



# FAQs on Payroll and Income Tax

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## **What does Salary Income mean?**

Salary normally includes wages, annuity, pension, gratuity, commission, perquisites, etc. and any other payment received by an employee from the employer during the year. These are paid and tax is deducted at source by your current employer. An annual statement of earning and deductions (Form 16) is given to each employee at the end of each financial year (April –March).

## **What do Allowances mean?**

Allowances are fixed sums of money paid regularly in addition to salary for the purpose of meeting some particular requirement. There are 3 types of allowances –

- Taxable allowances
- Partially-exempted allowances
- Fully-exempted allowances

Most allowances are either fully taxable while some are partially taxable like House Rent Allowance, City Compensatory allowance. A table with details of taxability is enclosed as under:

<b>Fully Taxable Allowances</b>	<b>Partially Exempted Allowances</b>
• Dearness Allowance	• Entertainment Allowance
• Medical Allowance	• House Rent Allowance
• Servant Allowance	• Children Education Allowance
• Hill Allowance	• Children Hostel Allowance
• Deputation Allowance	• Transport Allowance
• Over-time Allowance	
• Other Allowances	

## What is a Permanent Account Number (PAN)?

**Permanent Account Number** is a unique identification number by which the Assessing Officer of the Income Tax Department can identify any assessee. PAN consists of ten alphanumeric characters, and every employee of the company must possess PAN.

It is mandatory to submit the PAN to the employer, failure to which the income tax will be deducted at the rate of 20% of the taxable income or the average tax whichever is higher, as per Sec 206AA of the Income Tax.

## What are the current Income Tax slabs?

(i) In case of individuals who are of the age of less than 60 years at any time during the financial year 2017-18)

Income (In Rs.)	Tax Liability (In Rs.)
Upto Rs. 2,50,000	Nil
Between Rs. 2,50,001 - Rs. 5,00,000	5% of income in excess of Rs.2,50,000
Between Rs. 5,00,001 – Rs. 10,00,000	Rs. 12,500 + 20% of income in excess of Rs. 5,00,000
Above Rs.10,00,000	Rs. 112,500 + 30% of income in excess of Rs. 10,00,000

Tax rates are same for Male and Female assesses for the FY 2017-2018.

(ii) In case of individuals who are of the age of 60 years or more but less than eighty years at any time during the financial year 2017-18)

Income (In Rs.)	Tax Liability (In Rs.)
Upto Rs. 3,00,000	Nil
Between Rs. 3,00,001 – Rs. 5,00,000	5% of income in excess of Rs. 3,00,000
Between Rs. 5,00,001 – Rs. 10,00,000	Rs. 10,000 + 20% of income in excess of Rs. 10,00,000
Above Rs.10,00,000	Rs. 110,000 + 30% of income in excess of Rs. 10,00,000

(iii) In case of individuals who are of the age of 80 years or more at any time during the financial year 2017-18)

Income (In Rs.)	Tax Liability (In Rs.)
Upto Rs. 5,00,000	Nil
Between Rs. 5,00,001 – Rs. 10,00,000	20% of income in excess of Rs. 5,00,000
Above Rs.10,00,000	Rs. 100,000 + 30% of income in excess of Rs. 10,00,000

Education Cess is computed at 3% of total tax payable at all levels of income.

Surcharge will be applicable @ 10% on Tax Amount, if the taxable income range is from Rs 50 Lakh to Rs.1Crore and @ 15% on Tax Amount, if the taxable income exceeds Rs.1 Crore.

**Tax relief up to Rs.2500 u/s 87 will be provided to employees, if their taxable income is from Rs 2,50,001 to Rs. 3,50,000 for the current Financial Year.**

## What is Form 16?

Form 16 is a certificate issued by the employer every year to its employees under section 203 of Income Tax Act for Tax Deducted at Source from the Income chargeable under “Salaries”.

## How do I Account for my Salary from More Than One Employer?

The employee is required to furnish details of the income, under "Salaries" due or received from the former/other employer, to the present/current employer, and also tax deducted at source, in writing and duly verified by him and by the former/other employer in **Form 12B** (copy of this Form is available on <https://ess.excelityglobal.com/>). The present/current employer will deduct tax at source



based on the aggregate amount of salary (including salary received from the former or other employer), though it does not reflect on the Form 16 of the current employer.

