

Auditing Course Material

Part 36 of 61 (Chapters 3501-3600)

9. Deduction under Section 80CCD for NPS Vatsalya contributions

The Union Budget 2025 has brought NPS Vatsalya contributions under Section 80CCD. This would mean that an individual can claim a Section 80CCD deduction on the NPS Vatsalya contributions. However, this deduction is available only if an individual opts for the old tax regime.

Currently, Section 80CCD allows for a deduction to income for the contributions made to the National Pension Scheme either by an employer and an employee or by any assessee. The withdrawal of the contributions is taxable subject to certain conditions.

After the amendment, the deduction under Section 80CCD shall now be allowed to the parent/guardian under the old taxation regime for amount deposited in the account of any minor child (up to 2 children) under the NPS-Vatsalya also, applicable from previous year 2025-2026 i.e. assessment year 2026-27 onwards.

10. Increase in limits of medical treatments for calculating perquisites

The Budget 2025 has increased the thresholds for tax-free perquisites available to salaried employees. According to the new law, effective April 1, 2025, employees are eligible for a tax-free perquisite for any expenditure incurred by the employer related to travel outside India for medical treatment for the employee or any member of the employee's family.

Currently, certain employer-provided benefits are treated as 'perquisites' if the employee's salary exceeds Rs 50,000, a limit set by the Finance Act, 2001. Similarly, employer-incurred medical travel expenses outside India are exempt from perquisites only if the employee's gross total income is within Rs 2 lakh, as per the Finance Act, 1992.

Budget 2025 proposes 2 changes to Section 17 to specify the limit on salary so that:

- a. the amenities and benefits (in general) received by employees with a salary below certain limit would be exempt from being treated as perquisite. The limits, presently at Rs 50,000 per annum, can now be prescribed by the Central Government.
- b. the expenditure incurred by the employer for travel outside India on the medical treatment of an employee with a salary below a certain limit, or for his family member would not be treated as a perquisite. Such limits, presently at Rs 2,00,000 per annum, can now be prescribed by the Central Government.

Note that the limit on salary specified shall only be applicable for an employee who is not a director nor a person who has a substantial interest in the employer company.

Now, as a result of amendment, more employees are eligible for a tax-free perquisite for any expenditure incurred by the employer related to travel outside India for medical treatment for the employee or any member of the employee's family (effective 1st April 2026).

These amendments will take effect from the 1st day of April, 2026 and shall accordingly apply in relation to the assessment year 2026-27 and subsequent assessment years.

11. Deadline to file updated return extended

A taxpayer can file a revised return upto 31st December of the assessment year. However, at present if the taxpayer wants to disclose additional income, then he can file an updated return (subject to certain restrictions) upto 24 months from the end of the relevant assessment year on payment of additional income-tax. This is provided by facility of filing updated return as per section 139(8A) of the Income Tax Act ,1961.

The deadline to file the updated return has been extended. As per the new law applicable from April 1, 2025, the updated return can now be filed upto 48 months from the end of relevant assessment year.

Additionally, prior to Finance Bill 2025, the additional tax liability is applicable which varies depending on the timing of the filing as follows:

- Before March 31: 25% of the tax and interest due if filed within the first 12 months of the extended period.
- After March 31: 50% of the tax and interest due if filed between 12-24 months of the extended period

Now, the additional income-tax liability for on additional income disclosed in the updated ITR in different years is as below:

1. 1st Year (within 12 months from the end of relevant assessment year), it will be 25% of the aggregate of tax and interest payable.
 2. 2nd Year (after expiry of 12 months from the end of relevant assessment year within 24 months from the end of relevant assessment year), it will be 50% of the aggregate of tax and interest payable.
 3. 3rd Year (after expiry of 24 months from the end of relevant assessment year within 36 months from the end of relevant assessment year), it will be 60% of the aggregate of tax and interest payable.
 4. 4th Year (after expiry of 36 months from the end of relevant assessment year within 48 months from the end of relevant assessment year), it will be 70% of the aggregate of tax and interest payable.
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12. Tax Exemption for Startup Under Section 80-IAC

Section 80-IAC provides for a deduction of 100% of business profits to an eligible start-up. The deduction is allowed for any 3 consecutive assessment years out of 10 years.

This section offers a tax incentive to companies or LLPs that are eligible start-ups involved in eligible businesses.

The conditions for benefit u/s 80-IAC are as follows:

- The total turnover of business for the year in which deduction is being allowed does not exceed Rs.100 Cr.
- The start-up is holding a certificate of eligible business from the Inter-Ministerial Board of Certification.
- It is incorporated on or after the 1.4.2016 but before 1.4.2025.

Eligible startups can claim a deduction of 100% of profits and gains resulting from any entitled business engaged in innovation, development, improved products or services, or a scalable business model with a high potential for employment generation or wealth creation.

In Budget 2025, the benefit u/s 80-IAC has been extended for another period of 5 years. Thus, the benefit will therefore now be available to eligible start-ups **incorporated before 1.4.2030**.

13. Reducing compliance burden for small charitable trusts/institutions

To reduce the compliance burden for small charitable trusts/institutions, the period of registration is increased from 5 years to 10 years.

Under the existing provisions of Section 12AB, charitable trusts and institutions must apply for renewal of its registration u/s 12A every 5 years. Similarly, new trusts that have not commenced activities can apply for provisional registration for 3 years. Upon commencing activities, those charitable institutions must apply for conversion of provisional registration into regular registration at least 6 months before expiry.

Under the proposed change, if a trust's total income, before claiming exemptions under Sections 11 and 12, does not exceed Rs. 5 crores in each of the two years preceding the application, it will be eligible for a 10-year registration instead of the existing 5-year validity.

14. Scheme of presumptive taxation extended for non-resident providing services for electronics manufacturing facility

Presumptive taxation is a simplified method of calculating taxes for eligible taxpayers. The main motive is to bring tax certainty to certain specified businesses. This reduces compliance costs and promotes ease of doing business. The profits of the business are deemed to be certain percentage of sales/turnover or receipts.

A presumptive taxation regime for non-residents engaged in the business of providing services or technology to a resident company which is engaged in electronics manufacturing facility including semi-conductor fabrication in India has been provided.

Prior to the proposed amendment, a non-resident or a foreign company was liable to tax as business income on the profits from this activity at the applicable rates. There was no separate scheme for presumptive taxation for such activity/person.

As per new section 44BBD, 25% of the aggregate amount received/ receivable by, or paid/ payable to, the non-resident, on account of provision of services or technology, are deemed as profits and gains of such non-resident from this business.

This amendment will take effect from the 01.04.2026 and will, accordingly, apply to the assessment year 2026-27 onwards. The amendment therefore applies to transactions undertaken in financial year 2025-26.

15. Annual value of the self-occupied property simplified

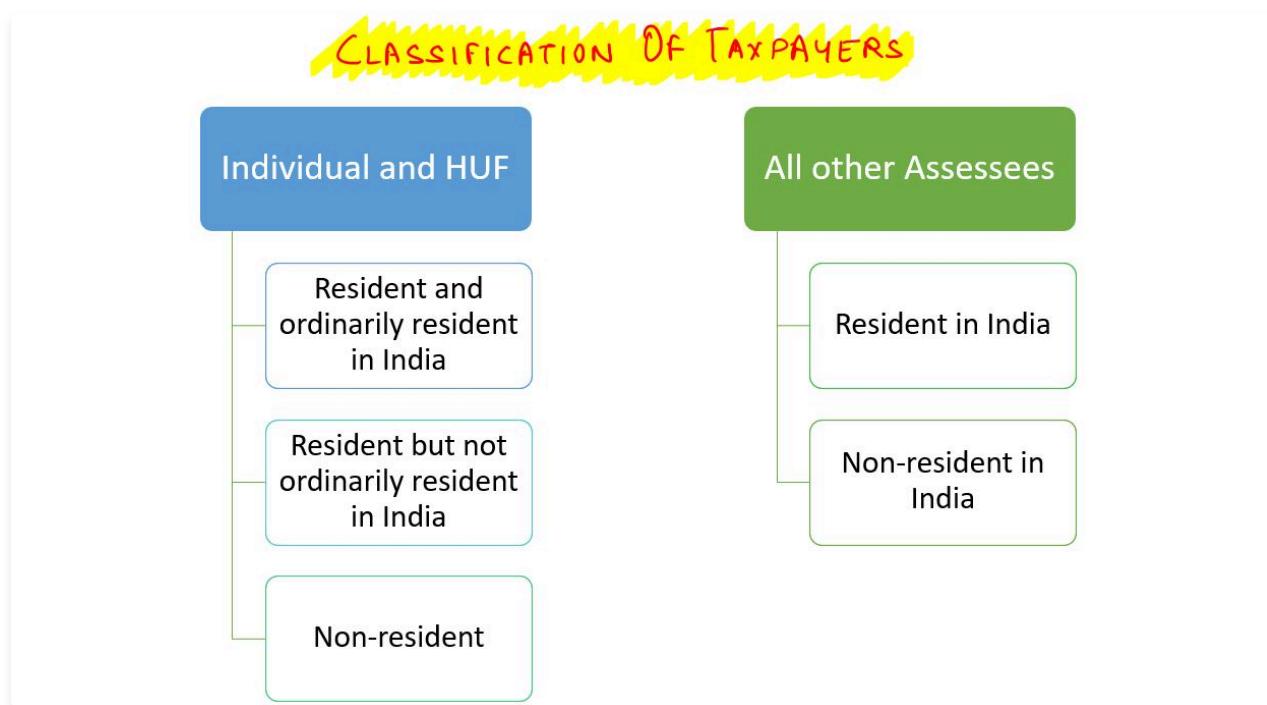
The taxation of self-occupied property has been simplified. The conditions provided in Section 23(2) of Income-tax Act,1961 for determining annual value of self-occupied property as Nil have been relaxed.

Prior to Finance Bill 2025, annual value of a self-occupied property was taken as nil if it was occupied by the owner for his own residence or if he cannot reside therein due to reasons of his business, profession or employment.

The annual value of a self-occupied property is now to be taken as nil if it is occupied by the owner for his own residence or if he cannot occupy it due to any reason. Therefore, additional condition of not being able to reside therein due to his business or employment or profession has been done away with. Note that for two of such house properties which the owner can specify, annual value can be taken as Nil.

The new provisions will apply from previous year 2024-25 i.e. assessment year 2025-26 onwards.

1. Basics of Residential Status



Tax incidence of an assessee depends on his residential status. Therefore, the determination of the residential status of a person is very significant in order to find out his tax liability. Section 6 of the Income Tax Act deals with **Residential Status**. The "residential status" is different from the term "citizenship". A person may be Indian citizen but may not be resident in India.

Similarly, a person may be a foreign citizen, but may be resident in India. For determining the residential status, the taxpayers are divided into following two categories:

1. Resident in India
2. Non-Resident in India.

It is important to note that Indian income is taxable in India whether the person earning income is resident or non-resident. Conversely, foreign income of a person is taxable in India only, if such person is resident in India. Foreign income of a non-resident is not taxable in India.

However, in case of an Individual and an HUF, resident assessee may be further classified into following *two* categories:

1. Resident and ordinarily resident in India
2. Resident but not ordinarily resident in India

Thus, an individual and an HUF can either be:

1. resident and ordinarily resident in India; or
2. resident but not ordinarily resident in India; or
3. non-resident in India

All other assessees (i.e., a firm, an association of persons, a joint stock company and every other person) can either be:

1. resident in India; or
2. non-resident in India

2. Residential Status of an Individual

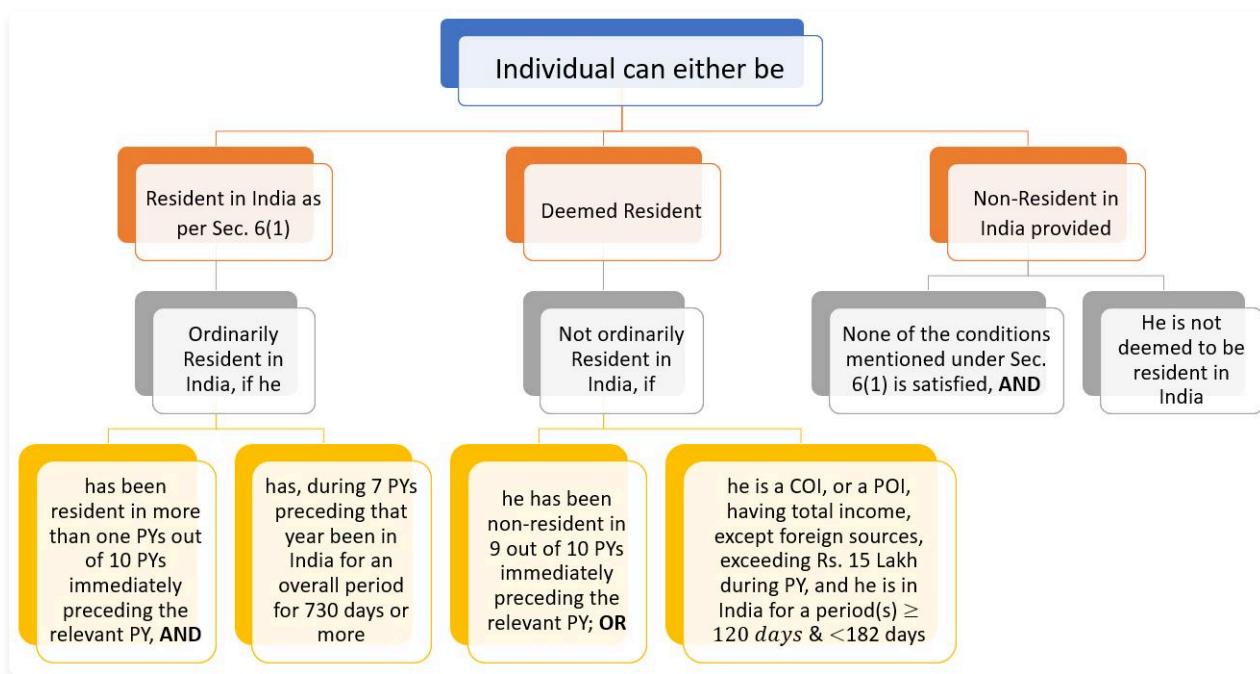
An individual may be:

- (i) resident and ordinarily resident in India, or
- (ii) resident but not ordinarily resident in India, or
- (iii) non-resident in India.

In order to determine the residential status of an individual, first, find out whether such individual is 'resident' in India. If such individual is 'resident' in India, then find out whether he is 'ordinarily resident' in India. However, if such individual is a 'non-resident' in India, then no further investigation is necessary.

Let us discuss these one by one.

2. Residential Status of an Individual



The Types of tax payers are discussed below.

1. Resident

An individual is said to be a resident in India in any previous year, if he fulfils **at least one of the following 2 basic conditions** [Section 6(1)]:

Basic condition (a): He is in India in the previous year for a period of 182 days or more.

OR

Basic condition (b): He is in India for a period of 60 days or more during the previous year AND 365 days or more during the 4 years immediately preceding the previous year.

Exceptions to basic condition (b)

Under the following circumstances, the period of 60 days as mentioned above in Basic condition (b) will be extended to 182 days. In other words, in the case of exceptions given below, the Basic condition (b) becomes non-functional.

1. An Indian citizen who leaves India during the previous year for the purpose of employment outside India.

2. An Indian Citizen who leaves India during the previous year as a member of the crew of an Indian ship.

3. An Indian Citizen or a person of Indian origin (a person shall be deemed to be of Indian Origin, if he, or either of his parents or any of his grandparents were born in undivided India) who resides abroad comes to India on a visit during the previous year.

Exceptions applicable from Assessment Year 2021-22

Pursuant to Finance Act, 2020, even if an individual satisfies none of the basic conditions/ additional conditions, he will be deemed as *resident but not ordinarily resident in India*, if the following conditions are satisfied:

Sec. 6(1A) read with Sec. 6(6)(d)	Sec. 6(6)(c) read with Explanation 1(b) to Sec. 6(1)
1. He is an Indian citizen. 2. His taxable income (other than the income from foreign sources) exceeds Rs. 15 Lakh during the relevant previous year. 3. He is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.	1. He is an Indian citizen (COI) or person of Indian origin (POI). 2. His taxable income (other than income from foreign sources) exceeds Rs. 15 Lakh during the relevant previous year. 3. He comes to India on a visit during the relevant previous year. 4. He is in India for 120 days (or more but less than 182 days) during the relevant previous year and 365 days (or more) during 4 years immediately preceding the relevant previous year.

