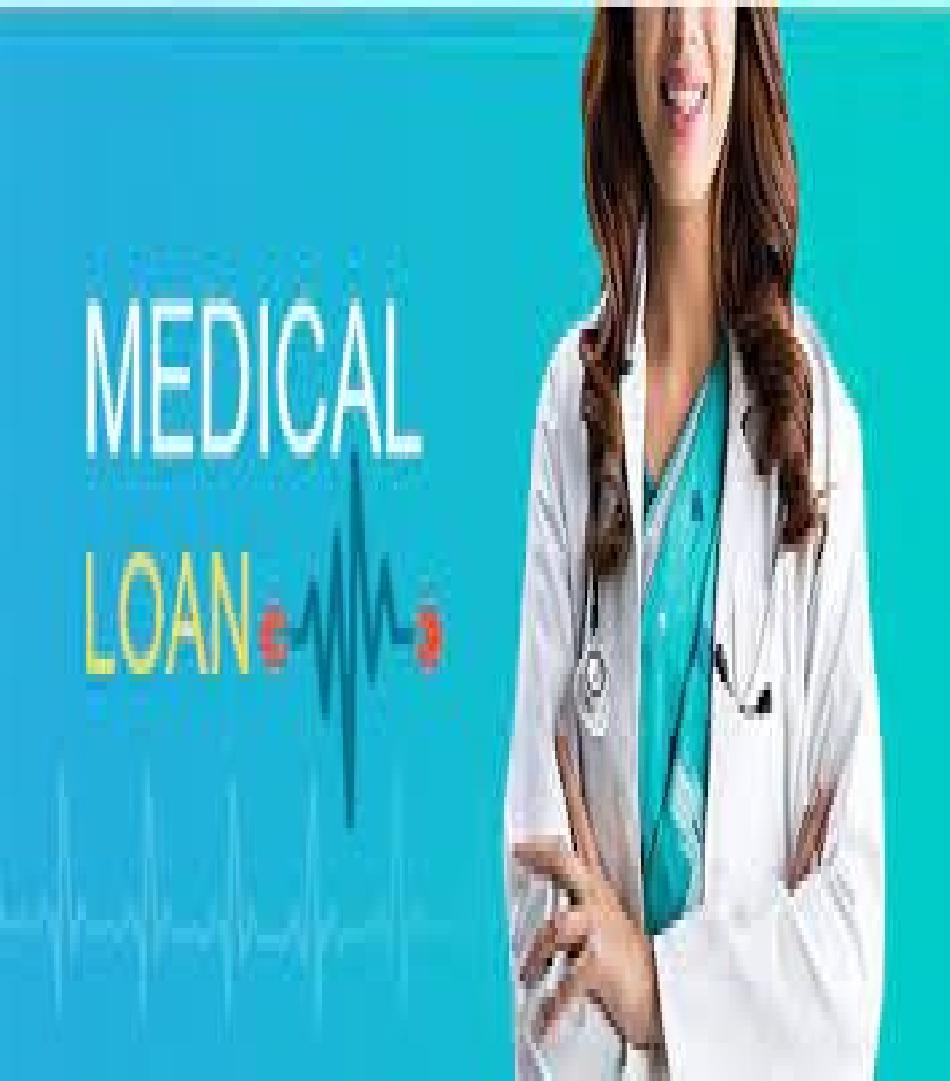
(e) When an employee is in possession of more than one accommodation on account of transfer from one place to another, value of one accommodation is not chargeable first 90 days.



(f) Hotel accommodation provided to employee on his transfer from one place to another place, for a period not exceeding 15 days is not chargeable to tax.



2. In respect of Interest-free or concessional interest loan given by employer to employee



**MEDICAL
LOAN**

A stylized graphic of a heart rate monitor strip is overlaid on the background, showing a red line with vertical spikes.

(a) Loan made available for medical treatment in respect of diseases specified in rule 3A



(b) Where the aggregate amount of original loan does not exceed Rs 20,000.

3. In respect of lunch/refreshment etc





(a) Food and non-alcoholic beverages provided in working hours in remote area or in an offshore installation.

(b) Tea or snacks provided during working hours.



A collage of various colorful cocktails and a blue line graph. The cocktails include a tall glass with orange juice and mint, a white margarita, a glass with yellow and green layers, a glass with red and orange layers, and a light blue cocktail. A blue line graph with a peak is overlaid on the top left.

(c) Food and non-alcoholic beverages provided in office premises or through non-transferrable paid vouchers usable only at eating joints provided by an employer up to Rs 50 per meal.

4. Gifts in kind up to Rs 5,000 in aggregate per annum would be exempt.



5. In respect of credit card facility



Expenditure on use of credit card for official purposes is not chargeable to tax, provided



(a) Complete details in respect of such expenditure is maintained by the employer which may inter alia, include the date of expenditure and the nature of expenditure,

Expenditure on use of credit card for official purposes is not chargeable to tax, provided



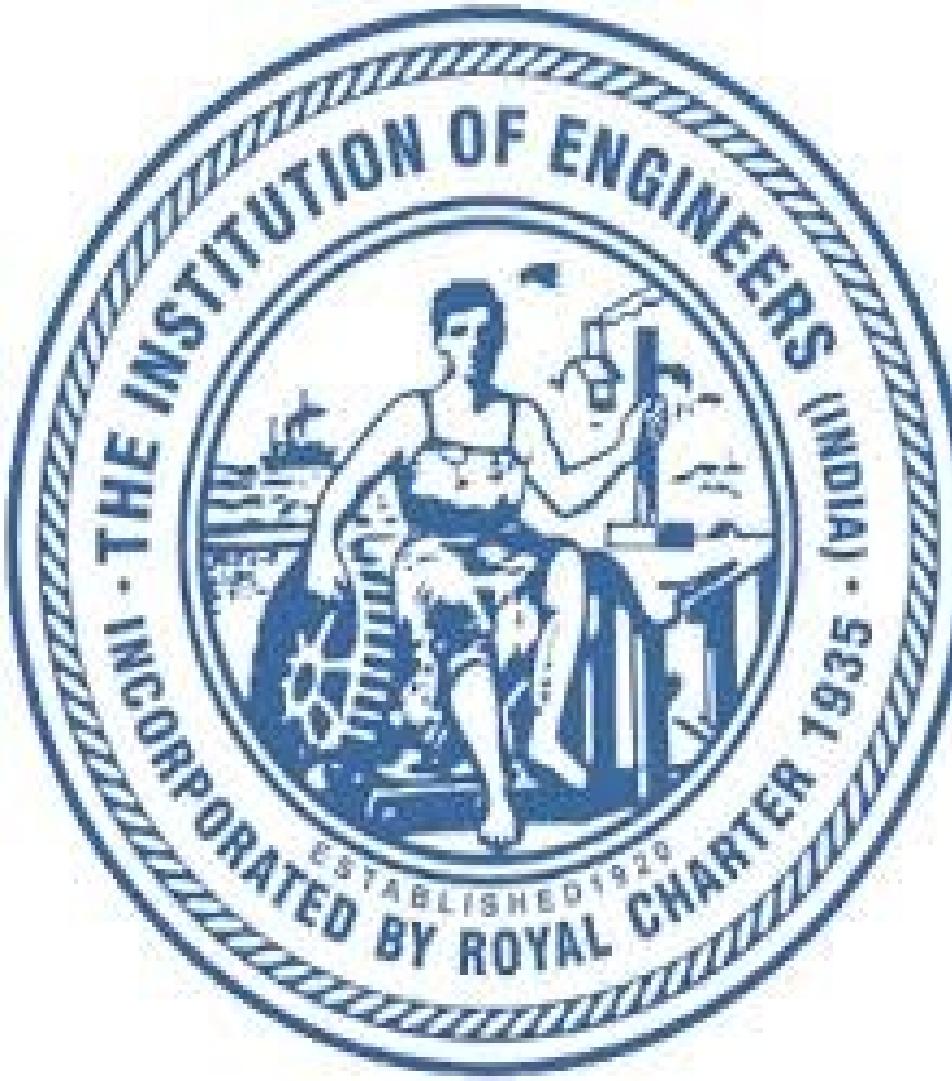
(b) The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

6. In respect of club facility





(a) *Health club, sports facilities etc., provided uniformly to all classes of employees by the employer at employer's premises are exempt.* Consequently, expenditure on such facility is not included.



(b) *The initial one time deposit or fees for corporate or institutional membership, where benefit does not remain with a particular employee after cessation of employment are exempt.*



(c) Expenditure on use of club facility for official purposes is exempt from tax provided-



(i) Complete details in respect of such expenditure is maintained by the employer which may, inter-alia, include the date of expenditure, the nature of expenditure and its business expediency.



(ii) The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

7. Computers or lap tops, and telephone provided by employer to employee are exempt from tax.



8. In respect of motor car facility





(a) Car provided by employer to employee and used by employee completely for official purposes is not chargeable to tax provided



(i) The employer has maintained complete details of journey undertaken for official purposes which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon.



(ii) The employer gives a certificate to the effect that the expenditure incurred wholly and exclusively for the performance of official duties.



(b) Conveyance facility provided to Judges of High Court and Supreme Court is not chargeable to tax.



(c) The use of motor car by an employee for the purpose of going from his residence to the place where the duties of employment are to be performed or from such place back to his residence, is not chargeable to tax.



(d) Car owned by employee, expenses for which are met by employer, if used completely for official purposes is not chargeable to tax provided



(i) The employer has maintained complete details of journey undertaken for official purposes which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon.



CERTIFICATE

(ii) *The employer gives a certificate to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.*



(e) When car owned by employee is used by him for both official and personal purposes, expenses for which are met by employer, the facility is exempt up to Rs 1800 p.m. (if the cc rating of the car does not exceed 1600) or Rs 2400 p.m. (if the cc rating of the car exceeds 1600) provided



(i) The employer has maintained complete details of journey undertaken for official purposes which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon.



CERTIFICATE

(ii) The employer gives a certificate to the effect that the expenditure incurred wholly and exclusively for the performance of official duties.

9. In respect of any other conveyance facility Vehicle owned by employee, expenses for which are met by employer, if used completely for official purposes is not chargeable to tax provided-





(i) The employer has maintained complete details of journey undertaken for official purposes which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon.



(ii) The employer gives a certificate to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

10. In respect of free or concessional education

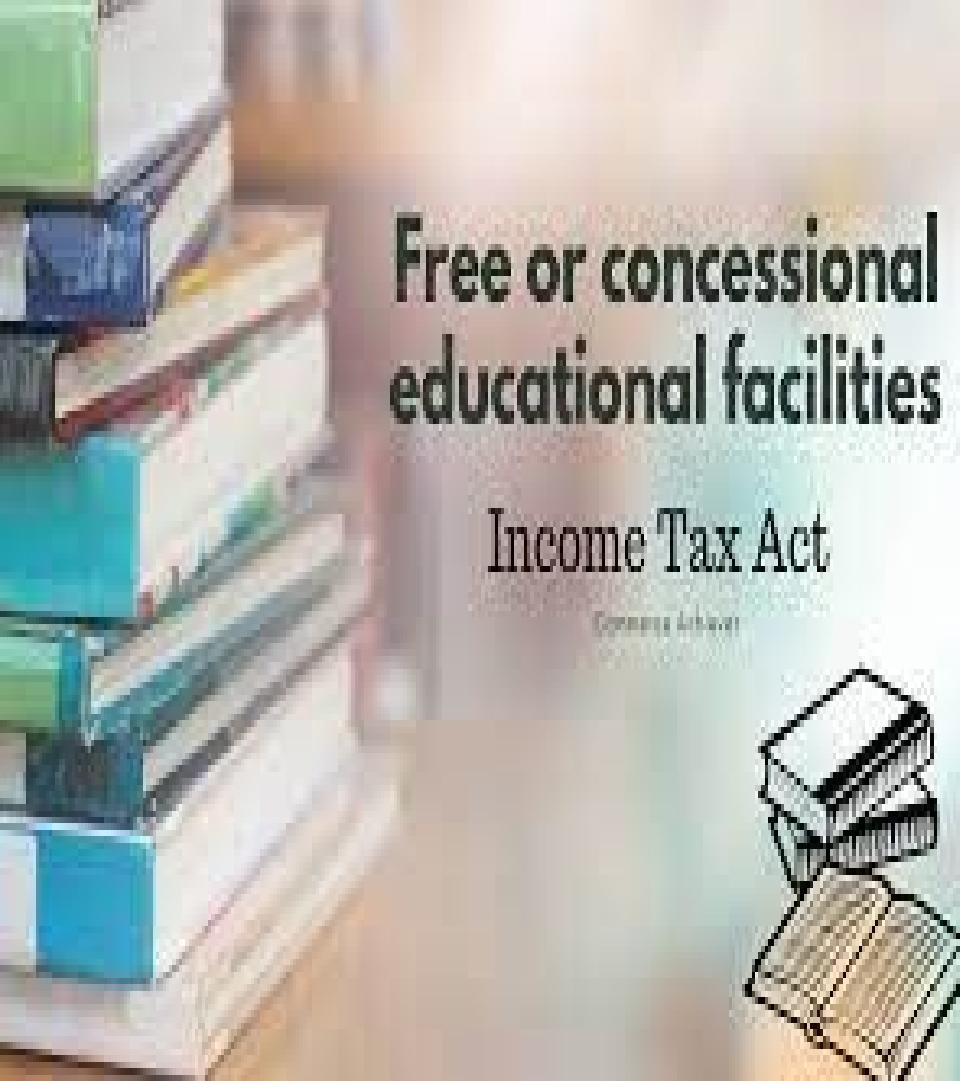
Free or concessional educational facilities

Income Tax Act



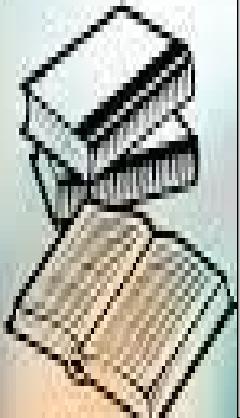


(a) Amount spent for providing free education facilities to, and training of, the employees is not taxable.