### **How do I calculate my House Rent Allowance (HRA) and exemption thereon?**

From the House Rent Allowance (HRA) received as part of salary during the year, least of the following three amounts are exempt from tax (or not included in income):

- Amount equal to 50% of annual salary for persons staying in metros (Mumbai, Chennai, Calcutta or Delhi) and 40%, for other cities
- Actual amount of HRA received
- Amount of rent actually paid in excess of 10% of annual salary

For HRA exemption purpose, Salary is defined as basic salary, dearness allowance, and commission on fixed percentage, but not other allowances.

#### **Example:**

1. Salary for the entire year Rs. 300,000/- (Basic + Dearness Allowance)
2. Actual HRA received Rs. 72,000/-
3. Rent paid for the entire year Rs. 60,000/- (5000 pm \* 12 months)

HRA exemption for this case is:

- a) Actual HRA received = Rs. 72,000
- b) Rent paid less 10% of Salary = Rs. 30,000 (60,000 minus 30,000 (10% of 300,000))
- c) 40% of Salary (300,000) = Rs. 120,000

Least of the above, Rs. 30,000, is exempt from tax

**How is the exemption on Leave Travel allowance calculated?**  
**(Refer your HR policy also along with this note. Enclosed is a best practice interpretation)**

Allowance to meet the cost of travel incurred by employee:

- Leave Travel Expenses exempt for 2 domestic journeys in a block of 4 calendar years (Current block is 2014 –2017).
- One un-availed journey for previous block can be availed in the 1st year of the next block.
- Assessee should be part of the travel throughout the journey.
- Boarding and lodging are not exempt.
- Leave should be availed during the period of travel.
- Only fare cost is exempt, which is restricted to:

<b>Particulars</b>	<b>Exempt Amount</b>
Journey performed by air	Economy fare by the shortest route or actual amount spent, whichever is the least.
Journey performed by rail	Air-conditioned first class rail fare by the shortest route or actual amount spent, whichever is least.
Journey performed by any other mode but the origin and destination are covered by Rail	Air-conditioned first class rail fare by the shortest route or actual amount spent, whichever is least.
Where the origin and destination are not connected by rail, and <ul style="list-style-type: none"><li>• Where an organized public transport exists</li><li>• Where no organized public transport exists</li></ul>	First class or deluxe class fare by shortest route or amount actually spent, whichever is least. Air-conditioned first class rail fare by shortest route or actual amount spent, whichever is least.

**Example:**

1. LTA received for the entire year = Rs. 40,000
2. Air tickets for the travel undertaken = Rs. 35,000

Rs. 35,000 is exempt from tax

## Transport allowance / Conveyance Allowance

Transport allowance for traveling from residence to office is exempt up to Rs.1600 per month, if provided as part of your compensation structure

## Children Education Allowance

Rs.100 per month per child up to a maximum of two children, if provided as part of your compensation structure

## What is Perquisite and how is it taxed?

Perquisites are emoluments or benefits received from an employer, in addition to salary, bonus, allowances, gratuity, etc. They include rent-free accommodation, free electricity, gas, or water supply, free domestic servant, etc. provided / paid for, by the employer. These perquisites are added to the Salary Income for arriving at the tax liability as per the applicable slabs. Examples of perquisites are:

### 1. Rent Free (commonly called Company Lease) Accommodation

The valuation of perquisite in respect of accommodation is as under:

1. The employer owns the accommodation. The value of the accommodation is determined at the specified rate (Refer the table below) for the period in which the accommodation was occupied by the employee during the financial year.

Population	Perquisite Rate
> 10 Lakhs	7.5 % of Salary
10 – 25 Lakhs	10 % of Salary
25 Lakhs >	15 % of Salary

2. When accommodation provided is **taken on lease/ rent by the employer**, 15% of the salary or the actual amount of lease rent payable by the employer, whichever is less, will be considered. This amount will be reduced to the extent of the rent paid by the employee, if applicable.



For **furnished accommodation**, the value of perquisite is calculated as follows:

1. The perquisite amount calculated above along with
  - a. 10% of the cost of furniture, appliances, and equipments, or
  - b. If the furniture, appliances, and equipments have been taken on hire by the employer, the actual hire charges payable/paid.