Note: 'Income from foreign sources' means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India).

2. Resident and Ordinarily Resident (ROR)

A resident individual is treated as resident and ordinarily resident in India if he satisfies **both of the following 2 additional conditions:**

Additional Condition 1: He has been *resident* in India in at least 2 out of 10 previous years immediately preceding the relevant previous year;

AND

Additional Condition 2: He has been in India for a period of 730 days or more during the 7 years immediately preceding the relevant previous year.

Therefore, it can be said that an individual becomes resident and ordinarily resident in India, if he satisfies at least one of the basic conditions (i.e. (a) or (b)) and the two additional conditions (i.e., 1 and 2).

3. Non Resident (NR)

If an individual does not satisfy any of the *basic conditions* for resident, he shall be considered as non-resident. Additional conditions are not relevant in case of non-resident.

4. Resident but Not Ordinarily Resident (RNOR)

As per Section 6(6), a Resident but not-ordinarily resident person is one who satisfies **any one of the following conditions.**

Condition 1: He has been a *non-resident* in India in 9 out of 10 preceding previous years;

OR

Condition 2: He has been in India for a period not exceeding 729 days during the 7 preceding previous years.

Key takeaways

The following points must be kept in mind while determining the residential status:

- a. The residential status of a person is always determined for the previous year to be chargeable to tax during the assessment year.
- b. Residential status of an assessee may not be same in each year. An assessee who is a 'resident' in one year may be a 'Non-resident' in next year.
- c. The residence of an assessee has nothing to do with his domicile or nationality.
- d. A person who is resident in India can become resident in any other country for the same assessment year.
- e. Residential status will be determined on the basis of certain conditions for each person separately.
- f. Residential status of an assessee will be the same for all sources of income.
- g. A taxpayer would qualify as a resident of India, if he satisfies any one of the two basic conditions mentioned above.
- h. For a ROR, a tax payer must satisfy at least one of the basic conditions and both of the additional conditions stated above.
- i. For a RNOR, a tax payer must satisfy at least one of the basic conditions and one or none of the additional conditions.
- j. An individual satisfying neither of the basic conditions stated above would be an NR for the year.
- k. Only individuals and HUFs can be resident but not ordinarily resident in India. All other classes of assessees can be either a resident or a non-resident.

2. Residential Status of an Individual

Mr. A, a citizen of Sweden has been staying in India since 1994. He leaves India on 16.07.2024 on a visit to Sweden and returns on 04.01.2025. Determine his residential status.

Solution:

Step 1: Find out if Mr. A is a resident. For this we need to examine if he satisfies either of 2 basic conditions. As, he has stayed in India for 194 (30+31+30+16+ 28+28+31) days during the previous year, Therefore, he is a resident, as he satisfies one of the basic condition.

Step 2: Find out if he is ordinarily resident or not. Now we need to examine First Condition (Resident for at least 2 out of 10 years prior to relevant previous year). Ten previous years prior to relevant previous year are 2014-15 to 2023-24. During these years, he has always been in India. He, therefore, satisfies the first condition for being a resident (182 days stay in India during the relevant previous year).

Now examine the second condition (730 days stay in India during 7 previous years prior to the relevant previous year). Seven years prior to previous year means the period 01.04.2017 to 31.03.2024. During this period, he should be in India for at least 730 days. As he has been in India during the entire period, this condition is also satisfied.

As both conditions have been satisfied, he is resident and ordinarily resident in India.

2. Residential Status of an Individual

Mr. A, an Indian Citizen, is living in Mumbai since 1950, he left for China on July 1, 2019 and comes back on August 7, 2024. Determine his residential status for the assessment year 2025-26.

Solution:

Basic Condition (a): Stay in India for a minimum period of 182 days in the previous year:

Mr. A has stayed in India for 237 (viz. $25 + 30 + 31 + 30 + 31 + 31 + 28 + 31$) days in the Previous year 2024-25. So, this test is satisfied. So, Mr. A shall be a resident in India during the previous year 2024-25 (AY 2025-26).

Keeping in view the facts of the given case, Mr. A satisfies the two additional conditions also namely:

He is resident in 2 out of 10 previous years preceding the relevant previous year.

PY	Stay in PY (days)	Stay during PY (days)	Basic Condition Satisfied	Resident/ Non-Resident
2023-24	Nil	-	None	Non-Resident
2022-23	Nil	-	None	Non-Resident
2021-22	Nil	-	None	Non-Resident
2020-21	Nil	-	None	Non-Resident
2019-20	$30+31+30+1 = 92$	365	Second	Resident
2018-19	365	365	First	Resident

His stay in India is also more than 730 days in 7 previous years preceding the relevant previous year. As he left for China on 1st July 2019.

PY	Stay in PY (days)
2023-24	Nil
2022-23	Nil
2021-22	Nil
2020-21	Nil
2019-20	92
2018-19	365
2017-18	365
Total Stay in 7 Previous years	822

Hence, Mr. A is resident and ordinary resident in India for the assessment year 2025-26.

2. Residential Status of an Individual

Mr. Prathmesh was born in Lahore in 1948. He has been staying in England since 1974. He came to visit India on 03.10.2024 and returns on 31.03.2025. Determine his residential status for AY 2025-26.

Solution:

During the previous year 2024-25, Mr. Prathmesh stayed in India for 180 days ($29 + 30 + 31 + 31 + 28 + 31$) i.e., for a period from 03.10.2024 to 31.03.2025. He does not satisfy the first basic condition of 182 days. Further, second basic condition is non-functional in his case, as he is a person of Indian origin (as he was born in undivided India) and visits India during the previous year. He is, therefore, a Non-Resident.

2. Residential Status of an Individual

Mr. B, an Australian cricketer has been coming to India for 100 days every year since 2011-12:

- Determine his residential status for the assessment year 2025-26.
- Will the answer be different if he has been coming to India for 110 days instead of 100 days every year.

Solution:

In case of (a) RNOR; while in case of (b) – ROR

(a) Mr. B satisfies the second basic condition because he is in India for more than 60 days during the relevant previous year and for 400 days during four years preceding the relevant previous year. Therefore, he is a resident.

Further, in this case, although he satisfies the first additional condition of being resident for at least 2 out of 10 preceding previous years but he does not satisfy the second additional condition as during 7 years preceding the previous year, he is in India for only 700 days. He shall, therefore, be a resident but not ordinarily resident in India (RNOR).

(b) Yes. He will, in this case, be resident and ordinarily resident in India (ROR). He satisfies both the additional conditions as he was in India for 770 days in the last 7 years and he was resident for at least 2 previous years out of 10 previous years immediately preceding the relevant previous year.

2. Residential Status of an Individual

X left India for the first time on May 20, 2022. During the FY 2024-25, he came to India once on May 27 for a period of 53 days. Determine his residential status for the assessment year 2025-26.

Solution:

Since X comes to India only for 53 days in the previous year 2024-25, so he does not satisfy any of the basic conditions laid down in section 6(1). He is, therefore, non-resident in India for the AY 2025-26.

2. Residential Status of an Individual

X was born in Chennai in 1995. Later on, he migrated to Canada in June 2018 and took the citizenship of that country with effect from December 26, 2023. His parents were born in Bengal in 1960 and his grandparents were born in India in 1946. He comes to India during 2024-25 for a visit of 150 days. During earlier 4 years (i.e. April 1, 2020 to March 31, 2024) he was in India for 400 days. Find out the residential status of X for the AY 2025-26.

Solution:

X is presently a foreign citizen. His grand-parents were born in undivided India. He is a person of Indian origin. During the previous year 2024-25, he was in India for a visit of 150 days. He cannot satisfy basic condition (a). Also, the basic condition (b) is not relevant in his case. Consequently, he is non-resident in India for the AY 2025-26.

2. Residential Status of an Individual

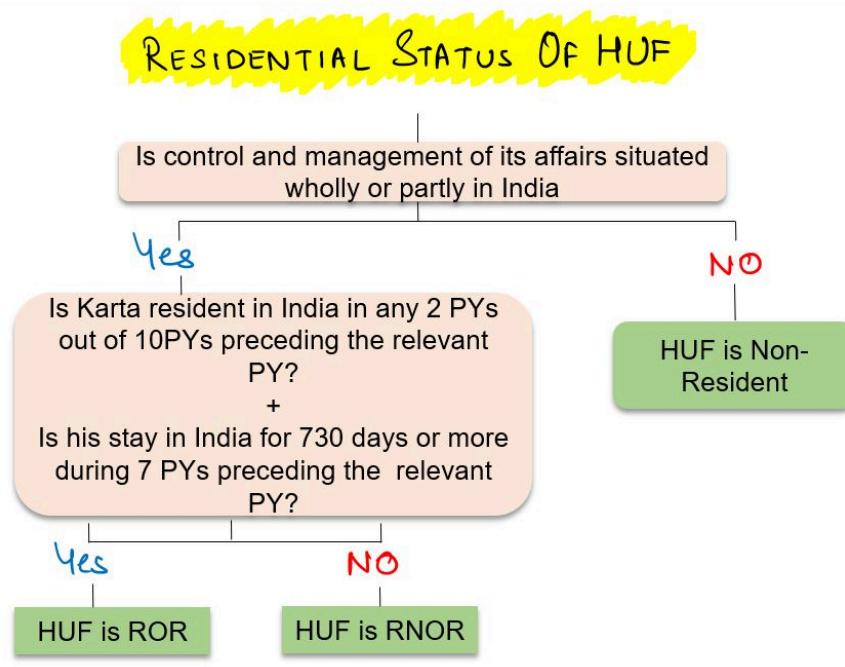
X, an Indian citizen left India for the first time on 21.09.2023 for employment in Nigeria. During the previous year 2024-25, he comes to India on 05.05.2024 for 150 days. Determine the residential status of X for AY 2024-25 and 2025-26.

Solution:

During the previous year 2023-24, X was in India for 174 days ($30 + 31 + 30 + 31 + 31 + 21$), i.e. from 01.04.23 to 21.09.2023 and therefore, does not satisfy the first basic condition. The second basic condition is not applicable in his case, as he is a citizen of India and leaves India in 2023-24 for employment abroad. He is, therefore, Non-Resident in India.

Similarly, during the previous year 2024-25, he visits India for 150 days. In this case also, second condition is not applicable as he is citizen of India and has come to India for a visit. Therefore, he will be a Non-Resident in India even for previous year 2024-25.

3. Residential Status of Hindu Undivided Family (HUF)



An HUF (like an individual) is either resident or non-resident in India. A resident HUF is either ordinarily resident or not ordinarily resident in India.

An HUF is said to be *resident* in India if control and management of its affairs is wholly or partly situated in India. On the other hand, an HUF is *non-resident* in India if control and management of its affairs is wholly situated outside India.

A resident HUF is treated as *ordinarily resident* in India, if the Karta or manager of the family satisfies *two additional conditions*:

Additional Condition 1: He has been resident in India in at least 2 out of the 10 previous years immediately preceding the relevant previous year;

AND

Additional Condition 2: He has been present in India for a period of 730 days or more during 7 years immediately preceding the previous year.

If the Karta or manager of the family does not satisfy two additional conditions, the HUF shall be considered as *Not Ordinarily Resident* in India.

3. Residential Status of Hindu Undivided Family (HUF)

An HUF, whose affairs of business are completely controlled from India. Determine its Residential status for AY 2025-26 (a) if Karta is ROR in India for that year (b) If Karta is NR in India but he satisfies both the additional conditions (c) If Karta is RNOR in India.

Solution:

HUF would be Resident in India as Control and Management is wholly situated in India. Determination of whether HUF is ROR or RNOR:

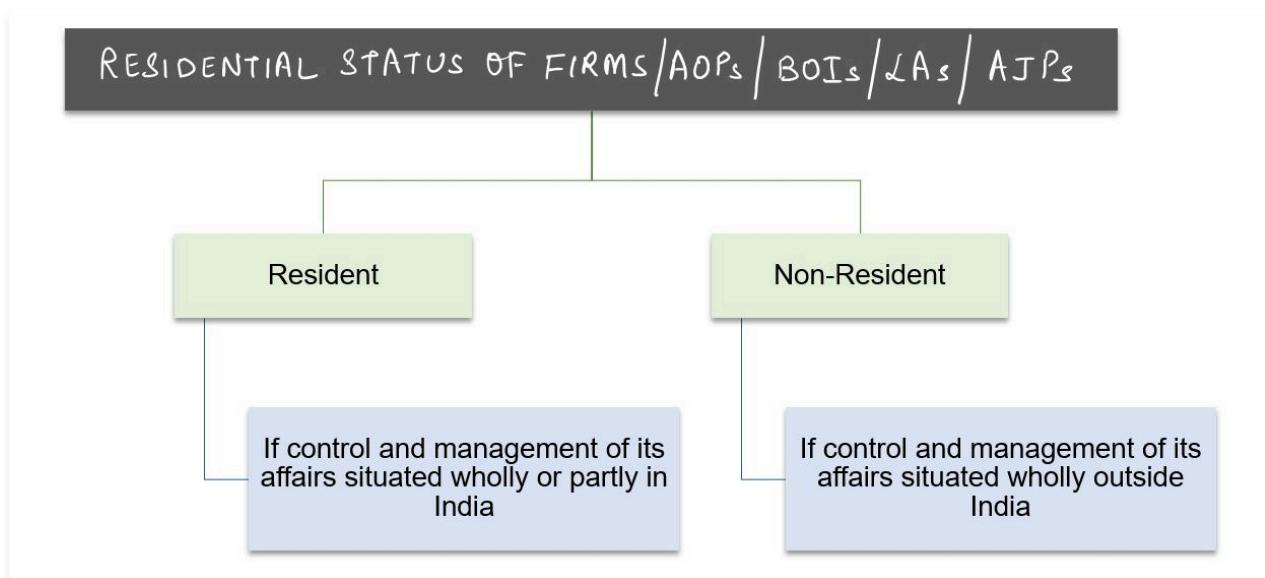
(a) HUF is ROR in India as Karta would be satisfying both the additional conditions (because he is ROR).

(b) HUF is ROR in India as Karta is satisfying both the additional conditions. Karta's Residential status during relevant previous year (i.e. resident/non-resident) is irrelevant.

(c) HUF is RNOR as Karta does not satisfy both the additional conditions.

4. Residential Status of Firm and AOP

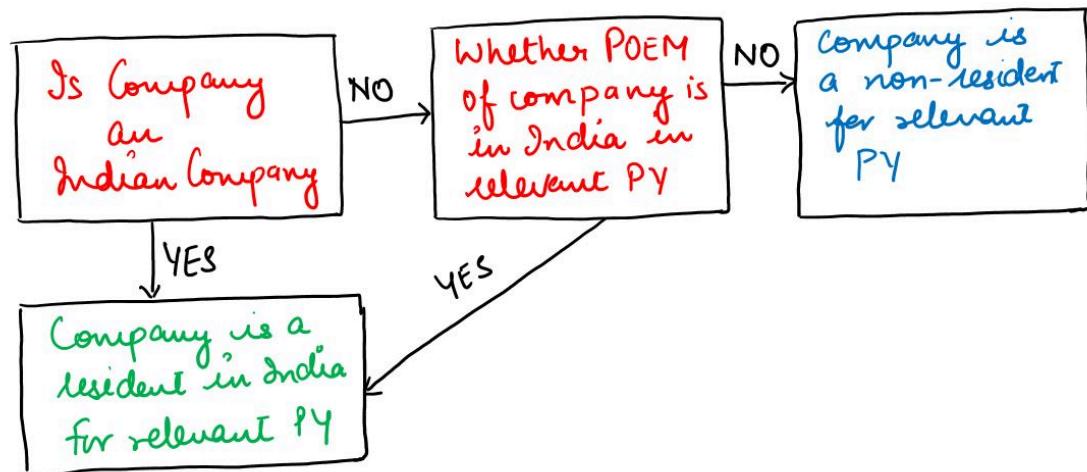
A partnership firm or an association of persons is said to be **resident** in India, if control and management of its affairs are wholly or partly situated inside India during the relevant previous year. It will, however, be treated as **non-resident** in India, if control and management of its affairs are situated wholly outside India.