Free or concessional educational facilities

Income Tax Act



(b) When employee's children is provided free or concessional education in an institution owned and maintained by employer, the cost of education or value of such benefit exempt up to Rs 1000 per month per child.



(c) Amount of scholarship given by employer-company to children of its employees solely at its discretion without reference to terms of employment is not assessable as perquisite in the hands of employees.

11. Free transportation facility provided to employees and members of their household by Railways and Airlines.



12. Premium paid by employer on personal accident policy in the name of employee, policy being taken by employer.



13. Employer's contribution to Group Insurance Scheme of Employees.

Group Insurance



Types

- Health/ Medical Insurance
- Term Life Cover
- Personal Accident Insurance

14. Sale of goods manufactured by employer at concessional rates.



15. Tax paid by employer on non-monetary perquisites provided to employee (Section 10(10CC)).- (explained under the head "Profits and Gains from Business or Profession")



16. Medical Facilities





(a) Expenses incurred by employer on medical treatment of employee or his family members in a hospital maintained by employer.



(b) Expenses incurred or reimbursed by employer on medical treatment of employee or his family members in a hospital maintained by Central Government or State Government or Local Authority.



(c) Expenses incurred or reimbursed by employer on medical treatment of employee or his family in a hospital approved by the Chief Commissioner for treatment of disease prescribed under Rule 3A.



(d) *In any other case - Up to Rs 15000 per annum is exempt.[This exemption is withdrawn from financial year 2018-19, as applicable from Assessment Year 2019-20. In lieu of this, Standard Deduction is provided u/s 16(ia)]*



(e) Medical Insurance Premium paid or reimbursed by employer on policy of employee and his family.

(f) Medical Treatment outside India





(i) Medical treatment expenses met by employer-exempt to the extent permitted by Reserve Bank of India.



Boarding



Provision of accommodation and meals



Mostly used by students



Used for a longer stay



Examples: Boarding school
Boarding house



Lodging



Provision of accommodation



Mostly used by tourists, traveling businessman etc



Used for a temporary stay

Examples: Hotel, Guesthouse, motel etc

(ii) Lodging and Boarding expenses of patient and one attendant met by employer- exempt to the extent permitted by Reserve Bank of India.



(iii) Travelling expenses of patient and one attendant met by employer - fully exempt if the gross total income of the employee (before considering this benefit) does not exceed Rs 2,00,000.

Note: For the purpose of this benefit, "family" means -

The spouse and children of the individual; and

The parents, brothers and sisters of the individual or any of them, wholly and mainly dependent on the individual

17. In respect of leave travel concession



Leave travel concession extended by an employer to an employee for going anywhere in India along with his family is exempt twice in a block of four years to the extent of least of the following:

- (a) Amount of assistance provided by employer; or*
- (b) Actual expenditure on travel incurred by employee; or*
- (c) Amount as per guidelines under rule 2B.*

The amount as per guidelines is as follows:

Situation	Amount as per guideline
When the journey is performed by air	Amount of economy class air fare of the national carrier by the shortest route to the destination.
Where journey is performed by rail	Amount of air-conditioned first class rail fare by the shortest route to the destination.
Where the journey is by some other mode and the place of origin and place of destination is connected by rail	Amount of air-conditioned first call rail fare by the shortest route to the destination.
<p>Where the journey is by some other mode and the place of origin and place of destination is not connected by rail.</p> <p>However, a recognized public transport system exists between the two places.</p>	First class or deluxe class fare by the shortest route to the destination.
<p>Where the journey is by some other mode and the place of origin and place of destination is not connected by rail; and no recognized public transport system exists between the two places.</p>	Air-conditioned first class rail fare for distance equivalent to the shortest route to the destination (as if the journey had been performed by rail)



Note: For the purpose of this benefit, "family" means -

- (a) The spouse and children of the individual; and
- (b) The parents, brothers and sisters of the individual or any of them, wholly and mainly dependent on the individual.

"Children of the individual include

- (i) All surviving children of the employee, born before 1st October 1998.
- (ii) Up to two surviving children born on or after 1st October 1998.
- (iii) After 1st October 1998, where a child is born and in the next birth, if multiple children are born, then children born out of multiple births after the first child will be treated as one child.

Perquisites Taxable in the Hands of All Employees



The following perquisites are taxable in the hands of all employees, irrespective of their category position, pay or any other criteria:

1. *Rent-free accommodation (Section 17(2))]*
2. *Accommodation provided at concessional rent (Section 17(2)(ii))]*
3. *Personal obligation of employee paid/reimbursed by employer (Section 17(2)(iv))]*
4. *Insurance premium paid by employer on life insurance policy of employee, policy being taken by employer (Section 17(2)(v))]*
5. *Free on concessional allotment of shares under Employee Stock Option Plan or Sweat Equity Shares. (Section 17(2)(vi))]*
6. *Contribution by employer to employee's approved superannuation fund (Section 17(2)(vii))*
7. *Any other fringe benefits (Section 17(2)(viii)).*

A. Rent Free Accommodation [Section 17(2)(i)]





Where the employer has provided accommodation to the employee and his family, without charging any rent, it is a perquisite taxable under Section 17(2)(i). The taxable value of rent-free accommodation must be ascertained in accordance with the provisions specified under Income Tax Rule 3(1).

The various cases when rent-free accommodation is **not taxable** are given under 'tax-free perquisites (Item No. 1)'. In other cases, the benefit is taxable and following are the valuation provisions pertaining to rent-free accommodation:

The accommodation provided by employer to employee may be

1. House Accommodation, or
2. Hotel Accommodation

Valuation of Rent-free House Accommodation provided to employee



The valuation of rent-free house accommodation provided to employee depends upon whether the accommodation provided is 'Unfurnished' or 'Furnished'.

Valuation of rent-free Unfurnished House Accommodation

The provisions for valuation of rent-free unfurnished house accommodation is summarised in the following table:

Value of Rent-free Unfurnished House Accommodation provided to Employees under Government Service.	License Fee determined by the Central Government or State Government in accordance with the rule framed by the Government for allotment of house to its officers.
Value of Rent-free Unfurnished House Accommodation provided to 'Other than Government Employees' - when the accommodation is taken on lease or rent by employer.	Amount of lease rent paid or payable or 15 per cent of "Salary", whichever is less.
Value of Rent-free Unfurnished House Accommodation provided to 'Other than Government Employees' - when the accommodation is owned by employer	When the population of the city in which the accommodation is located (as per 2001 census) is – Exceeding 25 lakh - 15% of "Salary" Exceeding 10 lakh but not exceeding 25 lakh - 10% of "Salary" Not exceeding 10 lakh - 7.5% of "Salary"

Notes



1. "Salary" for the purpose of valuation of rent-free accommodation includes
 - (a) Basic Salary.
 - (b) Taxable Portion of Allowances (Dearness Allowance must be considered only if it enters into retirement benefits).
 - (c) Bonus.
 - (d) Any Commission.
 - (e) Dearness Pay.
 - (f) Fees.
 - (g) Taxable portion of any other monetary payment, not being a perquisite.
2. "Salary" for this purpose must be calculated on 'accrual basis. That is, the total of all above items belonging to the period for which the accommodation was provided to employee during previous year must be considered, irrespective of whether the items are received or not; and taxable or not.
3. Where the employee is serving with more than one employer during the period for which he is provided with rent-free accommodation, the above listed items from all employers for the said period must be considered for calculating "Salary".

Valuation of Rent-free Furnished House Accommodation

Where the accommodation provided to employee is furnished, the taxable value is calculated as follows

value of Rent-free Unfurnished House	??????
Accommodation (calculated as above)	
Add: Value of Furniture	??????
	??????

Value of Furniture = Actual hire charges of furniture (if the furniture is hired by employer) or 10 per cent per annum of the 'original of furniture (if the furniture is owned by employer).

Valuation of Hotel Accommodation provided to employee and his family

Hotel Accommodation includes accommodation provided in motels, service apartment and guest house. The taxable value of this nature of accommodation provided to employee is –

Actual charges payable to Hotel by the employer

Or

24% of “Salary”

Whichever is less

Note: "Salary" for this purpose is same as explained earlier in the case of rent-free house accommodation.

B. Accommodation Provided at Concessional Rent (Section 17(2)(ii)]



Where the employee is provided accommodation facility by his employer not free of rent, but for a nominal or concessional rent, then the benefit is taxable under Section 17(2)(ii).

The taxable value of this benefit, in accordance with provisions under Income Tax Rule 3(1) is -

Value of Rent-free Accommodation minus Rent charged to employee.

Where, the rent charged to employee exceeds the value of rent-free accommodation, there is no concession received by employee and hence the taxable value is 'Nil'.

(c) Personal obligation of employee met or reimbursed by employer Section 17(2)(iv)]

Any obligation of employee, when met or reimbursed by employer, will be taxable under Section 17(2)(iv). The taxable value will be the **amount met or reimbursed** by employer. Some examples of benefits taxable under this clause are

- (a) Income tax of employee paid or reimbursed by employer.
- (b) Professional tax of employee paid or reimbursed by employer.
- (c) Personal loans of employee repaid by employer.
- (d) Life insurance premium on policy of employee paid by employer, policy being taken by employee.
- (e) Life insurance premium on policy of employee's family members, paid or reimbursed by employer.
- (f) Medical benefits extended by employer to any person other than employee or members included in 'family'.
- (g) Taxable value of medical benefit in the hands of employee, when the medical bills are in the name of employee or patient (being a part of 'family').
- (h) Premium paid by employer on personal accident insurance policy in the name of employee, policy being taken by employee.
- (i) Expenses met or reimbursed by employer towards running and maintenance of motor car owned by employee and used by him for his personal purposes.
- (j) Salary paid by employer to domestic servants of employee, servants being appointed by employee.
- (k) Gas, electricity and water bills of employee paid by employer, when the connections are not in the name of employer.
- (L) Education expenses of employee's children or 'members of the household' met or reimbursed by the employer, when the children or 'members of the household' are getting educated in an institution not run by employer and the receipt is issued in the name of employee or the student etc.

D. Insurance premium paid by employer on life insurance policy of employee, policy being taken by employer (Section 17(2)(v)]

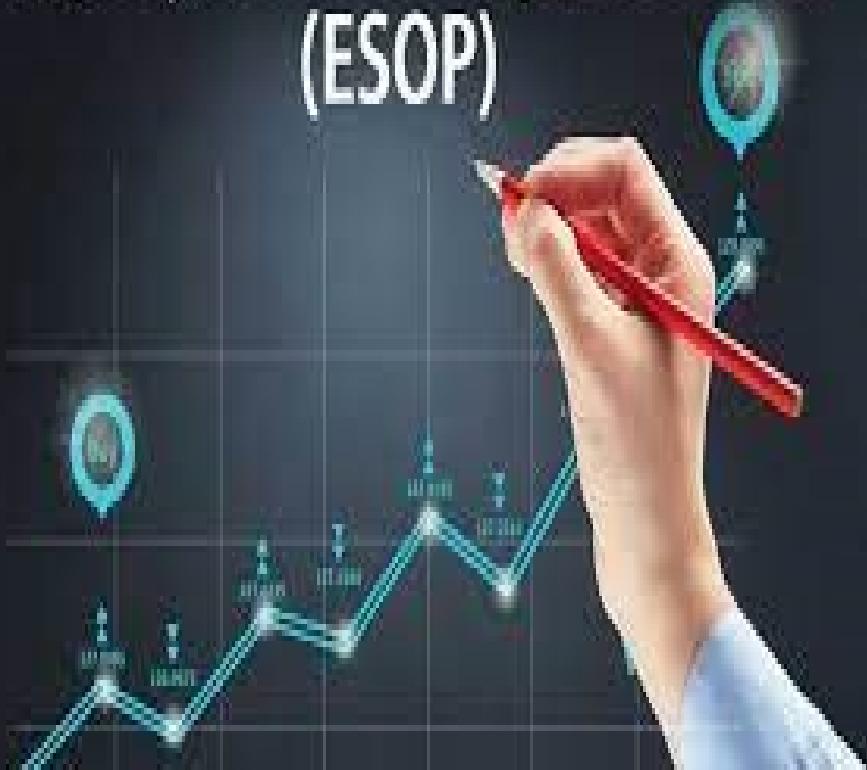


Any premium paid by employer on life insurance policy in the name of employee is taxable under this clause, provided the policy is taken by the employer, on employee's name.

The amount of premium paid by employer during the relevant previous year is the taxable value.

E. Free or concessional allotment of shares under Employee Stock Option Plan or Sweat Equity Shares. [Section 17(2)(vi)]

Employee Stock Option Plan (ESOP)



Where the employee is allotted shares of the company under Employee Stock Option Plan or as Sweat Equity Shares, either free of cost or at concessional rate, the benefit so received by employee is taxable under this clause. 'Sweat Equity Shares' means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value addition, by whatever name called.