**Example:**

1. Salary for the entire year is Rs. 500,000
2. CLA (Lease Rent) is Rs. 20,000 pm (taken on lease)
3. Cost of Furniture is Rs. 40,000

Rent for the entire year (Rs.20,000\* 12 Months) = Rs. 2,40,000

15 % of Salary (Rs. 500,000 \* 15%) = Rs. 75,000

Least of the above is Rs. 75,000

Add 10% of Furniture (Rs.40,000 \* 10%) = Rs. 4,000/-

Total perquisite on Rent Free Accommodation with furniture is Rs. 79,000

## **2. Motor Car**

### **If Car is owned by the company**

Car Used for	Partially for official and partially for personal purposes.	
Expense paid by	Running and maintenance expense is reimbursed by the employer.	
Car CC	<1.6 cc	> 1.6 cc
Perk Amount	1800/-p.m	2400/-p.m

### **If Car is owned by the Employee**

Car Used for	Partially for official and partially for personal purposes.
Expense paid by	Running and maintenance expense is reimbursed by the employer.





Car CC	<1.6 cc	> 1.6 cc
Perk Amount	Actual Amount Reimbursed less Rs.1800/-p.m	Actual Amount reimbursed less Rs. 2400/-p.m

### **Driver Salary**

Car Owned by	Employer	Employee
Perk Amount	Rs.900/-pm	Actual driver salary reimbursed reduced by Rs,900/-p.m.

### **Other Vehicles**

The actual amount of expenditure reimbursed by the employer less Rs. 900 p.m will be considered as perks.

### **3. Food Coupon**

Meal card expenses: The exemption for meal card is available only upto Rs50/-per meal or tea or snacks, and the balance will be taxed as Salary income.

### **4. Gas, Electricity and Water.**

Value of perquisite is the amount paid by the employer to the agency supplying the amenity (free supply of gas, electricity and water) for household consumption. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

### **5. Interest free or concessional loans**

Value of perquisite is the excess of interest payable at prescribed interest rate over interest actually paid by the employee, or any member of his household. The prescribed interest rate is the rate charged by the State Bank of India as on the 1st day of the relevant financial year. The aggregate of loan amounts (from Personal, Vehicle & Housing) should be more than Rs.20,000/- for this perquisite to apply.



## **6. Use of Movable assets**

If the employee uses an asset owned by the employer, perquisite is charged at the rate of 10% of the original cost of the asset, as reduced by any charges recovered from the employee for such use. These include household furniture, white goods, though computers and laptops are not covered under this perquisite.

### **What amount gets deducted under section 16?**

#### **(a) Standard Deduction**

Standard deduction has been abolished from Financial Year 2005 –2006

#### **(b) Tax on Employment / Professional Tax**

Professional tax or tax on employment levied by the state is allowed as a deduction

### **How do I account for my loss on House Property?**

#### **For Self Occupied property**

House that is constructed or acquired after April 1999 by using borrowed capital, interest on such borrowed capital up to an amount of Rs.200,000.00 can be claimed as deduction. In case, the house was acquired / constructed prior to April 1999, the amount of deduction is Rs.30,000.

#### **For Let Out property**

Rent received for let out property reduced by Interest on borrowed capital and 30% of the net annual value for repair and maintenance is taken as loss / income.

For both the above, assessee has to produce a certificate from the lender specifying the interest payable towards the capital borrowed for construction or acquisition of a house. Only interest paid post completion of house is entitled / eligible for deduction and Pre-EMI interest is amortized over a period of 5 years.

**Example:**

1. Interest payable on housing loan (Loan taken after 01.04.1999): 280,000
2. Pre-EMI paid is Rs. 30,000
3. Rent received (in case of Let Out Property) Rs. 36000/- pa

**For Self Occupied property**

Interest on housing loan (loan post 01/04/1999) is Rs. 280,000

Pre EMI at 20% on Rs. 30,000/- (Amortized over 5 years) is Rs. 6,000/-

Total loss is Rs. 286,000 however maximum allowed is restricted to Rs. 200,000/-

**For Let out Property**

Interest on borrowed capital is Rs. 280,000/-

Pre EMI at 20% (Amortized over 5 years) is Rs. 6,000/-

30% of annual value (36,000) is 10,800 (for repairs and maintenance)

Total of 286,000 is reduced by Rs. 25,200 (rent received-maintenance) = 260,800

Total loss eligible for deduction is restricted to maximum of Rs.200, 000

If the interest repayment value of both Self and Let-Out property together exceeds 2 lakhs in the same financial year, then the remaining interest (above 2 Lakhs) of Let-out Property can be carried forward to next eight assessment years to avail benefit.