Note: A firm/ an AOP cannot be 'ordinarily' or 'not ordinarily resident'. The residential status of the partners/ members of the firm/ association, is not relevant in determining the status of firm/association.

5. Residential Status of Company

RESIDENTIAL STATUS OF A COMPANY



A company incorporated under Indian Companies Act is always resident in India. Any other foreign company is resident in India, if during the previous year the control and management of its affairs are situated wholly in India. Usually, control and management of a company's affairs is situated at the place where meeting of its board of directors is held.

Company	Residential Status	Remarks
Indian Company	It will always be Resident in India	Even if an Indian Company is controlled from a place located outside India or even if, its shareholders controlling more than 51% voting power are non-resident, and / or located outside India). An Indian Company can never be non-resident.
Foreign Company (having turnover/ gross receipt in the previous year more than Rs. 50 crore)	It will be resident in India, if its Place Of Effective Management (POEM), during the relevant previous year, is in India	The Place Of Effective Management (POEM) means a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.
Foreign Company (having turnover/ gross receipt in the previous year Rs. 50 crore or less)	Always non-resident in India	From the AY 2017-18

5. Residential Status of Company

Y Ltd. is a company incorporated in Mauritius. It has 10 shareholders who are Indian citizens and resident in India. The company has an active business outside India and is controlled wholly from outside India by a team of professionals. What is the residential status of Y Ltd. for the assessment year 2025-26, assuming it is having a turnover of Rs. Rs. 80 crore? What would be the answer if it is having turnover of Rs. 40 crore?

Solution:

There are two cases:

Case 1: Where turnover of the Company is Rs. 80 crore - Y Ltd. is a foreign company. It is controlled from outside India (POEM is outside India). It is, therefore, non-resident in India for AY 2025-26. Residential status of shareholders is irrelevant. Likewise, nationality of shareholders is not taken into consideration.

Case 2: Where turnover of the Company is Rs. 40 crore - Since, it is a foreign company and its turnover is less than 50 crore, it is, therefore, non-resident in India for AY 2025-26.

6. Residential Status of every other Person

Every other Person is resident in India, if control and management of its affairs, is wholly or partly, situated within India, during the relevant previous year. On the other hand, every other person is non-resident in India, if control and management of its affairs is wholly situated outside India.

7. Residential Status and Incidence of Tax

Under the Income Tax Act, incidence of tax on a taxpayer depends on his residential status and also on the time and place of accrual or receipt of income. Before understanding the relationship between the incidence of tax and tax liability of a taxpayer, we should be clear about the meaning of **Indian Income** and **Foreign Income**.

Indian Income	Foreign Income
<p>Any of the following three is an 'Indian Income':</p> <ol style="list-style-type: none">1. If income is received (or deemed to be received) in India and at the same time it accrues or arises (or deemed to accrue or arise) in India during the previous year.2. If income is received (or deemed to be received) in India during the previous year but it accrues or arises outside India during the previous year.3. If income is received outside India during the previous year but it accrues or arises (or deemed to accrue or arise) in India during the previous year.	<p>If the following two conditions are satisfied, then such income is 'foreign income':</p> <ol style="list-style-type: none">1. Income is not received (or not deemed to be received) in India2. Income does not accrue or arise (or is not deemed to accrue or arise) in India.

7. Residential Status and Incidence of Tax

Now, there can be following 4 cases, while considering incidence of tax, based on residential status.

These are discussed below.

1. Income received in India

Income received in India, is taxable in India, regardless of the residential status of the assessee.

2. Income deemed to be received in India

In addition to the income actually received by the assessee or on his behalf, certain other incomes not actually received by the assessee and/or not received during the relevant previous year, are also included in his total income for income tax purposes. Such incomes are known as **income deemed to be received**.

The following incomes shall be deemed to be received in India in the previous year even in the absence of actual receipt:

- (i) Contribution made by the employer to the Recognized Provident Fund (RPF) in excess of 12 % of the salary of the employee.
- (ii) Interest credited to RPF account of an employee in excess of 9.5% p.a.
- (iii) Transfer balance from an unrecognized fund to a RPF.
- (iv) Contribution made by the Central Government, or any other employer in the previous year, to the account of an employee under a notified pension scheme referred to in Sec. 80CCD.
- (v) Tax deducted at source.
- (vi) Deemed Profit u/s 41.

3. Income accrued in India

Income is said to accrue when it comes into existence for the first time or at the point of time when the right to receive the income arises, although, the right may be exercised or exercisable at a future date. Income is said to be received when it reaches the assessee. When the right to receive the income becomes vested in the assessee, it is said to accrue or arise. Income accrued in India is chargeable to tax in all cases irrespective of residential status of an assessee.

4. Income deemed to accrue or arise in India

Certain types of income are deemed to accrue or arise in India even though they may actually accrue or arise outside India.

The categories of income which are deemed to accrue or arise in India are:

- (i) Any income accruing or arising to an assessee in any place outside India whether directly or indirectly:
 - (a) through or from any business connection in India,
 - (b) through or from any property in India,
 - (c) through or from any asset or source of income in India, or
 - (d) through the transfer of a capital asset situated in India.
- (ii) Income, which falls under the head *Salaries*, if it is earned in India. Salary payable for service rendered in India would be treated as earned in India. Further, any income under the head "Salaries" payable for rest period or leave period which is preceded and succeeded by services rendered in India, and forms part of the service contract of employment, shall be regarded as income earned in India.
- (iii) Income from Salaries which is payable by the Government to a citizen of India for services rendered outside India (However, allowances and perquisites paid outside India by the Government, is exempt).
- (iv) Dividend paid by an Indian company outside India.
- (v) Interest.
- (vi) Royalty.
- (vii) Fees for technical services.
- (viii) Deemed accrual of gift made to a non-resident (effective AY 2020-21).

The Finance Act, 2019 provided that income arising outside India, being any sum of money exceeding Rs. 50,000 paid on or after 5th July, 2019 by a person resident in India to a non-resident, not being a company, or to a foreign company, shall be deemed to accrue or arise in India. This amendment was introduced as an anti-abuse provision, as certain instances were

observed where gifts were being made by persons residents in India to non-residents and were claimed to be non-taxable in India by such non-residents.

Further, certain persons being not ordinarily residents were receiving the gifts from persons resident in India and not paying tax on it. In view of the same, the **Finance Act 2023** has extended the above provision to sum of money exceeding Rs. 50,000, received by a not ordinarily resident in India after 1st April 2023, without consideration from a person resident in India. This amendment will take effect from 1st April 2024.

Tax liability of an assessee varies with his residence or residential status. Hence, the first inquiry should be about residence of the assessee.

Once the residential status of a person is determined in accordance with Section 6 of the Income-Tax Act, the income chargeable to tax as part of total income shall be identified as follows under Section 5.

Particulars	Resident	Resident but not Ordinarily resident	Non-resident
Income received or deemed to be received in India whether accrued in India or outside India.	Taxable	Taxable	Taxable
Income accruing or arising or deemed to accrue or arise in India whether received in India or outside India.	Taxable	Taxable	Taxable
Income earned and received outside India, from business controlled from India or Profession set up in India.	Taxable	Taxable	Not Taxable
Income earned and received outside India, from business controlled in or Profession set up outside India.	Taxable	Not Taxable	Not Taxable
Income which accrues or arises outside India and received outside India during the year preceding the previous year and remitted to India during the previous year	Not Taxable	Not Taxable	Not Taxable

Key Takeaways

The following broad conclusions can be drawn:

1. Indian Income – It is always taxable in India irrespective of the residential status of the taxpayer.
2. Foreign Income – It is taxable in the hands of resident (in case of a firm, an AOP, a joint stock company and every other person) or Resident and ordinarily resident (in case of an individual and an HUF) in India. Foreign income is not taxable in the hands of non-resident in India.

In the hands of resident but not ordinarily resident taxpayer, foreign income is taxable only if it is (a) business income and business is controlled wholly or partly from India, or (b) professional income from a profession which is set up in India. In any other case, foreign income is not taxable in the hands of RNOR taxpayers.

7. Residential Status and Incidence of Tax

The following are the particulars of income of Mr. X for the previous year 2024-25: (Amt in Rs.)

1	Rent from a property in Delhi received in USA	70,000
2	Income from a business in USA controlled from Delhi	1,00,000
3	Income from a business in Mumbai controlled from USA	1,50,000
4	Rent from property in USA received there but subsequently remitted to India	60,000
5	Interest from deposits with an Indian Company received in USA	15,000
6	Profits for the year 2023-24 of a business in USA remitted to India during the previous year 2024-25 (not taxed earlier)	70,000
7	Gifts received from his parents (i.e. relative)	45,000

Compute his income for the assessment year 2025-26 if he is:

- (a) ROR (b) RNOR (c) NR

Solution:

Computation of Income for the AY 2025-26		(Amt. in Rs.)		
	Particulars	ROR	RNOR	NR
1.	Income earned /deemed to accrue / arise in India			
	Rent from property in Delhi	70,000	70,000	70,000
	Income from business in Mumbai	1,50,000	1,50,000	1,50,000
	Income from Indian Company	15,000	15,000	15,000
2.	Income earned and received outside India from a business controlled from India			
	Income from business in USA	1,00,000	1,00,000	-
3.	Income earned and received outside India other than 2 above			
	Rent from property in USA	60,000	-	-
	TOTAL	3,95,000	3,35,000	2,35,000

Note 1: Profits of 2023-24 are not income of the previous year 2024-25 and hence cannot be included in the income for AY 2025-26.

Note 2: Gifts received are capital receipts and are not regarded as income.

7. Residential Status and Incidence of Tax

During the FY 2024-25, Mr. Hingorani had the following income:

Sl. No.	Particulars	Amount in Rs.
1	Salary income received in India for services rendered in Hong Kong	3,50,000
2	Income from profession in India, but received in Germany	3,70,000
3	Property income in Uganda (out of which Rs. 2,40,000) was remitted to India	5,00,000
4	Profits earned from business in Bangalore	1,30,000
5	Agricultural income in Kenya	1,50,000
6	Profits from a business carried on in Nepal but controlled from India	2,50,000

Compute his income for the assessment year 2025-26, if he is:

- (a) ROR (b) RNOR (c) NR

Solution:

Particulars	Computation of Income for the AY 2025-26 (Amt. in Rs.)		
	ROR	RNOR	NR
1. Income received in India wherever it accrues			
Salary received in India for services rendered in Hong Kong	3,50,000	3,50,000	3,50,000
2. Income accrued in India wherever it received			
(i) Profit earned from business in Bangalore	1,30,000	1,30,000	1,30,000
(ii) Income from profession in India but received in Germany	3,70,000	3,70,000	3,70,000
3. Income accrued and received outside India			
(i) Property income in Uganda	5,00,000	-	-
(ii) Agriculture income in Kenya	1,50,000	-	-
(iii) Profits of a business carried on in Nepal but controlled from India	2,50,000	2,50,000	-
Total Income	17,50,000	11,00,000	8,50,000

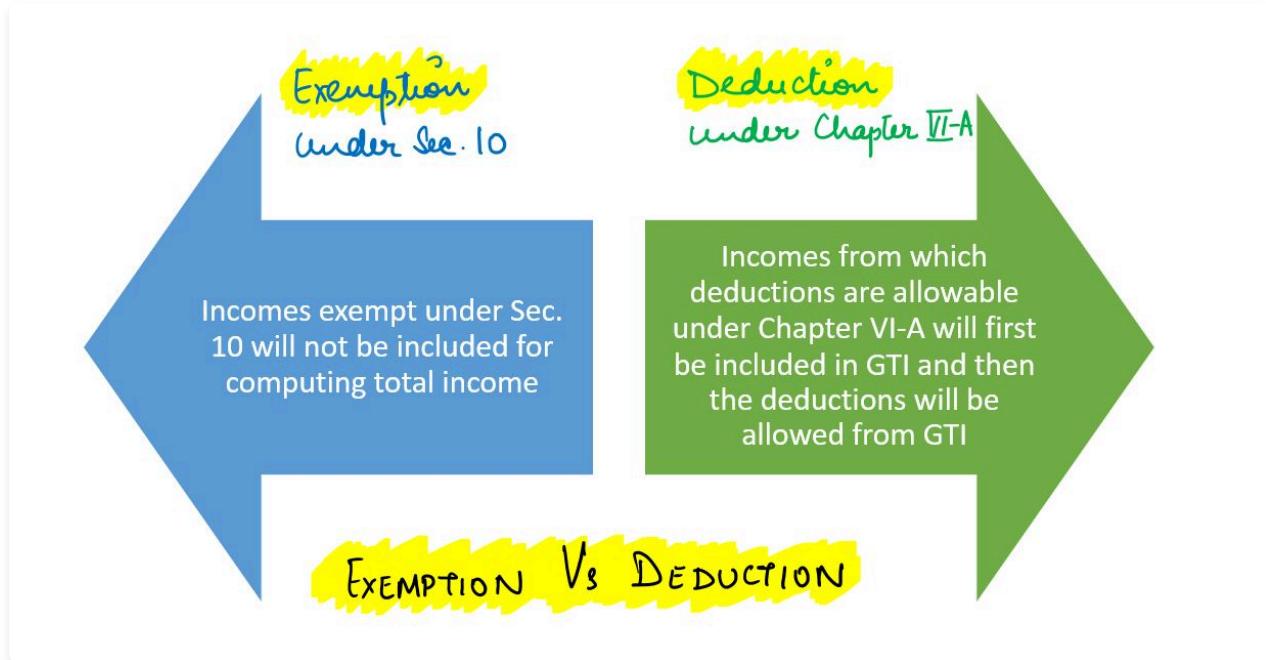
1. Introduction

Income Tax is calculated on the total income of an individual for the previous year. For providing relief to the taxpayer, income tax laws provide for exemption, deduction and rebate. The exempt income is often confused with the deductions and rebate. However, these concepts differ from each other.

Let us understand the meaning of these terms next.

2. Meaning of Exemptions, Deductions and Rebates

Income Tax **Exemptions** are allowed to be claimed from a specific source of Income and not from the Gross Total Income. For example, Income Tax Exemptions allowed under the head salary are not allowed to be claimed from any other head.



Other examples can be:

1. Income Tax Exemption from Leave Travel Allowance
2. Income Tax Exemption from Pension Income
3. Income Tax Exemption from Leave Encashment
4. Income Tax Exemption from House Rent Allowance

Income Tax **Deduction** is allowed to be claimed from the total income under each head and also from the gross total income. Deductions are allowed to be claimed in case the taxpayer has incurred some specified expenditure or made specified investments.

Examples of Income tax deductions allowed are as follows:

1. Deduction under Section 80C for specific type of Investments.
2. Deduction under Section 80D for Payment of Medical Insurance Premium.
3. Deduction under Section 80E for repayment of Interest on Education Loan.
4. Deduction under Section 80G for Donations.
5. Deduction under Section 80TTA for Interest on Savings Account.

Income Tax **Rebates** are those items which are allowed to be claimed from the total tax payable. It is pertinent to note that Income Tax Exemptions and Income Tax Deductions are allowed to be claimed from the Income whereas Rebate is allowed to be claimed from the Tax payable. An example can be an Income Tax Rebate of Rs. 12,500 for persons with Income up to Rs 5 Lakh.

3. List of exempted incomes

Section 10 of the Income Tax Act provides the list of items, which are not included, while computing the total income of a previous year of any person.

The list of exempted incomes under Section 10 are given below.