The tax treatment for this facility is provided in Income Tax Rule 3(8) and 3(9) and accordingly, the taxable value is

Taxable Value = Fair Market Value of the specified security or sweat equity shares on the date of exercising of the option minus amount, if any, paid by or recovered from employee.

Determination of Fair Market Value

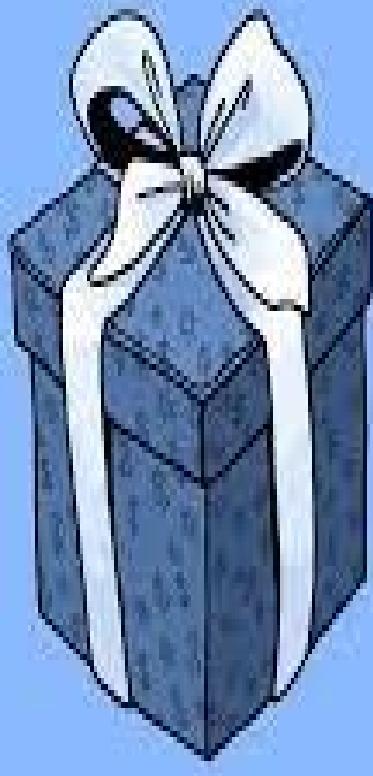
	Situations	How fair market value is determined?
Case 1	On the date of exercise of option the share in the company is listed on a recognized stock exchange in India.	The fair market value shall be the average of the opening price and the closing price of the share on that date on the said exchange.
Case 2	On the date of exercise of option the share in the company is listed on more than one recognized stock exchange in India.	The fair market value shall be the average of the opening price and the closing price of the share on that date on the recognized stock exchange which records the highest volume of trading in the share.
Case 3	On the date of exercise of option the share in the company is listed on more than one recognized stock exchange in India	<p>The fair market value shall be :</p> <ul style="list-style-type: none">(a) closing price of the share on that date on the recognized stock exchange on a date closest to the date of exercise of the option and immediately preceding such date; or(b) closing price of the share on that date on the recognized stock exchange, which records the highest volume of trading in the share, if the closing price, on a date closest to the date of exercise of the option and immediately preceding such date, is recorded on more than one recognized stock exchange.
Case 4	On the date of exercise of option the share in the company is not listed on more than one recognized stock exchange (including a case where share is listed abroad but not on any recognizing stock exchange in India)	The fair market value shall be such value of the share of the company as determined by a merchant banker on the specified date. 'Specified date' means <ul style="list-style-type: none">(i) the date of exercise of the option; or(ii) any date earlier than the date of exercising the option, not being a date which is more than 180 days earlier than the date of option.

F. Contribution by employer to employee's approved superannuation fund (Section 17(2)(vii))



Any contribution made by employer towards approved superannuation fund account in the name of employee is taxable under this clause, to the extent the contribution during the relevant previous year exceeds Rs 1,50,000.

G. Other Fringe Benefits [Section 17(2)(viii)]



Fringe Benefits

(Non-benefits)

Extra compensation
companies give their
employees.

Fringe Benefits refer to other peripheral benefits given to employee, in accordance with employer's policy. These benefits may not relate to the office or position of the employee, but are generally available to all employees of an organisation.

Fringe Benefits' under the above mentioned clause includes

- *Interest free or concessional interest loan advanced to employee.*
- *Holiday home facility.*
- *Free or concessional food and non-alcoholic beverage.*
- *Gifts.*
- *Credit card facility.*
- *Club facility.*
- *Free or concessional use of employer's movable asset;*
- *Transfer of any movable asset by employer.*



The term 'members of the household of the employee', used in the following provisions include

- (i) Spouse of the employee,*
- (ii) Children of the employee and their spouses,*
- (iii) Parents of the employee,*
- (iv) Servants of the employee and their dependents.*

1. Interest free or concessional interest loan advanced by employer to employee or any member of the household of the employee.



When an interest-free or concessional interest loan is advanced by employer to employee or any member of the household of the employee the amount of interest saved on account of borrowing from employer, is the benefit to employee. Where the same amount of loan was borrowed by employee from another source, he would have paid interest. But, having borrowed from employer free of interest or at nominal interest, he is saving interest. It is a benefit to the employee and hence taxed as a perquisite.

The taxable value of this benefit, in accordance with Income Tax Rule 3(7)(1), is calculated as follows-

Particulars	Amounts Rs
Maximum Outstanding Monthly Balance × Rate of interest charged by SBI on the first day of the relevant previous year	???????
Less: interest amount, if any, recovered from employee	???????
	???????

Notes:

(a) 'Maximum outstanding monthly balance' refers to the outstanding balance of each loan as on the **last day of each month**.

(b) The rates of interest charged by the State Bank of India, as on 1 April 2022 (applicable to previous year 2023-24) are as follows-

Type of Loan	Tenure or Term	Rate of Interest (%)
Housing Loan	For Women borrowers	8.45
	Others	8.50
Car Loan	For Women borrowers	9.25
	Others	9.30
	Certified pre-owned cars (for all borrowers)	12.80
Two wheeler Loan		11.80
Education Loan	Up to 7.5 lakhs	10.15
	Above 37.5 lakhs	10.90
	Note: Concession of 0.5% for Girl students	
Personal Loan		11.65 - 12.15

Note: For tax purposes, the rate of interest as charged by SBI on 1 April 2018 must be considered, and not the rate of interest as on the date of advancing the loan by employer.

Cases where interest-free or concessional interest loan is not taxable are given under 'tax-free perquisites' - (Item No. 2)

2. Holiday Home Facility



Where employee or 'members of the household' of employee are provided accommodation facility while on holiday, and/or any other expenses incurred by employee or 'members of the household' of the employee during holiday or vacation are met or reimbursed by employer, the benefit, which is personal in nature, is taxable as perquisite.

The taxable amount of this benefit must be calculated as follows, in accordance with Income Tax Rule 3(7)(ii)

Situation	Taxable Value
Where the holiday home facility belongs to employer and is made available to all employees uniformly.	Expenditure incurred by the employer minus any amount recovered from employee.
Where the holiday home facility belongs to employer and not made available uniformly to all employees.	Value at which such facilities are offered by other agencies to the public minus any amount recovered from employee
Where the holiday home facility does not belong to Employer.	Amount of expenditure met or reimbursed by employer minus any amount recovered employee.

3. Free or Concessional Food and Non-alcoholic Beverages



Where employer provides facility of food and beverages to employees either in office premises, or thorough non-transferrable paid vouchers usable at eating joints, the employee is benefitted when there is no charge for the facility or is charged nominally. The taxable value of this benefit ,in accordance with Income Tax Rule 3(7)(iii), is calculated as follows-

Particulars	Amount s Rs
Cost to employer in excess of Rs 50 per meal	???????
Less: Any amount recovered from employee	???????
	???????

Cases where free or concessional food facility is not taxable are given under 'tax-free perquisites' - (Item No. 3)

4. Gifts



Where employer provides gifts to employees, they are taxable as perquisites under 'fringe benefits. The gifts given may be for personal or official reasons. The tax provisions for this benefit in accordance with Income Tax Rule 3(7)(iv), are as under

Situation	Taxable Value
Where the gifts are given in monetary form (i.e., in cash, by cheque, bank transfer etc.)	The aggregate value of cash gift received by employee during previous year is fully taxable.
Where the gifts are given in non-monetary forms like gift vouchers, mementos, articles, valuables etc.	The aggregate value of 'gifts-in-kind' received by employee during previous year, to the extent it exceeds Rs 5,000 is taxable. (That is, where the aggregate value of 'gifts in kind' is less than or equal to Rs 5,000, it is tax-free, and when the aggregate value exceeds Rs 5,000, the excess value over and above Rs 5,000 is taxable.)

5. Credit Card Facility



Where the employer provides credit card to employee or any 'member of the household' of the employee, the expenditure incurred by employer to provide such facility is taxable in the hands of employee as 'fringe benefits'.

The taxable value of this facility, in accordance with Income Tax Rule 3(7)(v), is calculated as under

Particulars	Amount Rs
Expenditure incurred by employer in respect of credit card used by employee or any member of his household (excluding usage for official purposes)	???????
Less: any amount recovered from employee	???????

Note: Only expenditure incurred by employer to provide credit card facility like membership fees, annual fees etc., is taxable. Credit card bills of employee met or reimbursed by employer is taxable as 'personal obligation of employee met or reimbursed by employer' under Section 17(2)(iv) to the extent the bill amount pertains to personal use of employee.

Case where credit card facility is not taxable is given under 'tax-free perquisites' - (Item No. 5)

6. Club Facility



Where the employer provides membership of any club to employee or any 'member of the household of employee', the benefit is taxable as perquisite in the hands of the employee.

The taxable value of this facility, in accordance with Income Tax Rule 3(7)(vi), is calculated as under

Particulars	Amount Rs
Expenditure incurred by employer in respect of club facility for used by employee or any member of his household (excluding usage for official purposes)	???????
Less: any amount recovered from employee	???????
	???????

Notes: only expenditure incurred by employer to provide club membership is taxable. Club reimbursed by employer is taxable as personal obligation of employee met or reimbursed by employer under Section 17(2)(iv) to the extent the bill amount pertains to personal use of employee.

Cases where club facility is not taxable are given under 'tax-free perquisites (Item No. 6)

7. Free or Concessional Use of Employer's Movable Assets



Where an employee of any 'member of the household' of employee uses any movable a provided by employer (other than computers, lap tops, mobile phones, telephone and motor for their personal purpose, either without making any payment, or for a nominal charge, then benefit is taxable as perquisite.

The taxable value of this benefit, in accordance with Income Tax Rule 3(7)(vii), is calculate as under

Particulars	Amount Rs
Value of the Movable Asset	???????
Less: any amount recovered from employee	???????
	???????

Value of the Asset

(i) Where the asset is hired by employer - Actual Hire Charges,

(ii) Where the asset is owned by employer - 10% per annum of the Original Cost' of the Asset. **Note:** For motor car provided by employer to employee, there are separate valuation provisions given under Income Tax Rules. Hence, it is not considered here.

8. Transfer of Employer's movable assets to employee



Asset	Rate of Normal Wear and Tear
Computers and electronic items (i.e., data storage devices)	50% of 'reduced balance'
Motor Cars	20% of "reduced balance"
Other Assets	10% of original cost'

Where an employer transfers any movable asset owned by him to any employee or any 'member of the household' of the employee without consideration or for a nominal consideration, then the benefit is taxable in the hands of the employee, as a perquisite.

The taxable value of this benefit, in accordance with Income Tax Rule 3(7)(viii), is calculated as under

Particulars	Amounts Rs
Original Cost of the Asset	?????
Less: Normal wear and tear for each completed year of life	?????
Less: Any consideration paid by employee	?????
	?????

Notes:

- 1. The deduction for 'Normal Wear and Tear' must be calculated at the following rates:*
- 2. The deduction for normal wear and tear must be provided for each completed year of life of the assets. Suppose, the employer purchased an asset in May 2014 and transferred the same to an employee in January 2019. Till the date of transfer, the asset is used by employer for 3 years and 9 months. However, deduction for normal wear and tear must be provided only for completed years which is 3 years in this case.*

Perquisites Taxable in the Hands of 'Specified Employees'



Only Apart from 'tax-free perquisites' and 'perquisites taxable in the hands of all employees', any other perquisite given by employer to employee will be taxable, only when the employee is regarded as a 'specified employee'.

According to Section 17(2)(iii) of the Act, an employee is a specified employee, when

- (i) He is a **director** of the company, or*
- (ii) He has **substantial interest** in the company, or*
- (iii) His **total taxable monetary emoluments** from all employers during relevant previous year, after providing for deductions under Section 16, exceeds Rs 50,000.*



Notes

1. An employee can be considered as 'specified employee' when he fulfills any one of the above three criterion, for the relevant previous year.
2. The first criteria of being a director of the company is said to be fulfilled when the employee a director for any part of the year. Further, he can be director in any capacity - by shareholdings, by nomination etc.
3. A person is said to be having substantial interest in a company when he is the beneficial owner of at least 20% of equity share capital of the company. It must be noted that the employee need be the actual owner or registered owner, but must be beneficial owner.
4. In ascertaining the fulfillment of the third criteria, the following points must be kept in mind.
 - (i) The Monetary payments or emoluments received only must be considered, and any benefit or emolument which is non-monetary must be ignored.
 - (ii) The taxable amount of those monetary benefits must be considered.
 - (iii) The total taxable amount of the monetary benefits received by employee during relevant previous year must be considered, irrespective of the number of employers from which such benefits are received.
 - (iv) From such total taxable monetary receipts, deductions under Section 16 must be provided.
 - (v) The balance amount after providing for deductions under Section 16 must **exceed** Rs 50,000. Where the balance is Rs 50,000 or less, the condition is not considered as fulfilled'.
5. The first two criteria are applicable only for employees working in corporate entities. Generally, the last criterion is applicable to all employees.

PERQUISITES



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5. The first two criteria are applicable only for employees working in corporate entities. Generally, the last criterion is applicable to all employees.

List of perquisites taxable in the hands of specified employees only



The following is the list of other perquisites' which are taxable only if the employee is a specified employee.