Examples for housing Loan interest benefit				
Scenarios	Self- Occupied	Let-out property	Total Benefit	Interest to be C/F
1	-250000	-450000	-200000	-450000
2	-150000	-450000	-200000	-400000
3	-150000	450000	-150000	0
4	0	-450000	-200000	-250000

## **What are the various Deductions allowed under Chapter VI A?**

Under 80C, an employee is entitled to deductions for the amounts paid or deposited in the current financial year in the following schemes, subject to a limit of Rs.150, 000/.

- Life Insurance Premium
- Contributions to Pension Fund (80CCC)
- Contributions to recognized Provident Fund / V P F / PPF
- Contributions to approved Superannuation Fund
- Contribution to U L I P, 1971 of Unit Trust of India
- Contribution to U L I P of LIC Mutual Funds
- Annuity with any Insurance Company
- Subscription to Tax Saving Mutual Funds
- Subscription to NSC & Interest accrued on NSC subscription
- Repayment of Housing Loan principal
- Children Tuition Fees (education)
- Tax Saving Term Deposits –Scheduled Bank (5 years and more)
- Deposit under the Senior Citizen Saving Rules.
- Five Year time deposit in an account under the Post Office Time Deposit Rules.
- Investment in Sukanya Samriddhi Scheme

### **Example:**

1. Investments in LIC Rs.80000/-, PPF Rs.70000/-  
Deduction available will be Rs. 150000/-
2. Investments in LIC Rs.30000/-, PPF Rs.100000/- and Infrastructure Bonds Rs.70000/-  
Deduction available will be Rs. 150000/-
3. Investments in Infrastructure Bonds Rs.120000/-  
Deduction available will be Rs. 120000/-
4. Investments in LIC Rs.30000/-, PPF Rs.30000/- , and Infrastructure Bonds Rs.30000/-  
Deduction available will be Rs. 90000/-



### **80CCF – Long Term Infrastructure Bond**

Deduction u/s 80CCF has been removed from FY 2012-13.

### **80CCG – Rajiv Gandhi Equity Savings Scheme**

Amount of deduction is at 50% of amount invested in notified equity shares to new retail investors. However, the amount of deduction under this provision cannot exceed Rs. 25,000. Tax Benefit will not be extended, if the gross total income exceeds Rs. 12 lakhs

### **80D –Medical Insurance**

General Deduction up to Rs. 25,000/- (i.e., individual, spouse & dependent children) plus Rs. 25000/- (i.e., Parents of the taxpayer whether dependent or not). So, total up to Rs. 50000/- will be allowed.

Incase of Senior Citizen, an additional amount of Rs. 5000/-, which is deductible when policy is taken on the health of a senior citizen (i.e., resident in India & 65 years or more)

However, the deduction cannot exceed Rs. 50000/- in case of general category and Rs. 55000/- in case of Senior Citizen.

This section also include any payment made by an assessee on account of preventive health check-up of self, spouse, dependent children or parents(s) during the previous year as eligible for deduction within the overall limits prescribed in the section.

However, the proposed deduction on account of expenditure on preventive health check-up (for self, spouse, dependent children and parents) shall not exceed in the aggregate Rs.5,000.

### **80DD –Medical Treatment for Handicapped Dependent**

Deduction on medical treatment and maintenance of handicapped dependant up to Rs.75,000 for disability below 80% and Rs. 1,25,000 for disability above 80%



### **80DDB –Medical Treatment for Specified Illness/Diseases**

Deduction on medical treatment of specified illness/diseases is up to Rs. 60,000 for general category and Rs. 80,000 in case of senior citizen.

### **80E –Interest on Education Loan**

Under the amendment of Section 80E (1)(3), w.e.f, 1-4-2008(assessment year 2008-09 and onwards). The said deduction in respect of interest on loan taken for higher Education of Individual's relative also will be allowed i.e., 100% of amount of interest paid on such loan. "Relative" is defined in the mean the spouse and children of the individual.