Agriculture Income [Sec.10(1)]
Amount received by a member from HUF [Sec.10(2)]
Partner's share in the firm (including LLP) [Sec.10(2A)]
Interest received by Non-resident on certain Bonds, Securities, Certificates of Deposits [Sec.10(4)]
Interest received by a person who is resident outside India on amounts credited in the 'Non-resident (External) Account' [Sec.10 (4B)]
Interest payable to a non-resident / foreign company by an Indian Company / business trust pertaining to money borrowed from a source outside India by way of issue of Rupee Denominated Bonds [Sec. 10(4C)]
Income from transfer of GDRs, Rupee Denominated Bonds or Derivatives by Category-III AIFs (Alternative Investment Funds) [Sec. 10(4D)]
Income accrued or arisen to, or received by a non-resident on transfer of non-deliverable forward contracts entered into with an offshore banking unit of IFSC [Sec. 10(4E)]
Royalty income of non-resident on leasing of aircraft to an IFSC unit [Sec. 10(4F)]
Income of non-resident from Portfolio Services [Section 10(4G)]
Leave travel concession provided by an employer to his Indian citizen employee [Sec.10(5)]
Remuneration received as an official or as member of staff of the officials of an embassy, high commission, consulate or trade representative of foreign state [Sec.10(6)]
Salary received by a foreign citizen as an employee of a foreign enterprise provided his stay in India does not exceed 90 days [Sec. 10(6) (vi)]
Salary received by a non-resident foreign citizen as a member of ship's crew provided his total stay in India does not exceed 90 days [Sec. 10(6) (viii)]
Remuneration received by an employee, being a foreign national, of a foreign Government deputed in India for training in a Government establishment or PSU [Sec. 10(6) (xi)]
Tax paid by Government or Indian concern on behalf of foreign company deriving income by way of royalty or fees for technical services [Sec. 10(6A)]
Tax paid by Government or an Indian concern in the case of a non-resident/foreign company [Sec. 10(6B)]
Tax paid on behalf of foreign Government or foreign enterprise deriving income by way of lease of aircraft or aircraft engine [Section 10(6BB)]
Income arising to notified foreign companies from services provided in or outside India in project connected with the security of India [Sec. 10(6C)]
Any income arising to a non-resident/ foreign company by way of royalty from (of fees for technical services rendered in or outside India) the National Technical Research Organization [Sec. 10(6D)]
Foreign Allowances paid or allowed by the Government of India to its employees posted abroad [Sec.10(7)]
Remuneration received from foreign government by an individual for duties assigned in India in connection with any sponsored co-operative technical assistance programme with a foreign Government and income of the family members of such employee [Sec.10(8) &10(9)]
Death cum Retirement Gratuity received by an employee [Sec.10(10)]
Comuted Pension [Sec.10(10A)]
Leave Encashment [Sec.10(10AA)]

Compensation/award received at the time of his retrenchment [Sec.10(10B)]
Any payment received under Bhopal Gas Leak Disaster [Sec.10(10BB)]
Any compensation received from State or Central Government on account of any disaster [Sec.10(10BC)]
Compensation received from a public sector company on voluntary retirement [Sec.10(10C)]
Tax on non-monetary perquisite paid by the employer [Sec.10(10CC)]
Amount received under life insurance policy including any bonus allotted on such policy (not being a Keyman insurance policy) [Sec.10(10D)]
Amount received from provident fund by retiring employee [Sec.10(11)]
Any payment from Sukanya Samridhi Account [Sec. 10(11A)]
Payment from the National Pension System Trust to an employee [Sec. 10(12A)] to the extent it does not exceed 40% of the total amount payable to him at the time of closure or his opting out of the scheme, is exempt from tax. [w.e.f. 01.04.2020 - 60% of the amount payable shall be exempt from tax].
Partial withdrawal from NPS [Section 10(12B)], provided the amount of withdrawal should not exceed 25% of total contribution made by an employee in NPS
Any payment received from the Agniveer Corpus Fund by a person enrolled under the Agnipath Scheme, 2022, or the nominee of such person [Sec. 10 (12C)] [Inserted by the Finance Act 2023, w.e.f. 01.04.2023]
Amount from an approved Superannuation Fund to legal heirs of the employee [Sec. 10(13)]
House Rent allowance subject to certain limits [Sec. 10(13A)]
Special allowance granted to meet expenses incurred in performance of duties [Sec. 10(14)]
Income received by a Public Financial Institution as exchange risk premium in certain cases (Sec. 10 (14A)]
Interest, premium or bonus from exempted (specified) securities [Sec. 10(15)]
Payment made by an Indian company, engaged in the business of operation of an aircraft, to acquire an aircraft on lease from a foreign government or foreign enterprise, if few conditions are satisfied (Sec. 10(15A)]
Scholarship granted to meet the cost of education [Sec. 10(16)]
Daily allowance of a Member of Parliament or State Legislature (entire amount is exempt) and any other allowance subject to certain conditions [Sec. 10(17)]
Rewards given by Central/ State Government for literary, scientific or artistic work or attainment or for service for alleviating the distress of the poor, the weak and the ailing, or for proficiency in sports and games or gallantry awards approved by the Government [Sec. 10 (17A)]
Pension or family pension received by the family member of gallantry award winners [Sec. 10(18)]
Ex gratia payments made by Central Government consequent on abolition of privy purse [Sec. 10(18A)]
Family pension received by family members of armed force or paramilitary force [Sec10(19)]
Notional property income of any one palace occupied by a former ruler [Sec. 10 (19A)]
Income of panchayat, municipality, municipal committee, district Board or cantonment board [Sec. 10(20)]
Any Income of an approved Research Association [Sec. 10(21)]
Income of specified news agency, i.e., PTI (Press Trust of India) and UNI (United News of India) [Sec. 10(22B)]
An association or institution set up in India for specified professions [Sec. 10(23A)]
Income received on behalf of Regimental Fund [Sec. 10(23AA)]
Income of a fund established for welfare of employees [Sec. 10(23AAA)]
Any fund set up by LIC or other insurer [Sec. 10(23AAB)]
Institution for development of Khadi and Village Industries [Sec. 10(23B)]
Income of Khadi and Village Industries Board [Sec. 10(23BB)]
Incomes of statutory bodies for the administration of public charitable trust [Sec. 10(23BBA)]
Any income of European Economic community [Sec.10(23BBB)]

Any income of SAARC (South Asian Association for Regional Cooperation) Fund for regional projects [Sec.10(23BBC)]
Any income of Secretariat of Asian Organisation of Supreme Audit Institutions [Sec. 10(23BBD)]
Any income of Insurance Regulatory Authority [Sec.10(23BBE)]
Income of Central Electricity Regulatory Commission [Sec. 10(23BBG)]
Income of the Prasar Bharati [Sec. 10(23BBH)]
Income received by any person on behalf of National Relief Fund, approved public charitable institutions, educational institutes and hospitals [Sec. 10(23C)]
Any income of Specified Mutual funds [Sec. 10(23D)]
Income of a securitisation trust from the activity of Securitisation [Sec. 10(23DA)]
Income of Investor protection fund [Sec. 10(23EA)]
Income of the notified investor protection fund set-up by commodity exchange [Sec. 10(23EC)]
Income of Investor Protection Fund set by a depository [Sec. 10(23ED)]
Specified income of Core Settlement Guarantee Fund [Sec. 10(23EE)]
Income of Venture Capital Fund/Venture Capital Company [Sec. 10(23FB)]
Any income of an investment fund other than business income [Sec. 10(FBA)]
Income referred to in section 115UB of a unit holder of an investment fund [Sec. 10(23FBB)]
Income of a Business Trust by way of interest received from a special purpose vehicle [Sec. 10(23FC)]
Certain income of a business trust being a real estate investment trust [Sec. 10(23FCA)]
Distributed Income of a Unit Holder from the Business Trust [Sec. 10(23FD)]
Income of specified person being wholly-owned subsidiary of Abu Dhabi Investment Authority and Sovereign Wealth Fund, applicable from AY 2021-22 [Sec. 10(23FE)]
Income by way of interest on securities, property income and income from other sources of a Registered Trade Union or an association of registered Trade Union [Sec.10(24)]
Any income received by a person on behalf of statutory / recognized/ Provident fund, approved Superannuation fund, approved Gratuity fund, and approved Coal Mines Provident Fund [Sec. 10(25)]
Income of Employees' State Insurance Fund (Sec. 10(25A)]
Income of a member of a Scheduled Tribe, residing in Nagaland, Manipur, Tripura, Arunachal Pradesh, Mizoram and Ladakh from any source arising by reason of his employment therein and income by way of dividend and interest on securities [Sec. 10(26)]
Income of a Sikkimese individual which accrues or arise to him/her from any source in the state of Sikkim or income by way of dividend or interest on securities (generated in Sikkim or any other place). This exemption is not available to a Sikkimese woman who, on or after April 1, 2008, marries a non- Sikkimese individual. [Sec. 10(26AAA)]
Income of an agricultural Produce Market Committee or Board [Sec. 10(26AAB)]
Any income of statutory corporation or any association, body, institution wholly financed by government formed for promoting the interest of SCs/ STs [Sec. 10(26B)]
Income of National Minorities Development and Finance Corporation [Sec. 10(26(BB)]
Government corporation formed by State or Central Government [Sec. 10(26B)]
Income of ex-serviceman corporation [Sec. 10(26BBB)]
Any income of a co-operative society formed for promoting interest of members of SCs/ STs [Sec. 10(27)]
Income of marketing authority from letting of godowns and warehouses [Sec. 10(29)]
Income of certain Commodity Boards/Authorities [Sec. 10(29A)]
Subsidy received from Tea Board for replanting or replacement of tea bushes or for rejuvenation or consolidation of areas used for cultivation of tea in India [Sec. 10(30)]
Subsidy received by planters from concerned Board [Sec. 10(31)]

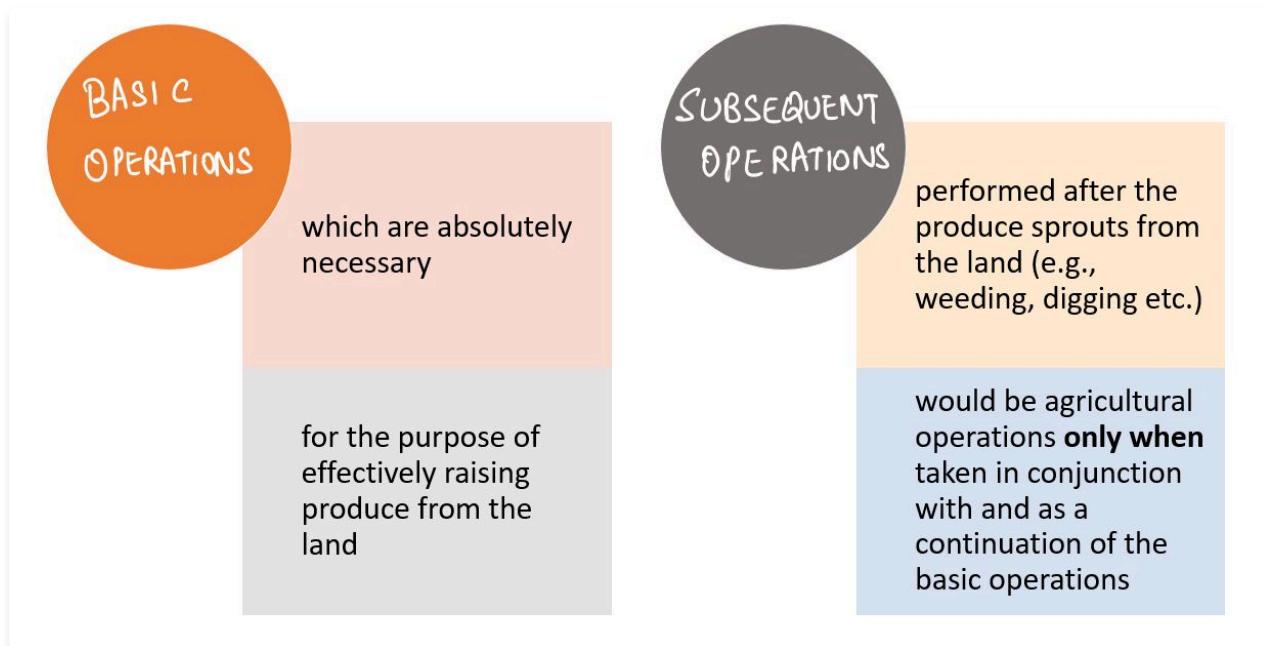
Income included in assessee's income u/s 64(1A) related to clubbing of income to the extent it does not exceed Rs. 1500 for each minor child [Sec. 10(32)]
Income arising from transfer of units held as capital assets of Unit Scheme, 1964. [Sec. 10(33)]
Dividend (up to March 31, 2020) from domestic companies [Sec. 10(34)]
Any income arising to a shareholder on account of buy back of shares by the company as referred to in Sec 115QA [Sec. 10(34A)]
Income received in respect of Units of specified mutual fund up to March 31, 2020 [Sec. 10(35)]
Capital gains on transfer of listed equity shares [Sec. 10(36)]
Capital gains on compensation received on compulsory acquisition of urban agricultural land [Sec. 10(37)]
Capital gain on transfer of specified capital assets arising to an Individual under land pooling scheme of the Andhra Pradesh Government [Sec. 10(37A)]
Long-term Capital gains on transfer of securities not chargeable to tax in cases covered by securities transaction tax (applicable up to AY 2018-19) [Sec 10(38)]
Specified income out of international sporting events [Sec. 10(39)]
Grant received by subsidiary company from holding company, engaged in the business of generation/transmission/distribution of power [Sec. 10(40)]
Income of Notified Non-Profit Body or Authority [Sec. 10(42)]
Any amount received by an individual as a loan (either in lump sum or instalment) in a transaction of reverse mortgage [Sec. 10(43)]
Any income received by a person, for, or on behalf of the New Pension System Trust [Sec. 10(44)]
Perquisite /allowances to Chairman/ members of UPSC if given/ provided up to March 31, 2020 [Sec. 10(45)]
Specified income of any body, authority, Board, Trust or Commission [Sec. 10(46)]
Any income of a body or authority or Board or Trust or Commission, not being a company, established under a Central or State Act for specified purposes [Sec. 10(46A)], inserted vide Finance Act, 2023
Any income accruing or arising to National Credit Guarantee Trustee Limited and specified credit guarantee fund and fund trust for Micro and Small Enterprises[Sec. 10(46B)], inserted vide Finance Act, 2023
Any income of Infrastructure debt fund [Sec. 10(47)]
Income received by certain foreign companies in Indian currency for import of crude oil etc. [Sec. 10(48)]
Any income of a foreign company on account of storage and sale of crude oil [Sec. 10(48A)]
Any income of a foreign company on account of sale of leftover stock of crude oil [Sec. 10(48B)]
Any income accruing or arising to the Indian Strategic Petroleum Reserves Ltd. as a result of arrangement for replenishment of crude oil stored in its storage facility in pursuance of directions of the Central Government (applicable from AY 2020-21) [Sec. 10(48C)]
Any income of National Financial Holdings Company Limited [Sec. 10(49)] [Omitted vide Finance Act, 2023]
Any income arising from specified services (or arising from any e-commerce supply or services made or provided or facilitated on or after April 1, 2021) and which is chargeable to equalisation levy [Sec. 10(50)]
Voluntary contributions received by an electoral trust, if a few conditions are satisfied [Sec. 13B]

1. Introduction

As per Section 10(1), any income derived from the agricultural land shall not be included in Total Taxable Income.

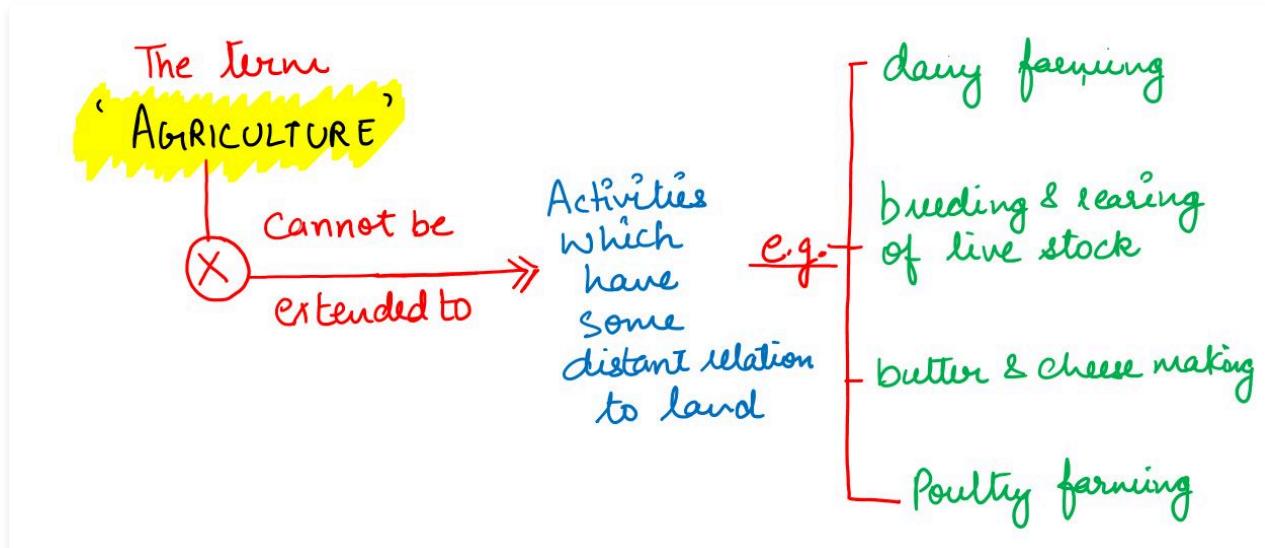
Let us understand the concept of Agricultural Income.