- 1. Free or concessional Motor Car Facility*
- 2. Free or concessional conveyance Facility (other than Motor Car)*
- 3. Free or concessional facility of domestic servants.*
- 4. Free or concessional supply of gas, electricity and water.*
- 5. Free or concessional educational facility to 'members of the household' of the employee.*
- 6. Free or concessional transport facility provided by a transport undertaking to the employee or 'members of the household' of its employees.*
- 7. Any other facility not covered earlier*

A. Motor Car Facility



Motor-car Facility may be provided by employer to employee in two different ways, viz.,

I. Employer provides motor car to employee, and may also meet running and maintenance expenses.

II. Employer meets or reimburses the running and maintenance expenses of the motor car which belongs to employee.

The tax provisions relating to 'motor-car facility', in accordance with Income Tax Rule 3(2), are summarised in the following table:

Cases where motor car facility is not taxable are given under 'tax-free perquisites' - (Item No. 8)

Situation	Usage of Car	Taxable Under Section	Taxable Value
Car provided by employer	Only for official Purpose	Not Taxable	Nil
Car provided by employer and running & maintenance expenses met by employer	Used only for personal purposes	17(2)(iii)	Value of the Car (See Note below) plus Running and Maintenance Expenses met or reimbursed by employer minus Any amount charged to employee
Car provided by employer and running & maintenance expenses met by employer	Used only for personal purposes	17(2)(iii)	Value of the Car (See Note below) minus Any amount charged to employee
Car provided by employer and running & maintenance expenses met by employer	Used for both official and personal purposes	17(2)(iii)	Standard Value (See Note Below)
Car provided by employer and running & maintenance expenses met by employer	Used for both official and personal purposes	17(2)(iii)	Standard Value (See Note Below)
Car is owned by employee and expenses met by employer	Used only for personal purposes	17(2)(iv)	Running & maintenance expenses met or reimbursed by employee
Car is owned by employee and expenses met by employer	Used for both official and personal purposes	17(2)(iv)	Running & maintenance expenses met or reimbursed by employee minus Standard Value (See Note Below)
Car is owned by employee and expenses met by employer	Any purpose	Not a perquisite	



Notes

1. "**Value of the Car**" in the above table means

Actual hire charges for the car, if the car is hired by employer,

Or

10% per annum of the 'original cost of the car, if the car is owned by employer

2. When the car **provided by employer** to employee is used by employee for **both official and personal purposes**, then the taxable value of car facility will be the 'standard value' as summarise table below :

Types of car	Running and expenses met by	
	Employer	Employee
Small Car (Cubic Capacity of the engine of the Car ≤ 1.6 Liters Or Horse Power of the car ≤ 16)	Rs 1800 per calendar month	Rs 600 per calendar month
Big Car (Cubic Capacity of the engine of the Car > 1.6 Liters Or Horse Power of the car > 16)	Rs 2400 per calendar month	Rs 900 per calendar month



Notes

Where free services of driver is also made available to employee (i.e., where the salary of driver is paid by employer), **Rs 900 per calendar month** must be added for all the values in the above table.

3. The values given in the table above is per **calendar month**, which means only 'completed calendar months' must be considered for computing taxable value. For example, where an employee is provided motor car by his employer for 5 months and 20 days, the taxable value must be calculated only for 5 months and part of a month must be ignored.

4. When **standard value is taken as 'taxable value'** of the car facility, any **amount charged to employee** for usage of the car **must not be deducted**.

5. Where the **car belongs to employee** and expenses are met or reimbursed by employer, then to the extent the car is used for **personal purposes**, the benefit becomes personal obligation of employee met or reimbursed by employer', and hence is taxable under Section **17(2)(iv)**.

6. Where the **car which belongs to employee** is used by him for both **official and personal purposes**, expenses for which are met or reimbursed by employer, the tax treatment is as follows

(i) If the **log book for the use of car is maintained**, then the amount of expenditure met or reimbursed by employer proportionate to personal use of car must be taken as "taxable value". (ii) If the **log book for the use of car is not maintained**, then a deduction must be given from amount of expenditure . met or reimbursed by employer, for arriving at taxable value. The deduction is for the extent to which the car is used for official purpose. Since, log book is not maintained, **standard value must be deducted**. For this purpose, standard value is 1,800 per month (in case of small car) or Rs 2,400 per month (in case of big car) **Plus** Rs 900 per month (in case of free services of driver).

7. Where the employee is provided different cars from a pool of cars' of the employer, the taxable value can be calculated presuming only small car is provided. This assumption is for the benefit of the assessee.

8. Where an employee is provided by his employer with more than one car and all of them are used by him for both official and personal purposes, then for tax purposes. on will be taxed as used for both purposes and the remaining cars will be taxed as if for personal purposes only.

A. Any Other Conveyance Facility (Other than Motor Car)



Where employee owns any other conveyance facility, other than motor car (like two wheeler, etc.,) and expenses for the use of the vehicle is met or reimbursed by employer, it becomes a perquisite. The tax provisions for this benefit, in accordance with Income Tax Rule 3(2) are summarised the table below:

Situation	Usage of Vehicle	Taxable Under Section	Taxable Value
Vehicle is owned by employee and expenses are met by employer	Used for only personal purposes	17(2)(iv)	Running and maintenance expenses or reimbursed by employer.
Vehicle is owned by employee and expenses are met by employer	Used for both official and personal purposes	17(2)(iv)	Running and maintenance expenses minus Rs 900 per month, or any higher amount if log book for use of vehicle is maintained
Vehicle is owned by employee and expenses are met by employee	Any purpose	Not a perquisite	

B. Domestic Servant Facility



Where employee is provided facility of domestic servants (maid-servant, sweeper, gardener, cook, watchman, etc.,), it is a benefit which is taxable as perquisite as per provisions under Income Tax Rule 3(3).

The employer can provide servant facility to employee in two ways, viz.,

1. Employer appoints servants at employees' residence and pays their salary.

2. Employee appoints servants at his residence, their salary being paid by employer.

*Where employer appoints servants at employees' residence and their salary are paid by the employer, the facility taxable **under Section 17(2)(iv)**, as personal obligation of employer met or reimbursed by employer.*

In either case, the taxable value is

Particulars	Amount Rs
cost to employer(salary paid by employer to domestic servants of employee)	???????
Less: any amount, recovered from employee	???????
	????????

Notes:

Usually, employer appoints servants at employee's residence, when employee is residing in an accommodation which is owned by employer.

Where employee is residing in accommodation owned by employer and a gardener is appointed by employer for such accommodation, then 'salary paid to gardener' by employer and garden maintenance expenses must not be separately considered. That is, these items must not be taxable in the specified situation.

C. Facility of Gas, Electricity and Water Supply



Employer may provide the facility of free or concessional supply of gas, electricity and the following two ways:

- 1. Employer may supply the above facilities from his internal sources.*
- 2. Employee may obtain these facilities from external sources, the bills for which are paid or reimbursed by employer.*

The tax provisions for this facility, in accordance with Income Tax Rule 3(4), are summarised the following table-

Situations	Taxable under section	Taxable value
The Gas, Electricity or Water connections are in the name of employer, and these facilities are supplied from internal sources of employer to employees' residence.	17(2)(iii)	Cost to employer minus any amount recovered employee
The Gas, Electricity or Water Connections are in the name of employer - the facilities are obtained from external agencies, bills for which are paid by employer.	17(2)(iii)	Bill amount paid or reimburse by employer
The Gas, Electricity or Water connections are not in the name of employer, and these facilities are supplied from internal sources of employer to employees' residence	17(2)(iv)	Cost to employer minus any amount recovered from employee
The Gas, Electricity or Water Connections are not in the name of employer - the facilities are obtained from external agencies, bills for which are paid by employer.	17(2)(iv)	Bill amount paid or reimburse by employer

Notes:

1. Usually, the Electricity and Water Connections will be in the name of the Owner of the House Property. So, where the accommodation in which employee is residing, is owned by employer, the connections are said to be in the name of employer.
2. Gas Connection will be in the name of Subscriber. Where the Gas was subscribed for by the employer, the connection is said to be in the name of employer.

D. Education Facility to 'members of the household' of the employee



Employer can provide education facility to 'members of the household' of employee in the following two ways:

- 1. Members of the household of the employee are offered free or concessional educations in an educational institution run by employer.*
- 2. Members of the household of the employee are getting educated in an institution which does not belong to employer, but the expense for education are met or reimbursed by employer.*

The tax provisions with regard to this facility, in accordance with Income Tax Rule 3(5), are summarized in the following table-

Situations	Taxable section under	Taxable value
Employer's children are getting educated in an institution owned and maintained by employer, and they are offered free or concessional education.	17(2)(iii)	Cost of such education in a similar institution in or near the locality minus Rs 1000 per month per child minus any amount recovered from employee.
Other members of the household of employee (i.e., other than employee's children) are getting educated in an institution owned and maintained by employer, and they are offered free or concessional education.	17(2)(iii)	Cost of such education in a similar institution in or near the locality minus any amount recovered from employee
Members of the household of the employee are getting educated in outside institution (which is not owned and maintained by employer) - education expenses are met or reimbursed by employer - the fee receipts are in the name of employer.	17(2)(iii)	Amount of expenditure met or reimbursed by employer.
Members of the Household of the employee are getting educated in an outside institution (which is owned and maintained by employer) - education expense are met or reimbursed by employer - the fee receipts are not in the name of employer (It is either in the name of the student or	17(2)(iv)	Amount of expenditure met or reimbursed by employer.

E. Transport facility provided by a transport undertaking to the employee or 'members of the household' of its employees

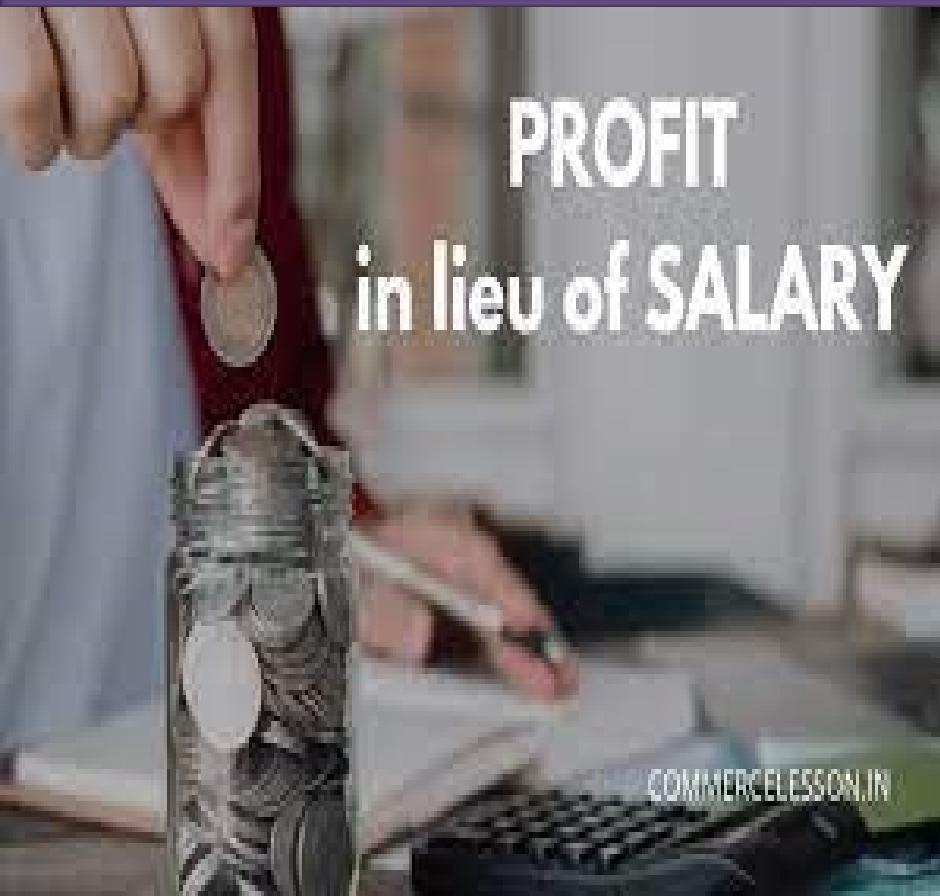


Where a transport undertaking provides free or concessional transport facility to its employees or members of the household' of the employees, the benefit is taxable in the hands of employees as perquisite under Section 17(2)(iii), only if the employee is a specified employee, in accordance with provisions under Income Tax Rule 3(6).

The taxable value of this benefit is

Taxable Value = value at which such benefit is offered by the employer to the public **minus** any amount recovered from employee.

PROFITS IN LIEU OF OR IN ADDITION TO SALARY UNDER SECTION 17(3)



All monetary payments provided by employer, other than those which are included under Forms of Salary and Allowances, are considered under this head. Any other monetary benefit received by employee, from his employer, may be in addition to his salary or in lieu of his salary.

The following are the examples of benefits that must be considered under this head, along with its tax treatment.