Deduction is allowed in respect of Interest on Loans taken for pursuing higher education in specified fields of study to be extended to cover all fields of study, including vocational studies, pursued after completion of school.

### **80EE –Interest on Education Loan**

Additional exemption of Rs. 50,000 for housing loans up to Rs. 35 lakh, provided cost of house is not above Rs. 50 lakh. (new loans taken in the FY 2016-17)

### **80U –Permanent Physical Disability Including Blindness**

An assessee certified by the medical authority with permanent physical disability is allowed a deduction of Rs. 75,000, and in case the assessee is certified with (severe) permanent physical disability (More than 80%), the deduction of Rs. 1,25,000 will qualify for deduction.

### **80G –Donations**

For deduction in respect of donations to certain funds, charitable institutions etc. The employee can claim the deduction while filing individual returns.

### **80TTA - Interest on Savings Bank account**

Maximum deduction is allowed under Sec-80TTA is Rs.10,000/-  
Interest from savings account declared will also be accounted as "Other Income"

### **80CCD (1): Deduction to NPS Scheme for Contribution by the Individual**

Deduction under Section 80CCD(1) is not only available to Salaried Individuals but non-salaried individuals can also contribute to the NPS Scheme and avail deduction for the same.

The maximum amount allowed as a deduction under Section 80CCD(1) is:-

- In case of an employees: 10% of his salary for the financial year (Salary includes Dearness Allowance but excludes all other Allowances and Perquisites)
- In case of non-employees: 10% of the Gross Total Income in the Financial Year

### **80CCD(1b) – Additional Voluntary contribution by individual on NPS**

This additional benefit of Rs. 50,000 is over and above the benefit of Rs. 1.5 Lakhs allowed to be claimed as a deduction under Section 80C. Therefore, now the total deduction that can be claimed under Section 80C + Section 80CCD = Rs. 2 Lakhs.

### **80CCD (2) - National Pension Scheme (NPS Employer Contribution)**

There are two types of National Pension System (NPS) accounts – Tier I & II. Tier I account is mandatory, whereas Tier II account is optional. Thus, only Tier I account is eligible for tax benefits and is, in the true sense, the core of NPS.

However, normal tax provisions of taxation of profits on sale of investments are applicable when you redeem the units credited in your Tier II account. But all deposits and withdrawals to and from the Tier II account are tax neutral. There are no limits as to number and amount of withdrawals from Tier II account.

The Section 80 CCD allows you deduction for contributions made by you or your employer towards NPS account. There are some restrictions on the contribution which you can make towards your NPS Tier I account under this Section. Like if you are employed, you can claim deduction up to 10% of your salary, which comprises basic + DA.



In case any employer contributes to the NPS Scheme on behalf of the employee and the benefit of the same would be availed by the employee, the employee would also be allowed a deduction under Section 80CCD(2) for the amount of contribution made by the employer.

The contribution made by the employee himself to the NPS Scheme would be allowed as a deduction under section 80CCD(1) and the contribution made by the employer to the NPS Scheme would be allowed as a deduction under Section 80CCD(2).

There is a maximum limit for deduction for contribution made by the Individual himself under Section 80CCD(1) as mentioned above. But for contribution made by the employer to the NPS Scheme for benefit of employee, there is no maximum limit for deduction allowed under Section 80CCD(2). The Deduction under Section 80CCD(2) is over and above the deduction of Rs. 1 Lakh under Section 80C + Section 80CCC + Section 80 CCD(1)

## **POINTS TO REMEMBER**

- Slab rate is reduced from 10% to 5% for the taxable income range from Rs 2,50,001 to Rs 5,00,000.
- Section 87 A relief of Rs 2500 for the taxable income range from Rs 2,50,001 to Rs 3,50,000.
- Surcharge of 10% on Taxable Income range from Rs 50 Lakh to Rs. 1 Crore has been introduced from financial year 2017-2018.
- Section 80EE benefit of Rs 50000/- is applicable for FY 2017-18 (The loan sanctioned should be in the FY 2016-2017 only. Criteria remain same as followed in FY 2016-17)
- Housing loan interest (both Including Self & Let Out Property together) benefit will be restricting to maximum of Rs 2 Lakh.