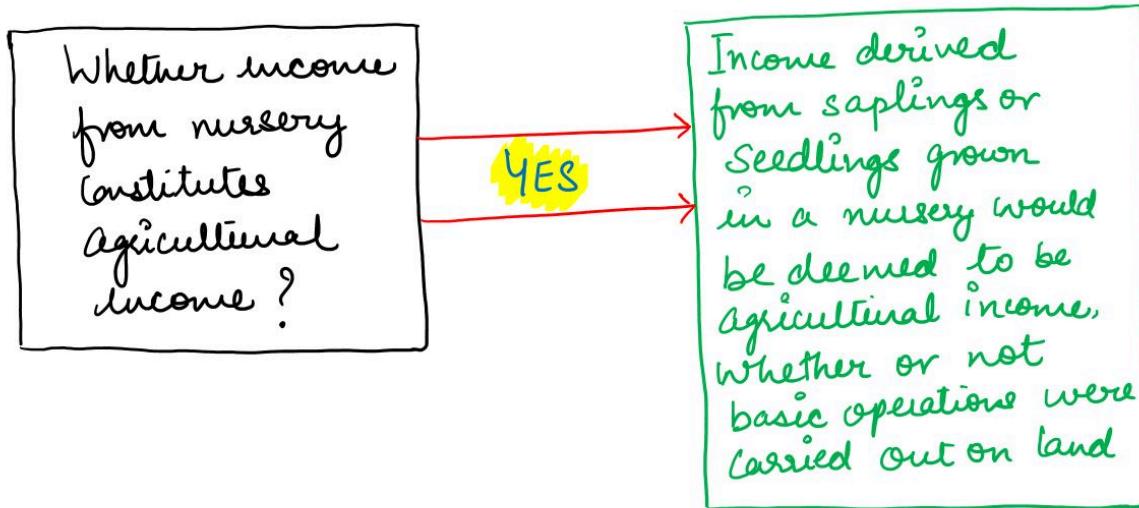
2. Meaning of Agricultural Income



The term 'Agriculture' has not been defined in the Act. However, cultivation of a field involving human skill and labour on the land can be broadly termed as agriculture.

'Agriculture' means tilling of the land, sowing of the seeds and similar operations. It involves basic operations and subsequent operations.





The term 'Agricultural Income' has been defined under Section 2(1A) of the Income Tax Act, 1961.

As per this section, 'Agricultural Income' is:

1. Any **rent** or revenue derived from land, which is situated in India, and is used for agricultural purposes.
2. Any income derived **from such land** by **agricultural operations** including processing of the agricultural produce raised or received rent-in-kind to render it fit for the market for sale of such produce;
3. Income attributable to a **farmhouse** subject to satisfaction of certain conditions.
4. Income derived from saplings or seedlings grown in a nursery.

Sec. 10(1) exempts agricultural income from income tax. But it is taken for rate purpose. It means that agricultural income is included for determining the average rate of non-agricultural income in certain cases.

The list of the incomes that have been held to be **agricultural income**:

1. Remuneration and interest on capital received by a partner from a partnership firm engaged in agricultural operation;
2. Income from sale of seeds;
3. Compensation received from insurance company for damage caused to the agricultural produce;
4. Income from growing flowers and creepers.

The list of the incomes that have been held to be **non-agricultural income**:

1. Income from stone quarries;
2. Income from breeding of livestock;
3. Income from dairy farming, butter and cheese making;
4. Income from poultry farming or bee giving;
5. Income from fisheries;
6. Income from brick making;
7. Income from supplying surplus water to other agriculturists;
8. Profits on sale of standing crops/agricultural produce purchased by the assessee;
9. Income derived from letting out of land/godown for storing crops;
10. Income from sale of forests, trees, wild grass, fruits and flowers grown spontaneously and without human effort;
11. Income from salt produced by flooding the land with sea water and then extracting salt therefrom;
12. Preservation of potatoes by refrigeration as it is not a process ordinarily employed by a cultivator;
13. Royalty income of mines;
14. Compensation or damages paid for loss of agricultural income due to late payment of installments of the consideration price of rubber plantation site;
15. Registration fee collected from the contractor who is bidding at the auction conducted for sale of plantation is not an agricultural income as registration fee has no nexus with land.

The list of the incomes that have been held to be both *agricultural income* and *non-agricultural income* is given below.

Crop	Agricultural Income (Exempt)	Business Income (Taxable)
Growing and Manufacturing of Tea	60%	40%

Rubber manufacturing business	65%	35%
Coffee grown and cured by seller	75%	25%
Coffee grown, cured, roasted and ground by the seller in India, with or without mixing chicory or other flavouring ingredients	60%	40%

2. Meaning of Agricultural Income

Mr. Ramakrishna derives income from estates in coffee, Rubber and Tea in the previous year ending 31st March, 2025. From the following particulars of income from estates, compute the taxable income for the assessment year 2025-26.

	Amt (in Rs.)
i) Manufacture of rubber	8,50,000
ii) Manufacture of coffee grown and cured	2,50,000
iii) Manufacture of tea	3,50,000

Solution:

Computation of Taxable Income for the Assessment Year 2025-26

(Amount in Rs.)

Description	Amount (Rs.)
Manufacture of coffee grown and cured (25% of income shall be business income)	62,500
Manufacture of rubber (35% of income shall be business income)	2,97,500
Manufacture of tea (40% of income shall be business income)	1,40,000
Total Taxable Income	5,00,000

3. Integration of agricultural income in the non-agricultural income

AGRICULTURAL INCOME IS EXEMPT UNDER SEC. 10(1)

However, agricultural income to be aggregated with non-agricultural income for determining the rate at which non-agricultural income would be taxed, where -

Agricultural income exceeds Rs 5,000

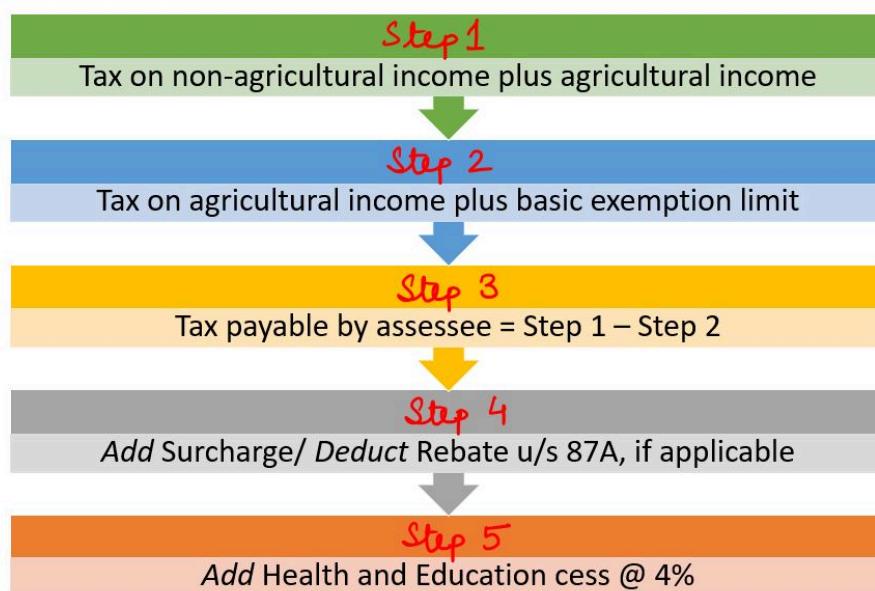
AND

Non-agricultural income exceeds basic exemption limit

There is a complete tax rebate on agricultural income in the following cases:

- If total agricultural income is less than Rs. 5,000;
- If the income from agricultural land is the only source of income i.e., no other income;
- Where there is both agricultural income and other income and if the total income excluding such agricultural income is less than the basic exemption limit.

But, in case, the agricultural income exceeds Rs. 5,000 and there are other sources of income too, then, the tax liability for that year is to be calculated following the procedure as under:



For example, Mr. X earns Rs. 4,00,000 as salary income and Rs. 90,000 as agricultural income. The computation shall be as follows:

Tax on total income: Step (1)

Tax on Rs 2,50,000 = Nil

Tax on remaining Rs 2,40,000 ($4,90,000 - 2,50,000$) @ 5% = 12,000

Total Tax = Rs 12,000

Thus, Tax on total income of Rs 4,90,000 = Rs 12,000

Tax on basic exemption limit + agricultural income: Step (2)

Tax on Rs 2,50,000 = Nil

Tax on remaining Rs 90,000 @ 5% = 4,500

Total Tax = Rs 4,500

Thus, tax on basic exemption limit + agricultural income = Rs 4,500

The **tax liability, in this case, shall be Rs. 7,500, i.e., Step (1) – Step (2).** Note that there is no extra tax payable owing to the extra income of agriculture.

Note that there is no extra tax payable owing to the extra income of agriculture.

To conclude, the Income Tax Act of 1961 exempts any income one generates through agriculture from tax liability. However, agricultural income is included while computation, for the limited purpose of determining the tax rate, in computing the income tax liability, if the net agricultural income exceeds Rs 5,000.

Note: This is applicable to individuals, HUF, AOPs, BOIs and Artificial Juridical persons.

3. Integration of agricultural income in the non-agricultural income

Section 54B is the exemption available for an individual and HUF, if an Individual or HUF sells urban agricultural land and purchases urban or rural agricultural land, within 2 years of the date of transfer. Exemption would be available for the lower of capital gain and amount invested in acquiring new agricultural land.

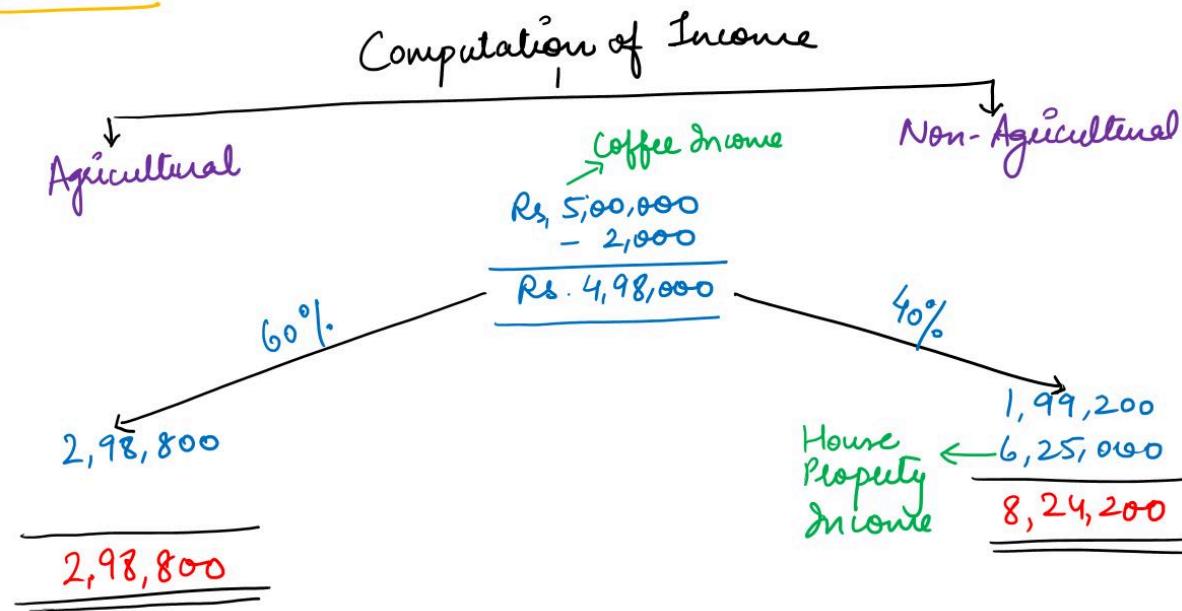
3. Integration of agricultural income in the non-agricultural income

For the AY 2025-26, Y, an individual, aged 62 years, submits the following information:

House Property Income	Rs. 6,25,000
Income from the business of growing and manufacturing coffee in India (gross)	Rs. 5,00,000
Expenditure on earning coffee income	Rs. 2,000

Determine the tax liability of Y for the AY 2025-26 on the assumption that he contributes Rs. 60,000 towards public provident fund.

Solution



Tax Liability on Non-Agricultural Income (Rs.)

$$\begin{array}{rcl} \text{G.T.I} & & 8,24,200 \\ \text{Less: Deductions} & & \\ (\text{u/s } 80\text{C}) & & \underline{\underline{60,000}} \\ & & 7,64,200 \end{array}$$

Step 1: Income tax on:
Agricultural + Non-agricultural
income

$$2,98,800 + 7,64,200 = \underline{\underline{10,63,000}}$$

Tax on first Rs 3,00,000	= Nil
Tax on next Rs 2,00,000 @ 5%	= 10,000
Tax on next Rs 5,00,000 @ 20%	= 1,00,000
Tax on remaining Rs 63,000 @ 30%	= 18,900
	<u><u>1,28,900</u></u>

Step 2: Income Tax on:

Agricultural + Exempted slab
income of income

$$2,98,800 + 3,00,000 = \underline{\underline{5,98,800}}$$

Tax on first Rs 3,00,000	= Nil
Tax on next Rs 2,00,000 @ 5%	= 10,000
Tax on remaining Rs 98,800 @ 20%	= 19,760
	<u><u>29,760</u></u>

Step 3: Step 1 - Step 2

$$1,28,900 - 29,760 = 99,140$$

Step 4: Add Surcharge Nil
Tax & Surcharge 99,140

Step 5: Add Health & Edu. Cess 3,966
@ 4%
Tax Liability 1,03,110

1. Introduction

We have learnt earlier that, as per Section 14 of Income Tax Act, 1961, the income of a person is computed under the following 5 heads:

1. Salaries.
2. Income from house property.
3. Profits and gains of business or profession.
4. Capital gains.
5. Income from other sources.

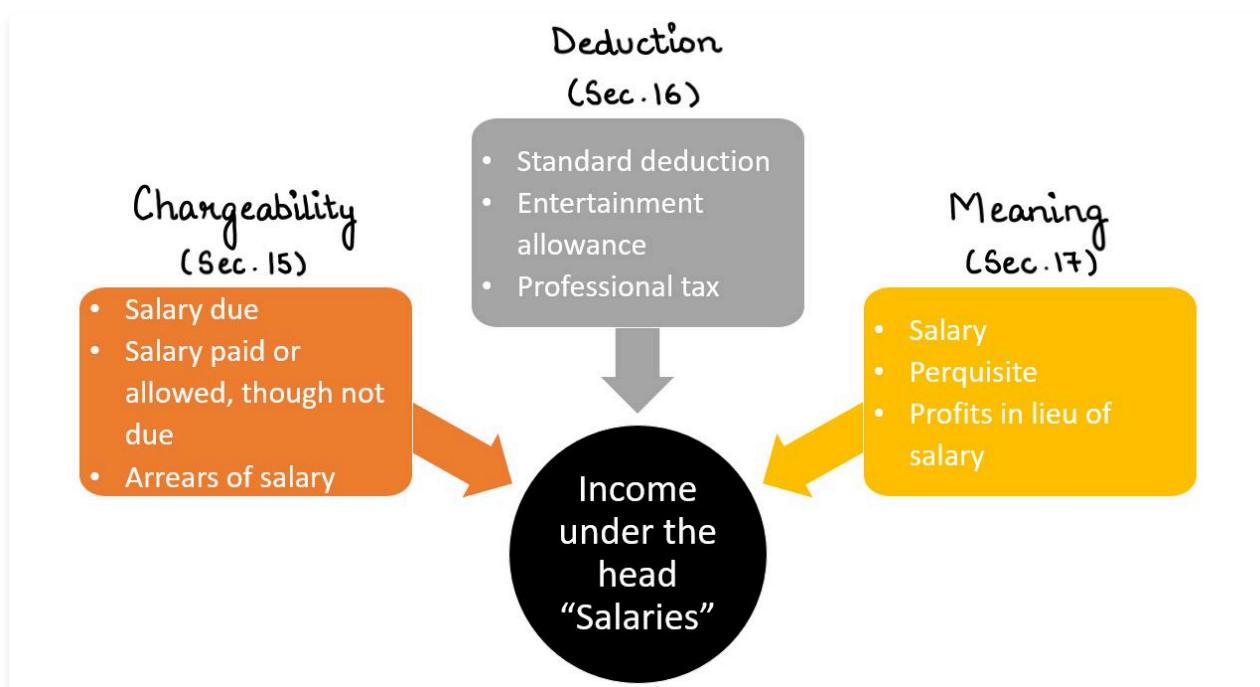
The aggregate income under the above five heads, after applying clubbing provisions and making adjustment of set off and carry forward of losses, is termed as **Gross Total Income**. In other words, gross total income means total income computed in accordance with the provisions of the Act *before* making any deductions under sections 80C to 80U.