S. No.	Income or Benefit	Tax Treatment
1.	Payment in appreciation of services, like awards and rewards	Fully Taxable
2.	Compensation for modification in terms and conditions of employment	Fully Taxable
3.	Employer's contribution and interest thereon included in 'accumulated balance of Un-recognised Provident Fund. (Refer to discussion under Provident Fund)	Fully Taxable
4.	Payment received on maturity of Keyman Insurance Policy (including bonus), when assigned by employer	Fully Taxable
5.	Any amount due or received before joining or after cessation of employment	Fully Taxable
6.	Voluntary Retirement Compensation	See explanation below
7.	Retrenchment Compensation	See explanation below
8.	Any other sum received from employer	Fully Taxable

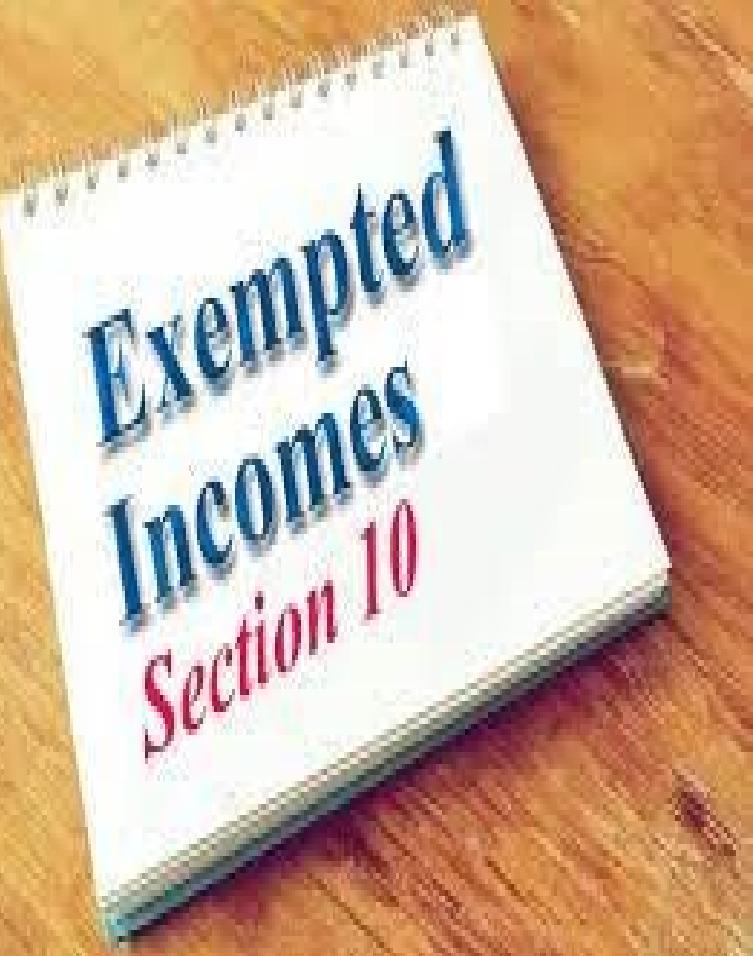
Voluntary Retirement Compensation

When an employee opts for voluntary retirement, the compensation he is given is called 'Voluntary Retirement Compensation'.

The tax provisions relating to 'voluntary compensation' received by employee, are as follows

1. Voluntary retirement compensation is **exempt up to Rs 5,00,000** (under Section **10(10C)**), when the **employee of entities mentioned in point 3 below**, had opted for voluntary retirement under a **scheme offered by the employer as per guidelines prescribed** (listed in Point 4 below) under Income Tax Rule 2(BA).
2. In any other case, the voluntary retirement compensation received by an employee, is fully taxable.

3. Entities, employees of which are eligible for exemption under Section 10(10C)

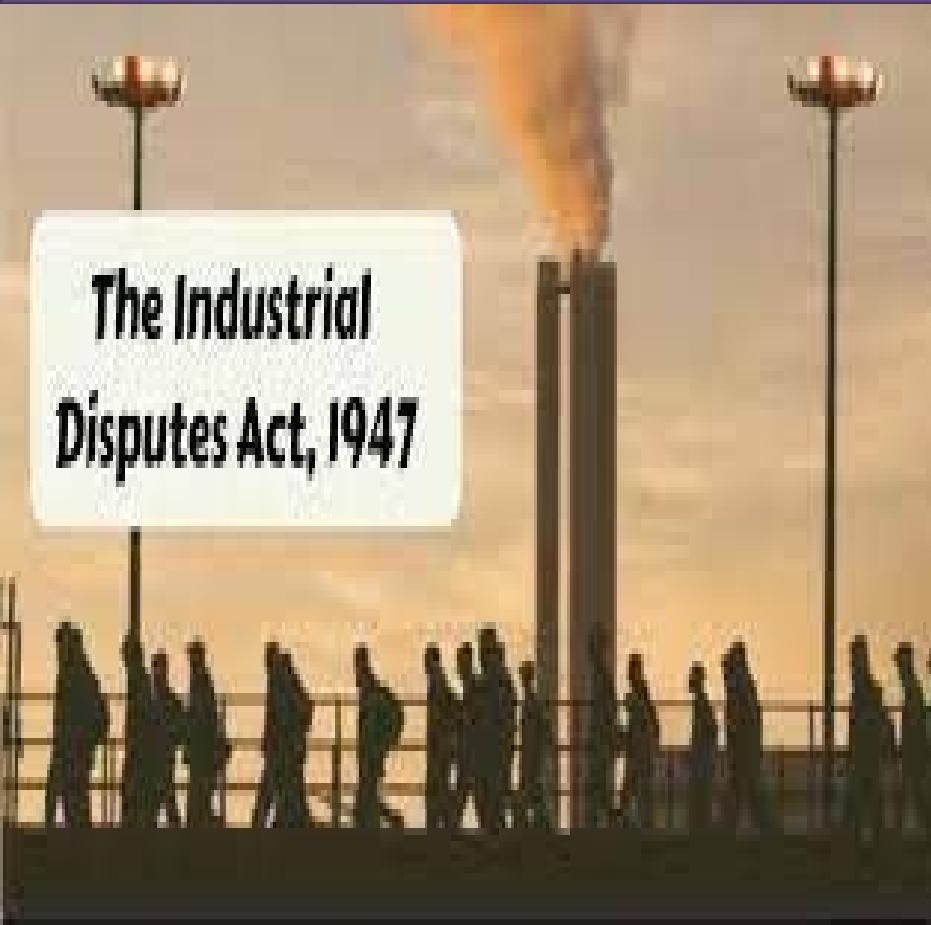
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- (a) A public sector company,
 - (b) Any other company,
 - (c) An authority established under a Central, State or Provincial Act,
 - (d) A local authority,
 - (e) A co-operative society,
 - (f) A University established or incorporated by or under a Central, State or Provincial Act and an institution declared to be a University under Section 3 of the University Grants Commission, 1956,
 - (g) An Indian Institute of Technology within the meaning of clause (g) of Section 3 of the Institutes of Technology Act, 1961,
 - (h) Such institute of management as the Central Government may, by notification in the Official Gazette, specify in this behalf.
 - (i) State Government,
 - (j) Central Government,
 - (k) Institutions having importance throughout India or in any State or States as may be notified.

4. Prescribed Guidelines



- (i) The voluntary retirement scheme applies to an employee, who has completed 10 years of service or completed 40 years of age;
- (ii) The scheme should apply to all employees (by whatever name called) including workers and executives of a company or of an authority or of a co-operative society, as the case may be, excepting Directors of a company or of a co-operative society.
- (iii) The scheme of voluntary retirement or voluntary separation should have been drawn to result in overall reduction in the existing strength of the employees,
- (iv) The vacancy caused by the voluntary retirement or voluntary separation is not to be filled up; (v) The retiring employee of a company shall not be employed in another company concern belonging to the same management;
- (vi) The amount receivable on account of voluntary retirement or voluntary separation of the employee does not exceed
 - (a) The amount equivalent to 3 months salary for each completed year of service, of
 - (b) Salary at the time of retirement multiplied by the balance months of service left before the date of his retirement on superannuation.

Retrenchment Compensation



*The Industrial
Disputes Act, 1947*

Retrenchment Compensation includes any compensation received by an employee at the time of retrenchment under

- (a) The Industrial Disputes Act, 1947, or*
- (b) Any other Act or Rules or any order or notification issued there under; or*
- (c) Any standing order, or*
- (d) Any award, contract of service or otherwise.*

Following is the format for computing the taxable amount of Retrenchment Compensation received by an employee:

Amount of Retrenchment Compensation Received		???????
Less: Exempt under Section 10(10B), being least of the following:		
(a) Compensation according to provisions of Section 25(FB) of the Industrial Disputes Act, 1947	???????	
(b) Maximum Limit	5,00,000	
(c) Amount of Retrenchment Compensation Received	???????	???????
Taxable Retrenchment Compensation		???????

Notes:

1. According to Industrial Disputes Act, 1947 the compensation must be 15 days average salary for each completed year of service or part thereof in excess of 6 months
2. "Average Salary" refers to total of taxable monetary payments of last 3 months of service (excluding bonus, commission and gratuity), divided by 3.

EARNED LEAVE or Salary in Lieu of Leave or Encashment of Earned Leave SALARY [Sec. 10(10AA)]



'Leave Salary' refers to salary paid to employee for earned leave facility unavailed by him. Earned Leave is a leave facility made available to an employee. It is the period of leave entitlement (i.e., leave sanctioned) to employee, in accordance with company's policy, in addition to casual leave. It is the period of leave for which the assessee earns salary, and when it is not availed (fully or partly), he gets additional salary for the period of earned leave not availed by him and such additional salary is called 'leave salary'.

While casual leave not availed by an employee cannot be carried forward to the next period, the earned leave not availed by an employee during a given period, can be carried forward to the next period. Further, the casual leave not availed cannot be en-cashed, but earned leave not availed can be en-cashed - either during service period or at the time of retirement.

(A) Encashment during Service. If an employee does not avail his earned leave and receives payment in respect of any period of leave not availed of by him, while he continues to remain in service, it is taxable in full.

(B) Encashment after Retirement. If an employee receives payment in respect of any leave, not availed of by him, on retirement or resignation, it will be exempt to the following extent:

(a) Government Employees. Any payment received by an employee of the Central Government or State Government as the cash equivalent to the earned leave at his credit at the time of his retirement whether on superannuation or otherwise is fully exempt.

(b) Non-Government Employees. Any payment as encashment of earned leave received at the time of his retirement whether on superannuation or otherwise (e.g., resigned) from any other employer is exempt to the extent of the least of the following amounts: (i) Maximum of 10 months' salary on the basis of the average salary drawn by the employee during 10 months immediately preceding his retirement on superannuation or otherwise; or

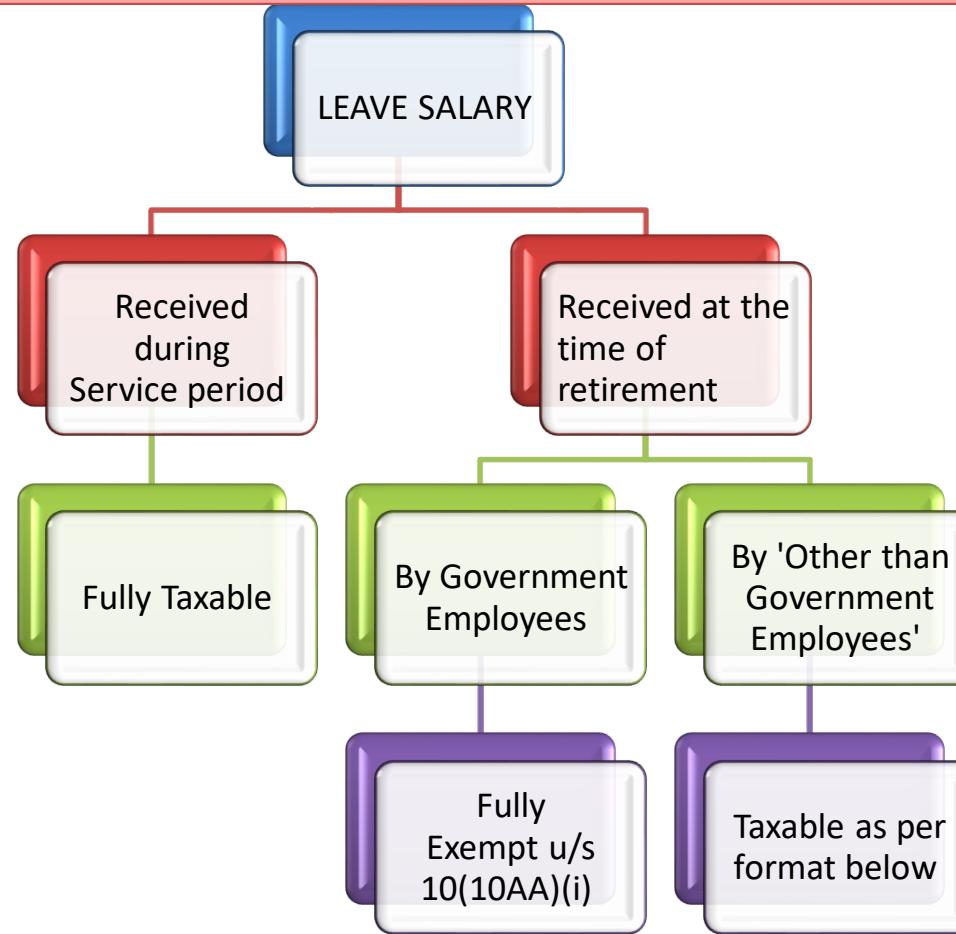
(ii) Amount of salary on the basis of average salary for the approved period for which earned leave has not been availed of; or

(iii) Maximum limit prescribed by the Central Government Rs 3,00,000; or

(iv) Amount actually received.

Approved Period of earned Leave: Earned leave entitlement cannot exceed 30 days every year of actual service with the employer who is paying the cash equivalent to ear leave. This is the approved period.