For calculation of income, amount received is classified under five heads of income as aforesaid; it is then to be adjusted with reference to the provisions of the Income Tax laws, in the following manner:

Particulars	Amount (Rs.)
Income under the head:	
Income from Salaries	XXX
+ Income from House Property	XXX
+ Profits & Gains of business & profession	XXX
+ Capital gains	XXX
+ Income from other sources	XXX
Adjustment in respect of:	
+ Clubbing of Income	XXX
- Set off and carry forward of losses	(XXX)
= Gross Total Income	XXX
- Deductions under Sec. 80C to 80U (or Chapter VIA)	(XXX)
Total Income	XXX

Let us understand in this chapter, the first head, that is, *Income under the head Salaries*.

2. First head – Income from Salary



The first head of income is income from 'Salaries' and Sections 15 to 17 of the Income Tax Act, 1961, deal with computation of income under this head. Any income to be taxed under the head 'salary' shall be obtained due to relationship of an employer (being payer) and an employee (being payee).

Any salary, bonus, commission or remuneration due to/ received by an assessee from a firm, in which he is a partner, shall not be taxable under the head 'salaries', as there is no employer-employee relationship. It will, however, be taxable under the head 'Profits and gains of business or Profession'.

A Member of Parliament or State Legislature is not a government employee, therefore, remuneration received by him is not taxable as 'salary income', but as 'income from other sources'. However, salary received by the Minister in the Government is taxable under the head 'salary'.

3. Meaning of Salary and Basis of Charge

'Salary', in simple words, means remuneration of a person, which he has received from his employer for rendering services to him. But receipts for all kinds of services rendered cannot be taxed as salary. The remuneration received by professionals like doctors, architects, lawyers etc. cannot be covered under salary since it is not received from their employers but from their clients. So, it is taxed under 'income from business or profession' head.

Section 15 deals with the basis of charge. Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, *whichever is earlier*. However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due. If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

3. Meaning of Salary and Basis of Charge

The Points to be kept in mind with respect to 'Salary income' are listed below.

- (i) **Advance salary** is taxable when it is received by the employee irrespective of the fact whether it is due or not.
 - (ii) **Loan** is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified instalments, the loan amount cannot be brought to tax as salary of the employee.
 - (iii) Similarly, **advance against salary** is different from advance salary. It is an advance taken by the employee from his employer. This advance is generally adjusted with his salary over a specified time period. It cannot be taxed as salary.
 - (iv) Although salary is taxable on 'due' or 'receipt' basis, whichever is earlier, but if there are many **arrears of salary** which have not been taxed in the past, such arrears will be taxed in the year in which these arrears are paid or allowed to the employee. For example, if the government announces increase in Dearness Allowance (DA) in the previous year 2024-25 which is effective from January 1, 2017, then arrears from January 1, 2017 to March 31, 2024 will be taxed in the previous year in which these are allowed, although the salary relates to the past years. However, in such case, an assessee has an option to claim relief under section 89 of the Act.
 - (v) **Bonus** is taxable on receipt basis. Therefore, it will be included in the gross salary only in the year in which the bonus is received.
 - (vi) **Salary in lieu of Notice Period** is taxable in the previous year in which it is received.
 - (vii) Any **fees, commission or bonus** paid or payable to an employee is fully taxable and is included in salary. Commission payable may be at a fixed amount or a fixed percentage of turnover.
 - (viii) Any **overtime payment** to the employee for working beyond office hours or for extra work is taxable and, therefore, included in Gross Salary.
-

3. Meaning of Salary and Basis of Charge

'Salary' under Sec. 17(1), includes the following



According to Section 17(1) of the Act, Salary includes:

- (i) Wages
- (ii) Any annuity or pension
- (iii) Any gratuity
- (iv) Any fees, commission, perquisites or profits in lieu of or in addition to any salary or wage
- (v) Any advance salary
- (vi) Any payment received by an employee in respect of any period of leave not availed of by him
- (vii) Employer's contribution to Recognized Provident Fund (RPF) in excess of 12% of employee's salary and interest credited to RPF in excess of 9.5% p.a.
- (viii) The aggregate of all sums that are comprised in the transferred balance of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax
- (ix) The contribution made by the Central Government [or any other employer] in the previous year, to the account of an employee under a notified pension scheme referred to in Sec. 80CCD.
- (x) the contribution made by the Central Government in the previous year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 80CCH [inserted by Finance Act, 2023 w.e.f. 01.04.2024].

The aggregate of the above incomes, after the exemption(s) available, if any, is known as **Gross Salary**.

Net Salary

From the 'Gross Salary', the following 3 deductions are allowed (under Section 16) to arrive at the figure of **Net Salary**:

1. Standard deduction Rs. 50,000 or the amount of salary, whichever is less
2. Deduction for entertainment allowance
3. Deduction on account of any sum paid towards tax on employment.

All employees are entitled to a **basic salary**, which is fixed as per their respective terms of employment, either as a fixed amount or at a graded system of salary.

4. Allowances and Taxability

Allowance is a fixed monetary amount paid by the employer to the employee (over and above basic salary) for meeting certain expenses, whether personal or for the performance of his duties. These allowances are generally taxable and are to be included in gross salary unless specific exemption is provided in respect of such allowance.

Fully Taxable under both regimes	Fully taxable under default tax regime/Partly Exempt under optional tax regime	Fully Exempt only under optional tax regime	Fully exempt under both tax regimes
<ul style="list-style-type: none">• Entertainment Allowance• Dearness Allowance• Overtime Allowance• Fixed Medical Allowance• City Compensatory Allowance• Interim Allowance• Servant Allowance• Project Allowance• Tiffin Allowance• Warden Allowance• Transport Allowance to employees other than blind/ deaf and dumb/ handicapped employee	<ul style="list-style-type: none">• House Rent Allowance• Special Allowances• Except(a) Travelling allowance(b) Daily allowance(c) Conveyance allowance(d) Transport allowance to blind/ deaf and dumb/ orthopedically handicapped employee <p>• The exceptions in (a) to (d) above are partly exempt under both tax regimes.</p>	<ul style="list-style-type: none">• Allowances to High Court Judges• Salary and allowances paid by UNO• Sumptuary allowance granted to High Court or Supreme Court Judges	<ul style="list-style-type: none">• Allowance granted to Government employees outside India

Types of Allowances

For the purpose of tax treatment, we divide these allowances into 3 categories: Fully taxable, Partially taxable and Fully exempt.

Let us discuss these one by one.

4. Allowances and Taxability

Fully taxable allowances include the following.

- a. Dearness Allowance and Dearness Pay
 - b. City Compensatory Allowance
 - c. Tiffin / Lunch Allowance
 - d. Non practicing Allowance
 - e. Warden or Proctor Allowance
 - f. Deputation Allowance
 - g. Overtime Allowance
 - h. Fixed Medical Allowance (irrespective of whether any amount is spent on medical treatment or not)
 - i. Servant Allowance
 - j. Other allowances like family allowance, project allowance, marriage allowance, education allowance, and holiday allowance, etc., are not covered under specifically exempt category, but are fully taxable.
-

4. Allowances and Taxability

Partially exempted allowances include the following.

a. Entertainment Allowance

b. Further, as per section 10(14), read with rule 2BB following allowances granted to an employee are exempt from tax subject to certain limit:

List of Important Allowances	Exemption Limit
Children Education Allowance	Exempt upto actual amount received per child or Rs. 100 p.m. per child up to maximum of 2 children, whichever is less
Hostel Expenditure Allowance	Exempt upto acutal amount received per child or Rs. 300 p.m. per child upto maximum of 2 children, whichever is less
Transport Allowance granted to an employee to meet expenditure on commuting between place of residence and place of duty.	Rs. 3,200 per month for blind or deaf and dumb or orthopaedically handicapped employees is exempt; Fully exempt in case of serving chairman and member of UPSC; In case of any other employee – Not exempt and fully taxable.
Allowance granted to an employee working in any transport business to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place, provided employee is not in receipt of daily allowance.	Amount of exemption shall be lower of following: a) 70% of such allowance; or b) Rs. 10,000 per month.
Conveyance Allowance granted to meet the expenditure on conveyance in performance of duties of an office.	Exempt to the extent of expenditure incurred for official purposes.
Travelling Allowance to meet the cost of travel on tour or on transfer.	Exempt to the extent of expenditure incurred for official purposes.
Daily Allowance to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty.	Exempt to the extent of expenditure incurred for official purposes.
Helper/Assistant Allowance	Exempt to the extent of expenditure incurred for official purposes.
Research Allowance granted for encouraging the academic research and other professional pursuits	Exempt to the extent of expenditure incurred.
Uniform Allowance	Exempt to the extent of expenditure incurred.
Special compensatory Allowance (Hilly Areas) (Subject to certain conditions and locations)	Amount exempt from tax varies from Rs. 300 per month to Rs. 7,000 per month.
Border area allowances, Remote Locality allowance or Disturbed Area allowance or Difficult Area Allowance (Subject to certain conditions and locations)	Amount exempt from tax varies from Rs. 200 per month to Rs. 1,300 per month.
Tribal area allowance given in (a) Madhya Pradesh, (b) Tamil Nadu, (c) Uttar Pradesh, (d) Karnataka, (e) Tripura, (f) Assam, (g) West Bengal, (h) Bihar, (i) Orissa	Rs. 200 per month
Compensatory Field Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations)	Rs. 2,600 per month
Compensatory Modified Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations)	Rs. 1,000 per month

Counter Insurgency Allowance granted to members of Armed Forces operating in areas away from their permanent locations. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations)	Rs. 3,900 per month
Underground Allowance is granted to employees working in uncongenial, unnatural climate in underground mines.	Up to Rs. 800 per month
High Altitude Allowance is granted to armed forces operating in high altitude areas (Subject to certain conditions and locations)	a) Up to Rs. 1,060 per month (for altitude of 9,000 to 15,000 feet) b) Up to Rs. 1,600 per month (for altitude above 15,000 feet).
Highly active field area allowance granted to members of armed forces (Subject to certain conditions and locations)	Up to Rs. 4,200 per month
Island Duty Allowance granted to members of armed forces in Andaman and Nicobar and Lakshadweep group of Island (Subject to certain conditions and locations)	Up to Rs. 3,250 per month

4. Allowances and Taxability

Mr. Ram is in receipt of following allowances from his employer during the previous year 2024-25:

- Conveyance Allowance Rs. 600 per month. He spends Rs. 5,000 during the previous year for official purposes.
- Transport allowance Rs. 2,200 per month for commuting from residence to office and back. He spends Rs. 1,400 during the year.
- Uniform allowance Rs. 5,000 per annum. He spends Rs. 4,000 on the purchase and maintenance of uniform.
- Education and Hostel Expenditure allowance Rs. 450 per month per child for 3 children.
- Personal assistant allowance Rs. 2,000 per month. He engaged the personal assistant for official work and paid him salary of Rs. 1,500 per month for 9 months. Personal assistant spends 60% of his time for official work of Mr. Ram.

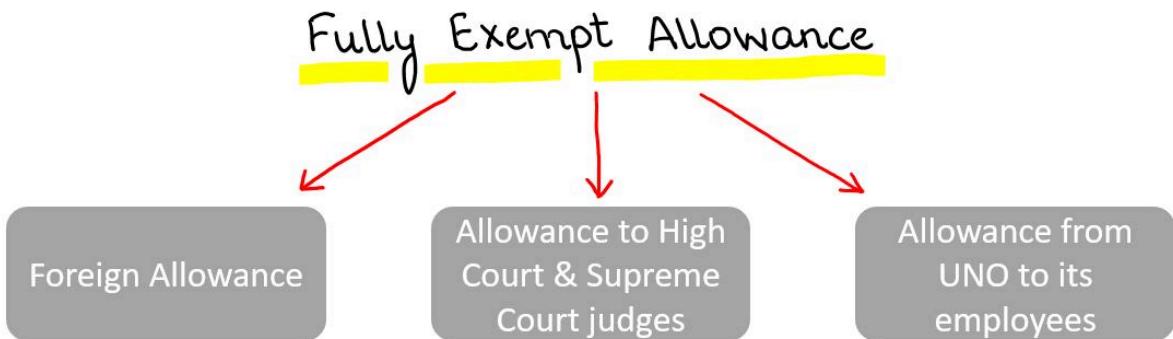
Compute how much of the above allowances are taxable.

Solution

COMPUTATION OF TAXABLE ALLOWANCES

Sl. No.	Particulars	Amt. in Rs.
1.	Conveyance Allowance (600×12)	7,200
	Less: Exempt to the extent spent for official purposes	<u>5,000</u> 2,200
2.	Transport Allowance $(2,200 \times 12)$	26,400
	Less: Exempt	<u>—</u> 26,400
3.	Uniform Allowance	5,000
	Less: Exempt to the extent actually spent	<u>4,000</u> 1,000
4.	Education & Hostel Allowance $(450 \times 3 \times 12)$	16,200
	Less: Exempt $[(100+300=400) \times 2 \times 12]$	<u>9,600</u> 6,600
5.	Personal assistance (or Helper) Allowance $(2,000 \times 12)$	24,000
	Less: Exempt to the extent spent for official purpose $(1,500 \times 9 = 13,500) \times 60\%$	<u>8,100</u> 15,900
Total taxable allowances to be included in Gross Salary		<u>52,100</u>

4. Allowances and Taxability



Fully exempt allowances cover the following allowances.

- a. Foreign allowance: This allowance is usually paid by the government to its employees being Indian citizens posted out of India for rendering services abroad. It is fully exempt from tax.
 - b. Allowance (including Sumptuary allowance) to High Court and Supreme Court Judges of whatever nature, are exempt from tax. *Sumptuary allowance* is in the nature of entertainment allowance.
 - c. Allowances from UNO organisation to its employees are fully exempt from tax.
-

5. Tax treatment of various taxable allowances

Let us now discuss the tax treatment of various taxable allowances one by one.

5. Tax treatment of various taxable allowances

House Rent Allowance

Metro Cities (Delhi, Kolkata, Mumbai, Chennai)	Other Cities
HRA actually received for the relevant period	HRA received for the relevant period
Rent paid (-) 10% of salary for that relevant period	Rent paid (-) 10% of salary for that relevant period
50% of salary for the relevant period	40% of salary for the relevant period

HRA is an allowance granted to a person by his employer to meet expenditure incurred on payment of rent in respect of residential accommodation occupied by him.

HRA is exempt from tax to the extent of *least of the following 3 amounts*:

- a. HRA actually received by the assessee.
- b. Excess of rent paid by the assessee over 10% of salary due to him.
- c. An amount equal to 50% of salary due to assessee (if accommodation is situated in Mumbai, Kolkata, Delhi, Chennai) 'Or' an amount equal to 40% of salary (if accommodation is situated in any other place).

'Salary' for the purpose of computation of HRA includes, Basic Salary, Dearness Allowance (if it forms part of salary for the purpose of retirement benefits) and commission based on fixed percentage of turnover achieved by the employee. If an employee is living in his own house and receiving HRA, it will be fully taxable.

Thus, the exemption in respect of HRA is based upon the following factors:

- (1) Salary,
- (2) Place of Residence,
- (3) Rent Paid and
- (4) HRA received.

Note: Exemption of HRA shall not be allowed to the employee, if he opts to be taxed under section 115BAC (new regime).