When an employee en-cashes his unavailed earned leave, the tax treatment for the amount received by him is summarised in the following chart:



Format for computing Taxable Leave Salary received at the time of retirement by 'Other than Government Employee'

Particulars	Details Rs	Amount Rs
Actual Gratuity Received		???????
Less: Exempt under Section 10(10)(ii), being least of the following:		
(a) Leave at the credit of employee × 'Average Salary'	???????	
(b) 10 Months' 'Average Salary'	???????	
(c) Maximum Limit	3,00,000	
(d) Actual Gratuity Received	???????	?????????
Taxable Leave Salary		?????????



Notes

1. Leave at the credit of employee = leave entitled minus leave availed.
2. According to the provisions under Income Tax Act. Leave entitlement = Actual leave entitled by employer per annum or 1 month (30 days) per annum, whichever is less - for every completed year of service
3. For example, suppose an employee has rendered 30 completed years of service with his employer, till his retirement. Also suppose that as per company's policy the leave entitled was 45 days (1.5 month) for each year of completed service. Then, 'Leave Entitlement will be equal to 1.5 months or 1 month whichever is less - 1 month, for each completed year of service - That is $1 \text{ month} \times 30 \text{ years} = 30 \text{ months}$. In the same example, if the leave entitled by the employer was 20 days for each year of completed service. Then, 'Leave Entitlement' will be equal to 20 days or 30 days whichever is less - 20 days for each completed year of service - that is $20 \text{ days} \times 30 \text{ years} = 600 \text{ days or } 20 \text{ months (i.e., } 600 \text{ days}/30 \text{ days)$.
4. Where, leave availed exceeds 'Leave Entitlement, the leave at the credit of employee must be considered as "Nil".
5. Average Salary' refers to Total of Basic Salary, Dearness Pay, Dearness Allowance (if it enters into retirement benefits and Commission based on a fixed percentage of turnover achieved by employee for 10 months preceding the date of retirement of the employee, divided by 10.
6. For example, where an employee retires from his services on 15th of December, 2018 - 10 months preceding the date of retirement would be - 16th February 2018 to 15th December 2018. 7. The maximum exemption of Rs 3, 00,000 is for the life-time of the assessee and not for each time exemption is claimed. Where the assessee had earlier received any leave salary and such leave salary was exempt partly or fully, and when exemption is being calculated for leave salary received next time, the maximum exemption will be Rs 3, 00,000 as reduced by the amount of leave salary exempted earlier.
8. Where "leave at the credit of the employee' is 'Nil', then, there is no exemption available under Section 10(10AA)(ii). That is, the entire amount of leave salary received would become taxable.

Pension [Sec. 10(10A)]



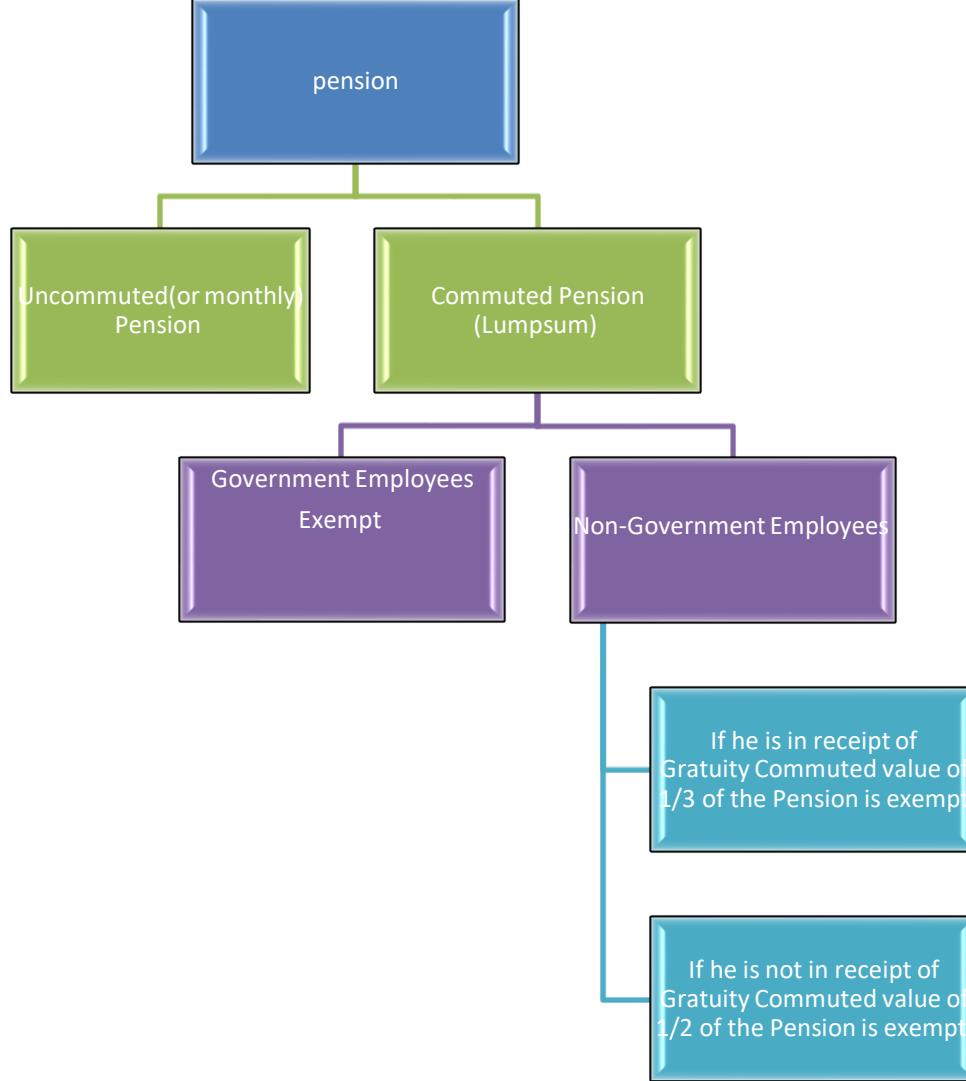
Whatever pension is received by an employee (Government or Non-government) after retirement, it is chargeable under the head 'Salaries'.

If a person after serving in India, retires and settles in a foreign country, receives pension on account of such service, such pension shall be deemed to accrue and arise in India and chargeable under the head salaries even he becomes non-resident in India.

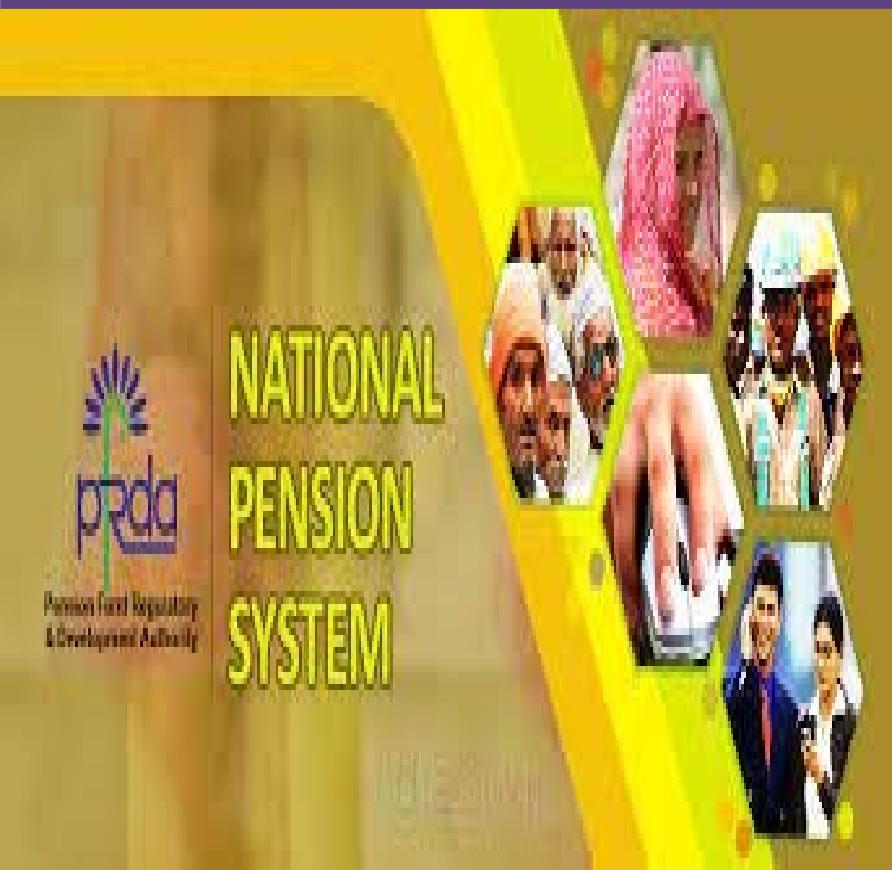


The provisions relating to 'pension' has been classified into the following:

- A. Contribution made by Employer to the Notified Pension Fund Scheme of Central Government (i.e., National Pension Scheme) in the name of employee, who has joined services on or after 15 January, 2004.*
- B. Regular or Normal Pension received by employee after termination of employment.*
- C. Commuted Pension.*



A. Contribution made by Employer to the Notified Pension Fund Scheme of Central Government (i.e., National Pension Scheme) in the name of employee, who has joined Central Government services on or after 1st January, 2004.



For assessees joining the services of Central Government on or after 1st January, 2004, pension benefit from employer was not made available. Instead, the employees were made members of the National Pension Scheme of the Central Government to which the employee was made to contribute (by effecting deduction from his salary) and a further contribution was also made by employer (i.e., Central Government). On retirement, the employee gets pension from the National Pension Scheme.

This benefit of National Pension Scheme was later extended to other employees as well.

Where employer (being Central Government or any other employer) contributes to the National Pension Scheme in the name of the employee, it is a benefit passed from employer to employee and hence is an income from salary.

The **contribution made by employer** is completely taxable under the head "Income from Salaries". However, for the contribution made by both employer and employee, a deduction can be claimed under Section 80CCD, from Gross Total Income.

B. Regular or Normal Pension received by employee after termination of employment.



Any pension received by assessee, in regular intervals, after termination of service is **completely taxable** in the hands of the assessee as 'Income from Salary', irrespective of whether the assessee was a Government employee or 'Other than Government' employee. Since, the payment of pension is based on 'employer-employee' relationship and the payment is based on employment', pension is taxable under the head 'income from salary'. The Regular Pension or Normal Pension or Un-commuted Pension is taxable on '**accrual**' or '**receipt**' basis, whichever happens earlier.

C. Commuted Pension



'Commuting Pension' refers to 'pension received in advance'. It represents lump-sum amount received in lieu of entire or part of pension to be received in future.

Pension being taxable on 'accrual' or 'receipt' basis, whichever is earlier, Commuted Pension is **taxable in the year of receipt**.

Section 10(10A) of the Income Tax Act, 1961 gives the provisions for tax treatment of commuted pension. The tax treatment for this receipt depends on the following situations:-

(a) Pension commuted by an assessee who was a Government Employee or Semi-Government Employee.

(b) Pension commuted by an assessee who was a 'Non-Government Employee' and had received gratuity from employer either during service period or at the time of retirement.

(c) Pension commuted by an assessee who was a 'Non-Government Employee' and had not received any gratuity from his employer.

**COMMUTED
PENSION
Tax Exemption**

The tax treatment for commuted pension under each of the above situations, is explained below- (a) Pension commuted by an assessee who was a Government Employee or Semi-Government Employee.

The lump-sum amount received, on commutation of entire or part amount of future pension, by an assessee who was a Government Employee or Semi-Government Employee is **fully exempt** under Section 10(10A)(i)

(b) Pension commuted by an assessee who was a '**Non-Government Employee**' and **had received gratuity** from employer either during service period or at the time of retirement. In this case, the following format is used for computing taxable amount of commuted pension-

Particulars	Amount Rs
Commuted Value of Pension (i.e., lump sum amount received)	???
Less: Exempt under Section 10(10A)(ii) - $1/3 \times$ 'Actual Value of Commuted Pension'	???
Taxable Commuted Pension	???

(c) Pension commuted by an assessee who was a 'Non-Government Employee' and had not received any gratuity from his employer.

In this case, the following format is used for computing taxable amount of commuted pension-

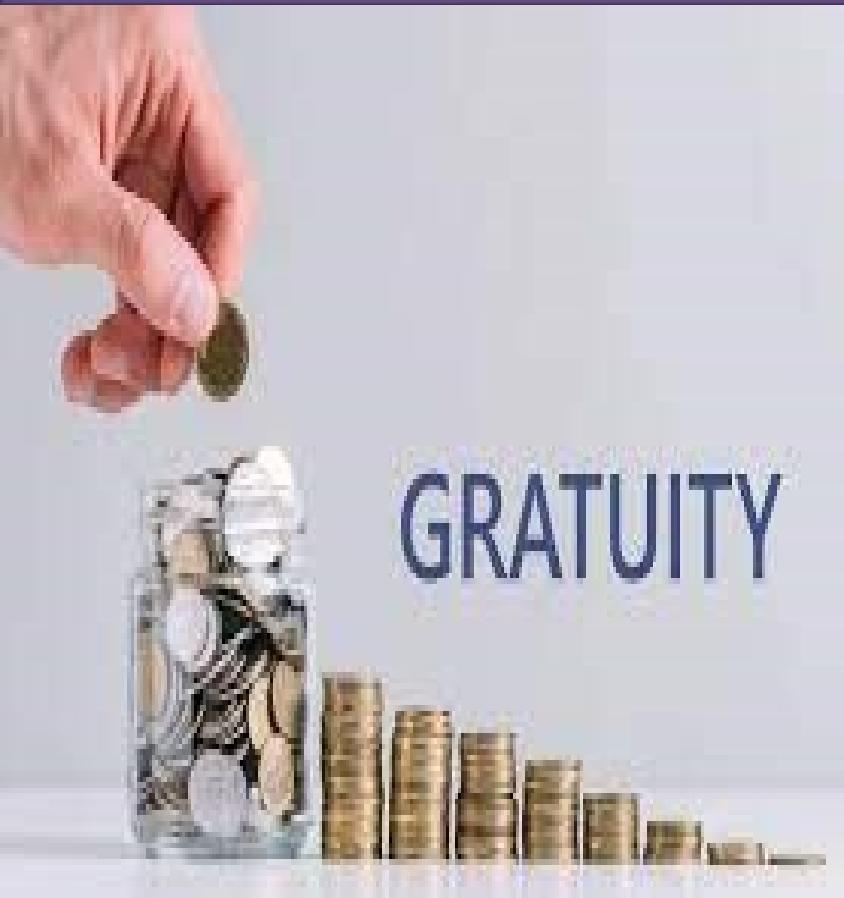
Particulars	Amount Rs
Commuted Value of Pension (i.e., lump sum amount received)	???
Less: Exempt under Section 10(10A)(ii) - $1/2 \times$ 'Actual Value of Commuted Pension'	???
Taxable Commuted Pension	???