5. Tax treatment of various taxable allowances

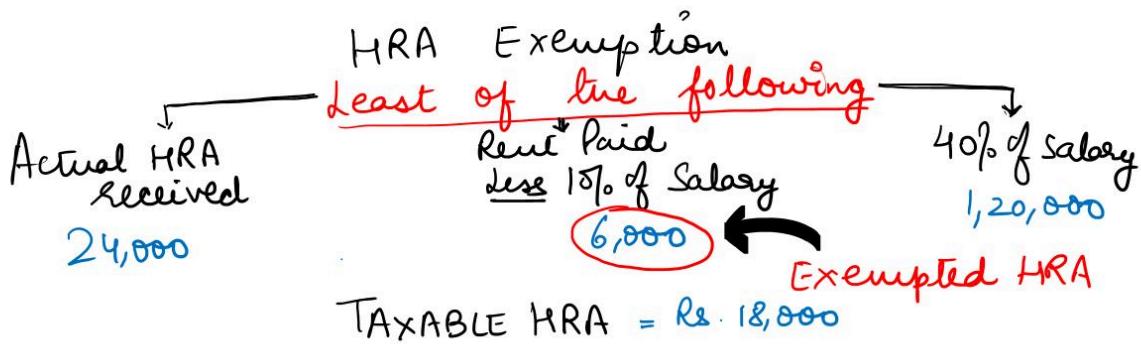
Manoj receives salary for the year 2024-25. He resides at Rajkot. Calculate the exempted HRA from the data given below:

Particulars	Amount (annual data) (in Rs.)
Basic	2,00,000
DA (included as per terms of employment)	1,00,000
Bonus	50,000
House rent allowance (HRA)	24,000
Rent paid during the year	36,000

Solution

Salary for HRA Exemption (Amt. in Rs.)

Basic Salary	2,00,000
DA	1,00,000
TOTAL	<u>3,00,000</u>



5. Tax treatment of various taxable allowances

From the following, compute gross salary of Mr. X for the assessment year 2025-26. He is employed in textile industry in Mumbai at a monthly salary of Rs. 4000. He is entitled to commission of 1% on sales achieved by him, which were Rs.10 lakh for the year. In addition, he received the following allowances from the employer during the previous year:

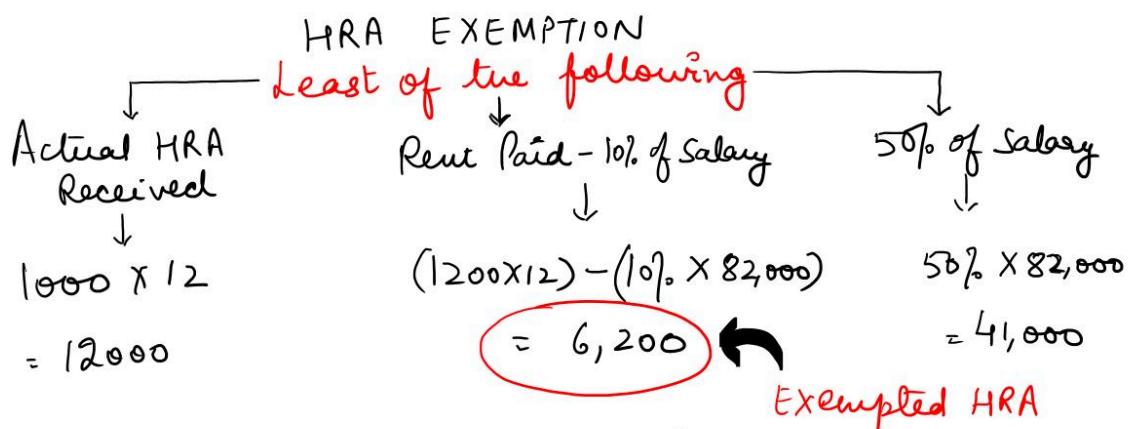
1. Dearness Allowance Rs.2000 per month which is granted under terms of employment and counted for retirement benefits.
2. Bonus Rs. 32000
3. House Rent Allowance Rs.1000 per month (Rent paid for house in Mumbai Rs. 1200 per month)
4. Entertainment Allowance Rs.1000 per month
5. Children Education Allowance Rs.500 per month
6. Medical Allowance Rs.500 per month
7. Servant Allowance Rs.200 per month
8. City Compensatory Allowance Rs.300 per month
9. Research Allowance Rs. 500 per month (amount spent on research Rs.3000)

Solution:

Computation of Income from Salary of Mr. X for the Assessment Year 2025-26

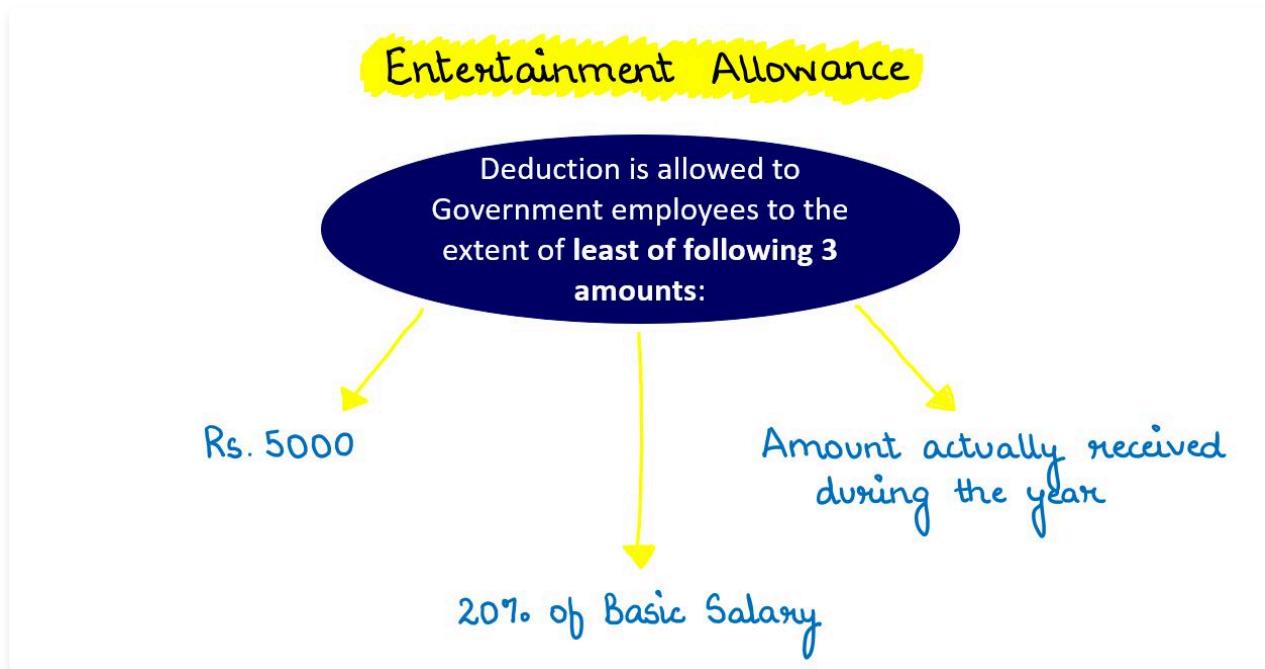
(Amount in Rs.)

Particulars	Amount (Rs.)
Basic Salary (Rs. 4,000 × 12)	48,000
Dearness Allowance (Rs. 2,000 × 12)	24,000
Commission (1% of Rs. 10,00,000)	10,000
Bonus	32,000
House Rent Allowance (Rs. 1,000 × 12 = 12,000 – Exempt Rs. 6,200)	5,800
Entertainment Allowance	12,000
Children Education Allowance (Rs. 500 × 12 = 6,000 – Exempt Rs. 100 × 2 × 12 = 2,400)	3,600
Medical Allowance (Fully Taxable)	6,000
Servant Allowance (Fully Taxable)	2,400
City Compensatory Allowance (Fully Taxable)	3,600
Research Allowance (Rs. 500 × 12 = 6,000 – Exempt Rs. 3,000)	3,000
Gross Salary	1,50,400



$$\begin{aligned} \text{Salary} &= \text{Basic} + \text{DA} + \text{Commission} \\ &= 48,000 + 24,000 + 10,000 = 82,000 \end{aligned}$$

5. Tax treatment of various taxable allowances



Entertainment allowance received from employer is first included in gross salary and, thereafter, with effect from A.Y.2002-03, a deduction is allowed to government employees (State or Central Government) to the extent of *least* of following 3 amounts:

- a. 5000
- b. 20% of basic salary.
- c. Amount of Entertainment Allowance actually received during the year.

Note that if an employee opts to be taxed under section 115BAC (under new tax regime), the above deduction of entertainment allowance shall not be allowed.

5. Tax treatment of various taxable allowances

Mr. X furnishes the following information for the previous year 2024-25 on monthly basis. (Amt. in Rs.)

Basic Salary	15,000
Dearness Allowance (60% of which is part of salary)	6,000
Entertainment Allowance	500
House Rent Allowance	6,000
Actual Rent paid for a house in Delhi	7,000
Education allowance for 3 children (amount is stated per month per child)	200
Transport Allowance for commuting from residence to office and back (He spends Rs. 1,400 per month for such purpose)	2,400
Medical Allowance (He spends Rs. 5,000 for his medical treatment)	1,000
Lunch Allowance (He spends Rs. 2,000 for his lunch in the office)	200

Compute taxable salary of Mr. X for the assessment year 2025-26.

Solution:

Computation of Income from Salary for the Assessment Year 2025-26

(Amount in Rs.)

Particulars	Amount (Rs.)	Exempt (Rs.)	Taxable (Rs.)
Basic Salary (Rs. 15,000 × 12)	1,80,000	-	1,80,000
Dearness Allowance (Rs. 6,000 × 12)	72,000	-	72,000
Entertainment Allowance (Rs. 500 × 12)	6,000	-	6,000
Education Allowance (Rs. 200 × 12 × 3 children)	7,200	2,400	4,800
Transport Allowance (Rs. 2,400 × 12)	28,800	Nil	28,800
Medical Allowance (Rs. 1,000 × 12)	12,000	Nil	12,000
Lunch Allowance (Rs. 200 × 12)	2,400	Nil	2,400
House Rent Allowance (Rs. 6,000 × 12)	72,000	61,680	10,320
Gross Salary		3,16,320	
Less: Standard Deduction		50,000	
Less: Deduction on account of Entertainment Allowance (See Working Note 2)		Nil	
Income under the Head "Salaries"		2,66,320	

WORKING NOTE 1

$$\text{Salary for HRA} = 1,80,000 + 43,200 = 2,23,200$$

HRA Exemption Least of the following		
HRA Received = 72,000	Rent Paid - 10% of Salary 84,000 - 22,320 = 61,680	50% of Salary 50% × 2,23,200 = 1,11,600
		HRA Exemption

WORKING NOTE 2

Mr X. → Private Employee → **No deduction**
(for Entertainment Allowance)

Note that had Mr. X been a Government Employee, the Entertainment allowance deduction would be provided to the extent of minimum of the following three limits:

- (a) Actual Entertainment Allowance – Rs. 6,000
- (b) 20% of Salary exclusive of any allowance, benefit or perquisite - 20% of Rs. 1,80,000 = Rs. 36,000
- (c) Rs. 5000

Therefore, in case, Mr. X would have been a government employee, a deduction of Rs. 5,000 (least of the above amounts) would have been provided.

5. Tax treatment of various taxable allowances

X has received following amount during the previous year.

- a. Basic Salary – Rs. (5000×12) – Rs. 60,000
- b. Dearness Allowance (forming part of the salary) – Rs. (1000×12) – Rs. 12,000
- c. House Rent Allowance (HRA) – Rs. (2000×12) – Rs. 24,000
- d. Actual Rent Paid – Rs. (2000×12) – Rs. 24,000

Calculate the exempted amount of HRA assuming he lives in a city other than metros. Assume that DA forms part of salary for the purpose of retirement benefits.

Solution

$$\begin{aligned} & \text{Actual HRA} \\ & \text{received} \\ & (2000 \times 12) \\ & = \text{Rs. } 24,000 \end{aligned}$$

HRA Exemption

Least of the following

$$\begin{aligned} & \text{Rent Paid} - 10\% \text{ of Salary} \\ & (24,000 - 7,200) \\ & = \text{Rs. } 16,800 \end{aligned}$$

40% of Salary

$$= \text{Rs. } 28,800$$

HRA Exemption

$$\text{TAXABLE HRA} = \text{Rs. } 7,200$$

5. Tax treatment of various taxable allowances

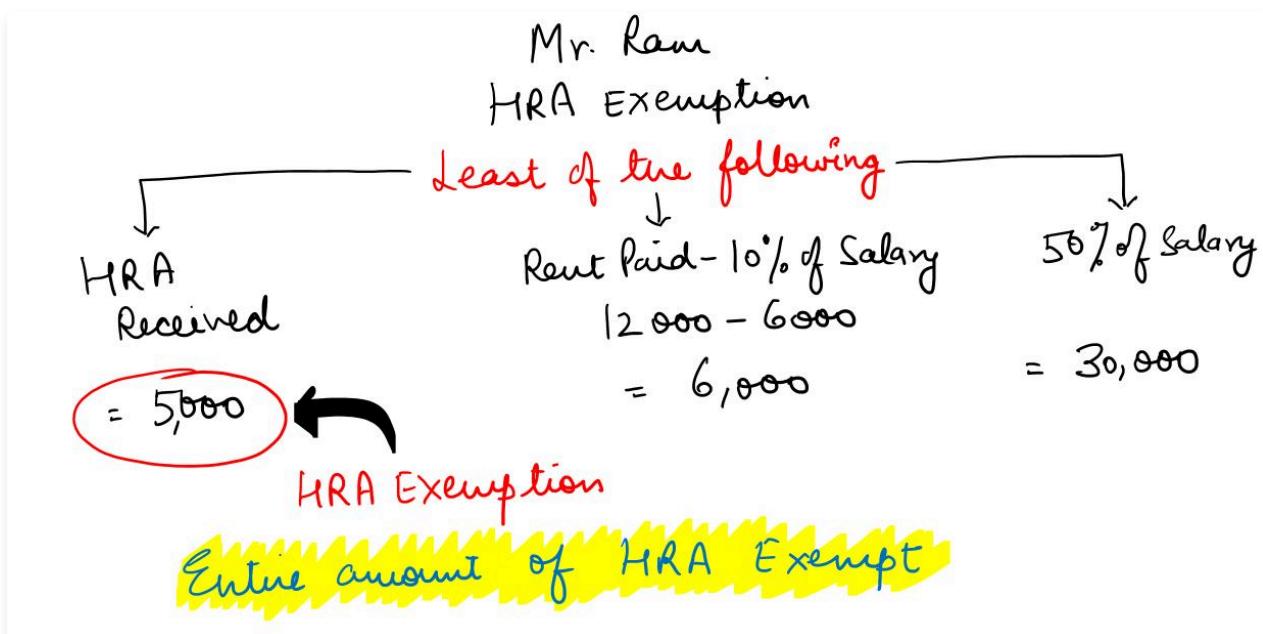
Mr. Ram is employed at Bombay. His basic salary is Rs. 5,000 per month. He receives Rs. 5,000 p.a. as house rent allowance. Rent paid by him is Rs. 12,000 p.a. Find out the amount of taxable house rent allowance.

Solution:

The annual basic salary of Mr. Ram is Rs. 60,000. So, for the purpose of calculation, 10% of salary = Rs. 6,000 and 50% of salary = Rs. 30,000.

Now, as per Rule 2A, the least of the following is exempt from tax:

- (i) the actual house rent allowance;
- (ii) excess of rent paid over 10% of salary;
- (iii) where the accommodation is situated at Bombay, Delhi, Calcutta or Madras, one-half (50%) of the amount of salary due to the assessee for the relevant period;
- (iv) Where the accommodation is situate at any other place, two-fifth (40%) of the salary due to the assessee for the relevant period.



Rs. 5,000, being the least, would not be included in the total income of Mr. Ram. So, the entire amount of HRA would be exempt from tax.

Salary for this purpose includes basic salary as well as dearness allowance if the terms of employment so provide. It also includes commission based on a fixed percentage of turnover achieved by an employee as per terms of contract of employment but excludes all other allowances and perquisites and these are determined on due basis for the period during which rental accommodation is occupied by the employee in the previous year.