Notes: "Actual Value of Commuted Pension" refers to the amount which he is normally entitled to receive if the whole of regular or normal pension is surrendered.

It is calculated in the following manner.

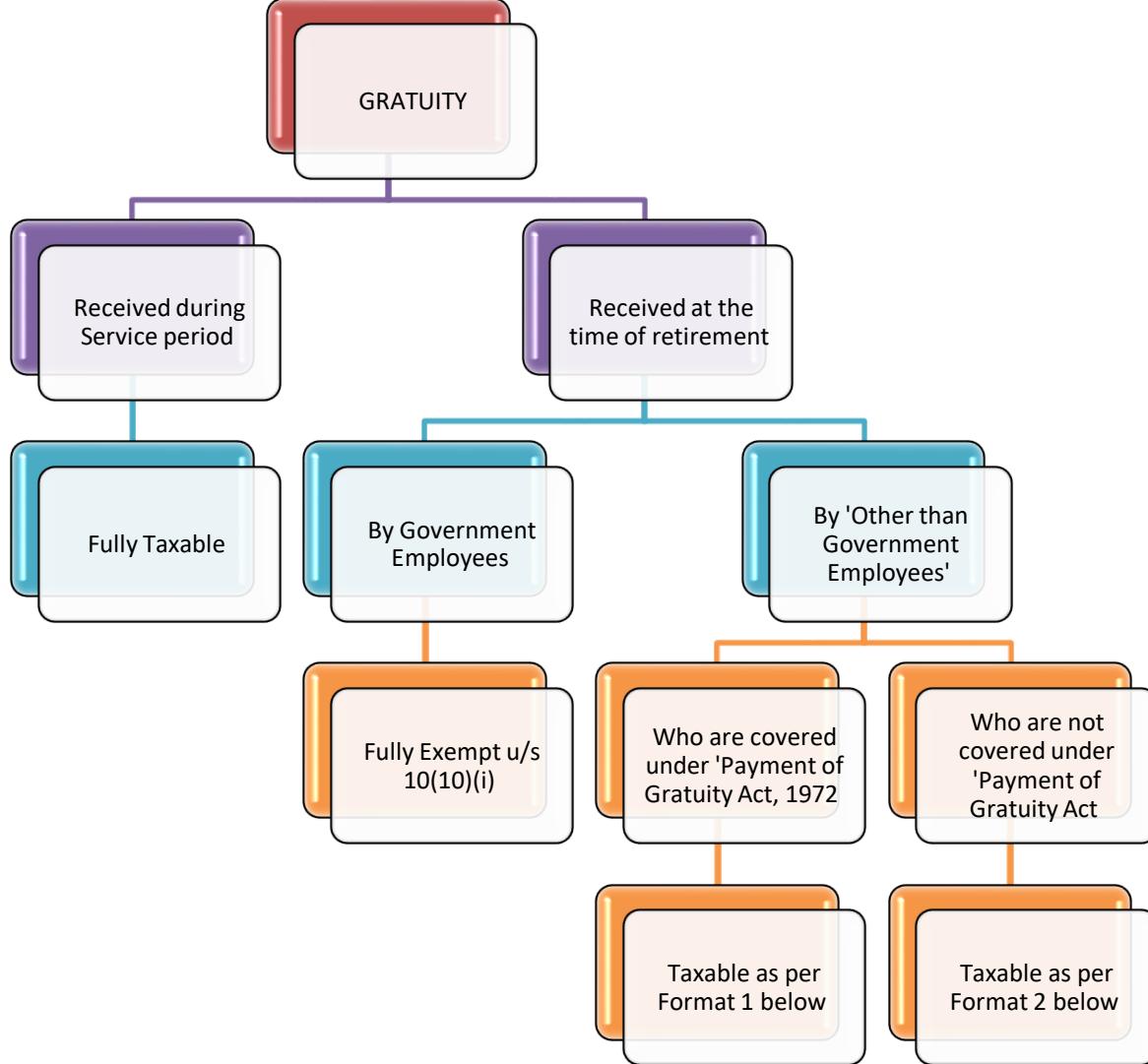
Lump-sum amount received \times (Actual Pension/Commuted Portion of Pension)

Gratuity [Sec. 10(10)]



GRATUITY

"Gratuity' refers to payment made by employer to employee, for the meritorious service rendered by employee. It is paid to employee in gratitude for the services rendered by him to the employer organisation. It is usually paid at the time of retirement, although some organisations offer gratuity during service period of the employee. The tax treatment for gratuity is summarized in the following chart:



Format One

This format for computing taxable gratuity is applicable to Other than Government Employees are covered under "The Payment of Gratuity Act, 1972".

The Payment of Gratuity Act, 1972 is applicable to the following

(a) Every factory, mine, oilfield, plantation, port and Railway Company;

(b) Every shop or establishment within the meaning of any law for the time being in force in relation to shops and establishment in a State, in which ten or more persons are employed, or were employed, on any day of the preceding 12 months;

(c) Such other establishments or class of establishments, in which ten or more employees are employed, or were employed, on any day of the preceding 12 months, as the central Government may, by notification, specify in this behalf.

The format is as follows:

Particulars	Details Rs	Amount Rs
Actual Gratuity Received		???
Less: Exempt under Section 10(10)(ii), being least of the following:		
(a) $15/26 \times \text{'Last drawn Salary'} \times \text{Number of years of service}$???	
(b) Maximum Limit	20,00,000	
(c) Actual Gratuity Received	???	???
	Taxable Gratuity	???

Notes



1. 15/26 in the above format represents half a month. Since, the maximum number of working days in a month is 26, it is represented so.
2. Where the assessee is an employee of a seasonal establishment, 15/26 in the above format must be replaced by 7/26 - which represents quarter of a month.
3. 'Last drawn salary' includes 'Basic Salary' and 'Dearness Allowance for the last month of service of the employee. Basic Salary does not include overtime wages.
4. Where the employee is remunerated on piece rate basis, 'last drawn salary' must be taken as "average of basic salary and dearness allowance of the last 3 months of service". (That is, total of basic salary and dearness allowance for last 3 months of service, divided by 3).
5. The Number of years of service must be **rounded off**. If the period of service is 6 months or less than 6 months, it must be ignored for this purpose. For example, suppose an employee had rendered 29 years and 8 months of service, the number of years of service for the above format purposes must be considered as 30 years. Where the actual service is for 29 years and 5 months, it must be considered as 29 years. In case the service rendered is for 20 years and 6 months, it must be considered as 29 years.
6. The maximum exemption of Rs 20,00,000 is for the life-time of the assessee and not for each time exemption is claimed Where the assessee had earlier received any gratuity and such gratuity was exempt partly or fully, and when exemption is being calculated for gratuity received next time, the maximum exemption will be Rs 20,00,000 as reduced by the amount of gratuity exempted earlier.
7. The exemption in respect of gratuity would be available even if the gratuity is received by the widow, children or dependents of a deceased employee.

Format Two

This format for computing taxable gratuity is applicable to 'Other than Government Employees who are not covered under "The Payment of Gratuity Act, 1972. The format is as follows:

Particulars	Details Rs	Amount Rs
Actual Gratuity Received		???
Less: Exempt under Section 10(10)(iii), being least of the following:		
(a) $1/2 \times \text{Average Salary} \times \text{Number of completed years of service.}$???	
(b) Maximum Limit	10,00,000	
(c) Actual Gratuity Received	???	???
Taxable Gratuity		???

Notes:



1. Only number of completed years of service must be considered. For example, where an employee till his retirement, had rendered 23 years and 11 months of service, only 23 years must be considered
2. The maximum exemption of Rs 10, 00,000 is for the life-time of the assessee and not for each time exemption is claimed. Where the assessee had earlier received any gratuity and such gratuity was exempt partly or fully, and when exemption is being calculated for gratuity received next time, the maximum exemption will be Rs 10, 00,000 as reduced by the amount of gratuity exempted earlier.
3. Average Salary' refers to Total of Basic Salary, Dearness Pay, Dearness Allowance (if it enters into retirement benefits) and Commission based on a fixed percentage of turnover achieved by employee for 10 months preceding the month of retirement of the employee, divided by 10.
4. Where an employee retires in the month of December 2018, February 2018 to November 2018 are the 10 months preceding the month of retirement. The date on which employee retired in December 2018 are irrelevant.
5. When Dearness Allowance is considered for computing contribution to retirement benefits like Provident Fund, it is said to be entering into retirement benefits. The arrangement regarding this will be given in service agreement. For example, when the service agreement states
 - Contribution to Provident Fund is 10% of Basic Salary and DA' - then DA is said to be entering into retirement benefits;
 - Contribution to Provident Fund is 10% of Basic Salary'- then DA is not entering retirement benefit.
 - Contribution to Provident Fund is 10% of Basic Salary and 75% of DA' - then. 75% of DA is entering into retirement benefits.
6. Unless clearly stated or hinted, Dearness Allowance must be assumed as "not entering into retirement benefits".
7. Considering Dearness Allowance for computing Average salary' only when it enters into retirement benefits is applicable when the employee is **not covered** under "The Payment of Gratuity Act. In case of employees covered under "The Payment of Gratuity Act, there is no condition to be fulfilled for considering Dearness Allowance in calculating 'last drawn salary'.
8. The exemption in respect of gratuity would be available even if the gratuity is received by the widow, children or dependents of a deceased employee.

RETRENCHMENT COMPENSATION

[Sec. 10(10B)]

The Industrial Disputes Act, 1947

Any compensation received by a workman under the Industrial Disputes Act, 1947, at the time of retrenchment is exempt from tax to the extent of the least of the following amount:

- (a) An amount calculated in accordance with section 25F (b) of the Industrial Disputes Act, 1947; or
- (b) Amount notified by the Central Government Rs 5, 00,000; or
- (c) Actual amount of compensation received.

The limits given u/s 10(10B) shall not apply in cases where the compensation is received under any scheme approved by the Central Government in view of the need of providing special protection to the workmen of an undertaking.

Retrenchment includes the following:

- (a) Retrenchment on account of closure of business; or
- (b) Transfer of the services of workman to some other employer, if it amounts to break of service; or if the terms of service of the new employer are less favourable than that of the original employer. As per the Industrial Disputes Act, 1947 the amount of compensation will be calculated at 15 days average pay for every completed year of continuous service and any part thereof in excess of 6 months.

Average pay will be calculated as under:

- (a) If the workman is getting monthly salary, then on the basis of the salary of last three calendar months; or
- (b) If the workman is getting weekly wages, then on the basis of wages of last four complete weeks; or
- (c) If the workman is getting daily wages, then on the basis of wages of last twelve full working days.

Following is the format for computing the taxable amount of Retrenchment Compensation received by an employee:

Amount of Retrenchment Compensation Received		???????
Less: Exempt under Section 10(10B), being least of the following:		
(a) Compensation according to provisions of Section 25(FB) of the Industrial Disputes Act, 1947	???????	
(b) Maximum Limit	5,00,000	
(c) Amount of Retrenchment Compensation Received	???????	???????
Taxable Retrenchment Compensation		???????

Notes:

1. According to Industrial Disputes Act, 1947 the compensation must be 15 days average salary for each completed year of service or part thereof in excess of 6 months
2. "Average Salary" refers to total of taxable monetary payments of last 3 months of service (excluding bonus, commission and gratuity), divided by 3.

INCOME TAX COMPENSATION ON VOLUNTARY RETIREMENT [Sec. 10(10C)]

When an employee opts for voluntary retirement, the compensation he is given is called 'Voluntary Retirement Compensation'.

(A) Any payment received or receivable by an employee of:

- (i) A public sector company, or
- (ii) Any other company, or
- (iii) A statutory authority, or
- (iv) A local authority, or
- (v) A co-operative society, or
- (vi) A University, or
- (vii) An Indian Institute of Technology, or
- (viii) Any State Government, or
- (ix) The Central Government, or
- (x) An institution, having importance throughout India or in any State or States Central Government may notify in this behalf, or
- (xi) Any notified Institute of Management, on voluntary retirement or termination of service in accordance with any scheme voluntary retirement; or

**Voluntary
Retirement
Scheme**

(B) In case of public sector Company, a scheme of voluntary separation, shall be exempt a specified limit.

The amount of compensation shall be exempt least of the following:

- (i) The amount equivalent to three months' salary for each completed year of service;
- (ii) Salary at the time of retirement multiplied by the balance months of service left before the date of his retirement on superannuation;
- (iii) Amount received;
- (iv) Maximum statutory limits Rs 5, 00,000.

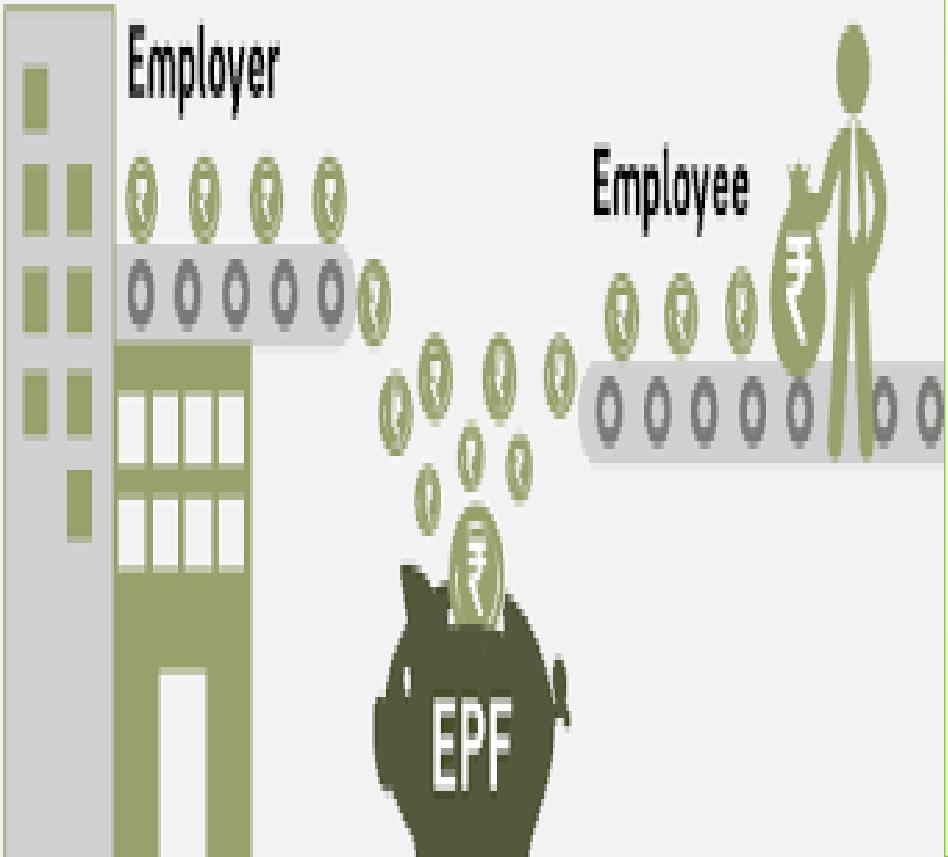
Meaning of Salary: It includes:

- (i) Basic salary;
- (ii) Dearness allowance; if it is given as per terms of employment;
- (iii) Commission based upon fixed percentage of turnover achieved by the employee.

No exemption When Relief Allowed u/s 89

Where any tax relief has been allowed to an assessee u/s 89 in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such, or any other assessment year,

PROVIDENT FUND [Sec. 10(11)(12)]



Provident Fund is a fund which provides for the future benefit of employees. It is a type of saving scheme for the future benefit of employees. When an individual gets employed, he automatically becomes member of the Provident Fund Scheme maintained by his employer. Every month the employee makes a contribution to his Provident Fund Account (by way of deduction from salary and credit to provident fund account), and usually, a matching contribution is made by employer to the provident fund account of the employee.

The contribution of both employer and employee is invested, on which interest accrues. The interest on such investment is credited to the provident fund account, and along with the contribution of the next period, it is further invested. This process of contribution, investment, interest accrual further contribution, investment etc., happen till the retirement, resignation or death of employe At the time of retirement, or resignation or death of employee, the accumulated balance in the provident fund account will be withdrawal by the employee, or his legal heirs.

Types of Provident Fund

Statutory Provident Fund

Recognised Provident Fund

Un-recognised Provident Fund

Approved Superannuation Fund

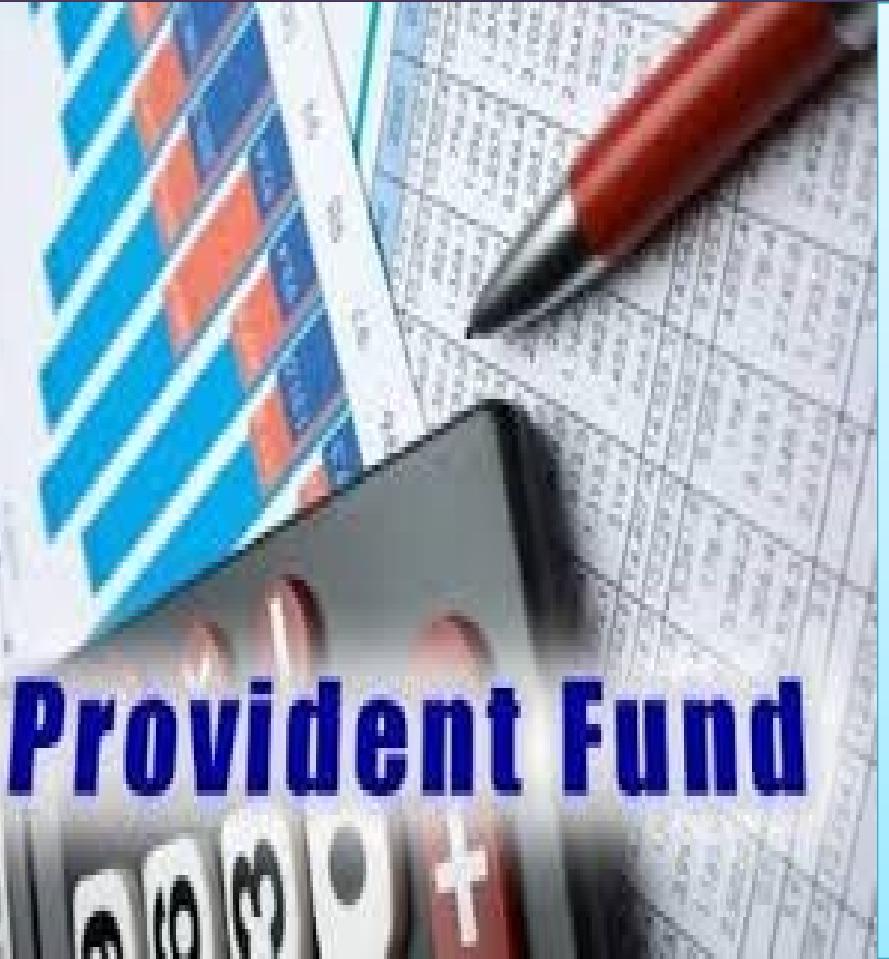
Public Provident Fund

(i) Statutory Provident Fund



Statutory Provident Fund is a fund which is set up, maintained and managed in accordance with the provisions of a Statute - the Provident Fund Act, 1925. This type of provident fund is usually found in Government organisations, semi-government organisations, universities, educational institutions affiliated to recognised universities, etc.

(ii) Recognised Provident Fund



Recognised Provident Fund is a fund which is recognised under the Provident Funds and Miscellaneous Provisions Act, 1952. It is a fund which is either set up by the Provident Fund Commissioner under the Provident Fund Act, 1952 or a fund set up and managed by the employer, for which approval has been granted by the Provident Fund Commissioner. This is the type of provident fund, which is widely found in private (i.e., non-government) organisations.

(iii) *Un-recognised Provident Fund*



Un-recognised Provident Fund is a fund which is neither statutory, nor recognized. It is a fund set up and managed by the employer, for which approval has not yet been granted by the Provident Fund Commissioner.

(iv) Approved Superannuation Fund



Approved Superannuation Fund is a type of fund, in which, annuities or regular payments become payable to the members (i.e., employees) only on employees attaining a specified age or after retirement of employee or on incapacitation or death of the employee. It is run, operated and managed by employer through separate trusts. When the superannuation fund run by an employer is granted approval by the Income tax commissioner, it becomes approved superannuation fund.

(v) Public Provident Fund



Public Provident Fund is a provident fund scheme operated by the Central Government, for the benefit of general public. Public Provident Fund scheme is not between employer and employee, but between the Government and the general public. In this type of provident fund, only the member makes a contribution to the provident fund account, but no contribution is made by the Government.

Tax Treatment relating to Provident Fund

1. Employee's contribution to his provident fund account

This is not an income, but a saving made by the assessee. Any tax benefit available to this must be provided to the assessee. The availability of tax benefit for this depends on the type of provident fund of which the employee is member of.

This is a deemed receipt in the hands of an employee and hence taxable. Being benefit from employer, it must be charged under the head "Income from Salaries". The tax treatment for this depends on the type of provident fund of which the employee is member of.

3. Interest on accumulated balance of provident fund

This is an income earned by the assessee. Where the provident fund membership of the assessee is on account of his employment, interest on accumulated balance of provident fund must be charged under the head "Income from Salaries". Where the provident fund membership of the assessee is not on account of his employment (like in case of public provident fund), then the interest income must be shown under the head "Income from Other Sources". The tax treatment for interest income on provident fund depends on the type of provident fund of which the employee is member of.

4. Accumulated Balance Withdrawn

This is a capital receipt and usually, is not taxable. However, it is taxable in certain circumstances and the tax treatment for the same depends on the type of provident fund of which the employee is member of.

Under the head "Income from Salaries" two items relating to provident fund must be considered for tax purposes, viz., employer's contribution to provident fund account of the employee and interest on accumulated balance of provident fund. It would be most preferable to show these items as "allowances", and before computing taxable value of perquisites.

The tax treatment for all the above four items under each type of provident fund is sum. in the following table:

	Statutory Provident Fund	Recognized Provident Fund	Unrecognized Provident Fund	Approved Fund	Superannuation	Public Provident fund
Assessee's Contribution to his provident fund account	Deductible u/s 80 C	Deductible u/s 80 C	No tax benefit	Deductible u/s 80 C	Deductible u/s 80 C	
Employer's Contribution to employee's provident fund account	Exempt	Taxable to the extent the contribution exceeds 12% of Salary'	Ignored	Taxable under 'Perquisites' to the extent contribution exceeds Rs 1,50,000		
Interest on Accumulated Balance	Exempt	Taxable to the extent, the interest exceeds 9.5%	Ignored	Exempt	Exempt	
Accumulated Balance Withdrawn	Exempt	Exempt if at least 5 years of service has been rendered.	"Employer's contribution + Interest thereon" is taxable under "Salaries". Interest on employee's contribution is taxable under 'Income from Other Sources'	Exempt		Exempt

Notes:



1. For assessee's contribution to his provident fund account, tax benefit is available in the form of deduction u/s 80 C from Gross Total Income, in case of Statutory, Recognised, Approved and Public Provident Funds.
2. Employer's contribution to the recognised provident fund account of the employee is exempt up to 12% of "salary" for this purpose; and any excess contribution over and above 12% of "Salary is taxable.
3. "Salary" for this purpose includes basic salary, dearness pay, dearness allowance (retirement benefits) and commission based on a fixed percentage of turnover achieved by employee. The salary" must be calculated on accrual basis.
4. The interest accrued on accumulated balance of recognized provident fund is exempt up to 9.5% and only the excess interest over and above 9.5% rate of interest is taxable. For example, suppose interest of Rs 24,000 is credited to the recognised provident fund account of the employees relevant previous year, @ 12%. Then the excess interest equivalent to 2.5%, which is the amount of interest in excess of 9.5%, is taxable. That is. Rs 5,000 ($24,000 \times 2.5/12$) will be the taxable value.
5. Accumulated balance withdrawn from recognised provident fund account is exempt in the hands the employee, when the employee has rendered at least 5 years of continuous service. Otherwise, the treatment applicable for accumulated balance withdrawn from 'un-recognised provident will be applicable in this case also.
6. In case of unrecognised provident fund, tax treatment is ignored every year for employer's contribution and interest. However, the same will be taxable when accumulated balance is withdrawn a from the providentfund account.
7. There is no contribution by the Government or any other person in case of Public Provident Fund.

Transferred Balance

The screenshot shows the EPFO website interface. At the top, there is a logo and the text "EMPLOYEES' PROVIDENT FUND ORGANISATION, INDIA" and "MINISTRY OF LABOUR & EMPLOYMENT, GOVERNMENT OF INDIA". Below this is a navigation bar with links for "Home", "View", "Manage", and "Account". A red arrow points to a button labeled "TRANSFER REQUEST" which is highlighted with a red border. Other buttons visible include "CLAIM (FORM 31/10A/10C)", "Account", "Settings", and "TRACK CLAIM STATUS". There are also "UAN Card" and "More Info" sections at the bottom.

When an un-recognised provident fund gets recognised, the balance standing in the provident fund account at the time of recognition is called 'transferred balance'. In the year of recognition, there is a tax implication in the hands of the employee that needs to be considered. Till the date of recognition, employer's contribution to employee's provident fund account and interest credited to the account would have been ignored from being charged to tax. So, at the time of recognition, the 'transferred balance' must be taxable to the extent the employer's contribution and interest thereon.