6. Perquisites

Perquisites may be defined as any casual emolument or benefit attached to an office or position in addition to salary or wages. These are the benefits or amenities in cash or in kind, and also amenities which are not convertible into money, provided by the employer to the employee, whether free of cost or at a concessional rate. It also denotes something that benefits a man by going into his own pocket.

PERQUISITES				
Telephone	Transport Facility	Privilege passes and privilege ticket (by Indian Railways to its employees)	Perquisites allowed outside Indian by the Government	Employer's contribution to staff group insurance scheme
Annual premium by employer on personal accident policy	Refreshment	Subsidized lunch	Recreational facilities	Amount spent on training of employees
Sum payable by employer to RPF or an approved superannuation fund	LTC (2 journeys in block of 4 years, up to 2 children)	Medical facilities	Rent-free official residence	Conveyance facility (to High Court or Supreme Court Judges)

However, perquisites are taxable under the head "Salaries" only if they are:

- a. allowed by an employer to his employee;
- b. allowed during the continuance of employment;
- c. directly dependent upon service;
- d. resulting in the nature of personal advantage to the employee; and
- e. derived by virtue of employee's authority.

It is not necessary that a recurring and regular receipt alone is a perquisite. Even a casual and non-recurring receipt can be perquisite, if the aforesaid conditions are satisfied.

PERQUISITES				
Telephone	Transport Facility	Privilege passes and privilege ticket (by Indian Railways to its employees)	Perquisites allowed outside Indian by the Government	Employer's contribution to staff group insurance scheme
Annual premium by employer on personal accident policy	Refreshment	Subsidized lunch	Recreational facilities	Amount spent on training of employees
Sum payable by employer to RPF or an approved superannuation fund	LTC (2 journeys in block of 4 years, up to 2 children)	Medical facilities	Rent-free official residence	Conveyance facility (to High Court or Supreme Court Judges)

In order to decide whether perquisites are chargeable to tax, all perquisites may be divided in the following five categories:

1. Perquisites taxable in all cases
 2. Perquisites not taxable (or tax-free perquisites)
 3. Perquisites taxable only in the hands of specified employees (as defined below)
 4. Specified securities or sweat equity shares allotted or transferred by the employer to the assessee.
 5. Contribution by the employer to the approved superannuation fund in respect of assessee to the extent it exceeds Rs. 1,50,000.
-

6. Perquisites

Concession in Rent	Employee's obligation met by employer	Amount payable by an employer to affect assurance on the life of assessee	Specified security or Sweat equity shares allotted by the employer
Amount of any contribution made by employer <ul style="list-style-type: none"> • In RPF • In NPS • In approved superannuating fund 	Annual accretion to the balance at the credit of RPF/ NPS/ approved superannuation fund	Rent Free Accommodation	Any other fringe benefit or amenity

exceeds 7,50,000

Under the Act, the term 'perquisites' is defined under section 17(2), as including the following items:

- (a) Value of rent-free or concessional rent accommodation provided by the employer;
- (b) Value of any benefit/amenity granted free or at concessional rate to specified employees, etc.

Specified employees are directors of a company, employees with substantial interest in the company (carrying not less than 20% of the voting power) and any other employee whose salary income (exclusive of non-monetary benefits and amenities) exceeds Rs. 50,000;

Specified Employees

They are the directors of a company, employees with substantial interest in the company and any other employee drawing in excess of Rs. 50,000.

- (c) Any sum paid by employer in respect of an obligation, which was actually payable by the assessee;
- (d) Any sum paid by the employer for assurance on life of the employee or to effect a contract for an annuity. However, sums payable to recognised provident funds or approved superannuation funds, and certain other specified funds are exempt;
- (e) The value of specified securities or sweat equity shares allotted or transferred by the employer to the assessee;
- (f) The amount or the aggregate of amounts of any contribution made to the account of the assessee by the employer – (i) in a recognized provident fund; (ii) in NPS (iii) in an approved superannuation fund, to the extent it exceeds Rs. 7,50,000;
- (g) any interest or dividend or any other amount accruing from such contribution of the employer;
- (h) Value of any other fringe benefit, as may be prescribed.

Non-specified Employee

Any employee, other than specified employee, is a 'non-specified employee'. However, it should be noted that the classification between specified and non-specified employee is of limited application in the practical sense. This is because an employee is referred to as a non-specified employee only when he is drawing annual salary of Rs. 50,000 or less in a financial year. Since, the exemption slab for all individuals is at least Rs. 2,50,000, one can infer that largely all employees (who pay income-tax) are specified employees.

Note that **Budget 2025** proposes two changes to Section 17 of the Income Tax Act:

- (a) *Perks Exemption for Low-Salary Employees:* If an employee earns below a certain salary limit, the value of general benefits and amenities provided by the employer will not be treated as taxable perks. Currently, this limit is Rs 50,000 per year. The government can now revise this limit.

(b) *Medical Travel Perk Exemption:* If an employer pays for travel abroad for medical treatment of an employee (or their family member) who earns below a certain salary, it will not be taxed as a perk. At present, this limit is Rs 2,00,000 per year. The government can now revise this limit too.

6. Perquisites

Circumstances	In case of unfurnished accommodation	In case of furnished accommodation
Where accommodation is provided by CG or SG to its employees	License fee as reduced by rent actually paid by the employee	Value of perquisite as computed, to be increased by: (i) If furniture is owned by employer – 10% per annum of the cost of furniture (ii) If such furniture is hired from a third party – actual hire charges payable for the same as reduced by any charges paid/ payable for the same by the employee during the PY
Where accommodation is provided by any other employer (A) Where accommodation is owned by the employer (B) Accommodation is taken on lease or rent by the employer	<ul style="list-style-type: none"> • 15% of salary in cities having population exceeding 25 Lakhs as per 2001 census, • 10% of salary in cities having population exceeding 10 lakhs but not exceeding 25 lakhs, • 7.5% of salary in other cities Actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, will be the value of accommodation	Value of perquisite as computed, to be increased by: (i) If furniture is owned by employer – 10% per annum of the cost of furniture (ii) If such furniture is hired from a third party – actual hire charges payable for the same as reduced by any charges paid/ payable for the same by the employee during the PY

For the purpose of valuation of the perquisite in respect of unfurnished accommodation [Rule 3(a)], employees are divided in the following 2 categories:

Central and State Government employees

The value of perquisite in respect of accommodation provided to such employee is equal to the *license fee*, which has been determined as payable by the concerned employee in accordance with the rules framed by the Government for allotment of houses to its officers.

Other employees

This can be further divided into 2 categories:

(i) Accommodation owned by employer

- a) 15% of salary in cities having population exceeding 25 Lakhs as per 2001 census,
- b) 10% of salary in cities having population exceeding 10 lakhs but not exceeding 25 lakhs,
- c) 5% of salary in other cities

(ii) Accommodation is taken on lease or rent by the employer

Actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, will be the value of accommodation.

Definition of 'salary' for rent free accommodation = Basic Salary + Taxable cash allowances + Bonus or Commission + Any other monetary payment but does not include DA, employers' contribution to the PF (Provident Fund).

Key Points

1. The perquisite with respect to furnished/ unfurnished house without rent or at concessional rent is not chargeable to tax, if provided in a 'remote area'.
2. Hotel accommodation for 15 days can be provided immediately after transfer at the new location as a tax-free perquisite.
3. If an employee is transferred and housing facility is provided to him at the new location (while retaining the accommodation at the old location), for a period of 90 days immediately after transfer, only one house (as per the option of employee - old or new) is chargeable to tax and the other one will be tax-free.
4. Rent-free house is not taxable if it is provided to High Court and Supreme Court Judges, Union Minister, Chief Election Commissioner/ other Election Commissioners, Leader of Opposition in Parliament, an Official in Parliament and (for the assessment years 2008-09 to 2020-21) serving Chairman and members of UPSC.
5. The methodology to compute the value of rent-free accommodation is prescribed in rule 3, while the methodology to compute the value of any concession in the matter of rent provided to employees is prescribed in the Explanations to section 17(2).

Note that Section 17(2) has been amended **vide Finance Act 2023**, to provide that the method of computation of perquisite in respect of rent-free accommodation as well as concession in the matter of rent, shall be computed in such manner as may be provided by rules. Moreover, it has been clarified that accommodation shall be deemed to have been provided at a concessional rate if the value of accommodation computed in such manner (as may be provided by rules) exceeds the rent recoverable from employees.

6. Perquisites

Mr. Preet is working as General Manager of XYZ Company Ltd. Particulars of his salary for the financial year 2024-25 are as under: (Amt. in Rs.)

Salary (Per month)	20,000
Bonus	38,400
Monthly Conveyance Allowance (70% spent on official duties)	4,000
Monthly Medical Allowance	1,000
Employer's contribution to RPF	20% of Salary

He has been provided with a rent-free accommodation in Gurgaon whose population is 20 Lakhs. Compute the value of the rent-free accommodation to be included in the salary income of Mr. Preet for the AY 2025-26, if:

- (a) the accommodation is owned by the company;
- (b) the accommodation has been taken on rent by the company at Rs. 14,000 per month.

Solution

CALCULATION OF SALARY FOR RENT FREE ACCOMMODATION

Particulars	(Amt. in Rs.)
Basic Salary	2,40,000
Bonus	38,400
Taxable Conveyance Allowance ($48,000 - 33,600$)	14,400
Medical Allowance	12,000
Values for computation of perquisite for part (a) and (b) of the question	3,04,800
10% of salary	30,480
15% of salary	45,720
Rent paid by the Company ($14,000 \times 12$)	1,68,000

(a) As accommodation owned by company
 & Population of Gurgaon - 20 Lakhs
 \therefore Value of unfurnished accommodation
 $= 10\% \text{ of Salary} = \text{Rs. } 30,480$

(b) As accommodation is on rent
 Value of unfurnished accommodation

Value of Perquisite \leftarrow 15% of Salary OR Rent paid by the Company
 \downarrow \downarrow \downarrow
 Rs. 45,720 OR Rs. 1,68,000
 Whichver is less

6. Perquisites

Where motor car is owned or hired by the employer and is used wholly and exclusively in the performance of official duties, no perquisite arises, provided specified documents are maintained.

Circumstances	Valuation of Motor Car		
	Car owned by employer Expenses borne by employer	Car owned/hired by employer Expenses borne by employee	Car owned/hired by employee Expenses borne by employer
If car is used wholly for official purpose	Nil	Nil	Nil
If wholly for private purpose	Expenses by employer Plus: Driver salary Plus: 10% cost of the car Less: any sum paid by employee	Driver Salary	Expenses by employer Plus: Driver salary Less: any sum paid by employee
If used for both purposes	Expenses by employer Less: Rs. 1800 p.m., if engine less than 1.6cc (Rs. 2400 if engine more than 1.6cc) Less: Rs. 900p.m for driver	Rs. 600p.m.,if engine less than 1.6cc (Rs. 900 if engine more than 1.6cc) Less: Rs. 900p.m for driver	Expenses by employer Less: Rs.1800p.m.,if engine less than 1.6cc (Rs. 2400 if engine more than 1.6cc) Less: Rs. 900p.m for driver

Where the motor car is owned or hired by the employer but used exclusively for private or personal purposes, the perquisite is the actual amount of expenditure incurred by the employer on running and maintenance including remuneration, if any, paid to the chauffeur. This is to be increased by an amount representing normal wear and tear of the motor car (i.e., 10% of the cost) as reduced by any amount charged from the employee.

Where motor car is used partly in performance of duties and partly for private or personal purposes, the perquisite is:

- (i) Rs. 1800 per month (plus Rs. 900 per month, if chauffeur is provided), if running and maintenance is borne by employer.
- (ii) Rs. 600 per month (plus Rs. 900, per month, if chauffeur is provided), where running and maintenance for private use is fully met by employee.
- (iii) The aforesaid amounts will be increased to Rs. 2400 per month (instead of Rs. 1800) and Rs. 900 per month (instead of Rs. 600), where the motor car provided has cubic capacity of engine exceeding 1.6 litres.

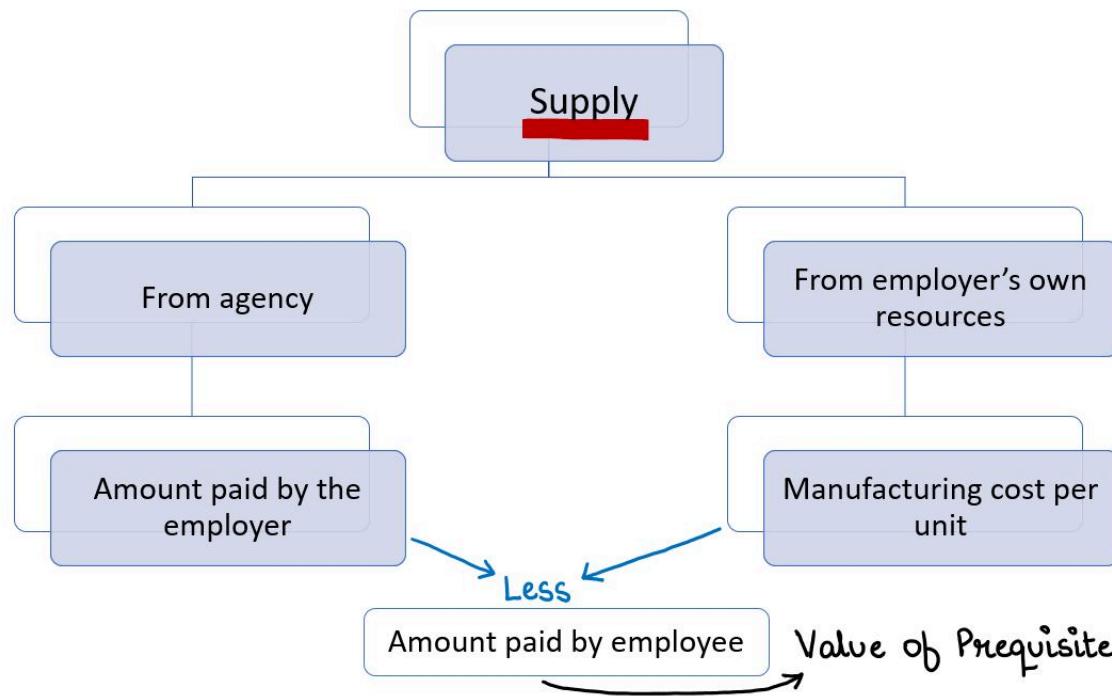
6. Perquisites

The value of perquisite resulting from provision of a sweeper, a gardener, a watchman or a personal attendant, shall be the actual cost to the employer as reduced by the amount paid by the employee in respect of such services. (Cost to the employer in respect of the above will be the salary paid/payable). This perquisite is not taxable in the hands of non-specified employees.

Value of Perquisites

$$\text{Actual cost to employer} \\ (-) \quad \text{Amount paid by employee}$$

6. Perquisites



The value of perquisite is the amount paid by the employer to the agency supplying the same. If the supply is from the employer's own resources, the value of the perquisite would be the manufacturing cost per unit incurred by the employer. However, in both cases, if employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value so arrived at. This perquisite is not taxable in the hands of non-specified employees.

6. Perquisites

Value of the perquisite would be the expenditure incurred by the employer. If the educational institution is maintained & owned by the employer, the value would be nil if the value of the benefit per child is below Rs. 1000 per month or, else, the reasonable cost of such education in a similar institution in or near the locality. This perquisite is not taxable in the hands of non-specified employees. Expenditure relating to providing training to employees is not taxable.

6. Perquisites

Only 2 journeys in a block of 4 years are exempt (however, carry over concession is available). Exemption is based upon actual expenditure relating to travel fare, only in respect of the shortest route from the place of origin to farthest point. Exemption is available only in respect of 2 children.

Leave Travel Concession

- ↳ Only 2 journeys in a block of 4 years
→ Exempt
- ↳ Only in respect of 2 children
→ Exemption available

6. Perquisites

Amount paid by an employer in respect of any obligation which, otherwise, would have been payable by employee, is taxable in all cases.

For example, Y takes a loan of Rs. 1 Lakh from a bank. The loan is, later on, paid by his employer on behalf of Y. Since, it is an obligation of Y which is met by his employer, it is a perquisite taxable in the hands of Y.

6. Perquisites

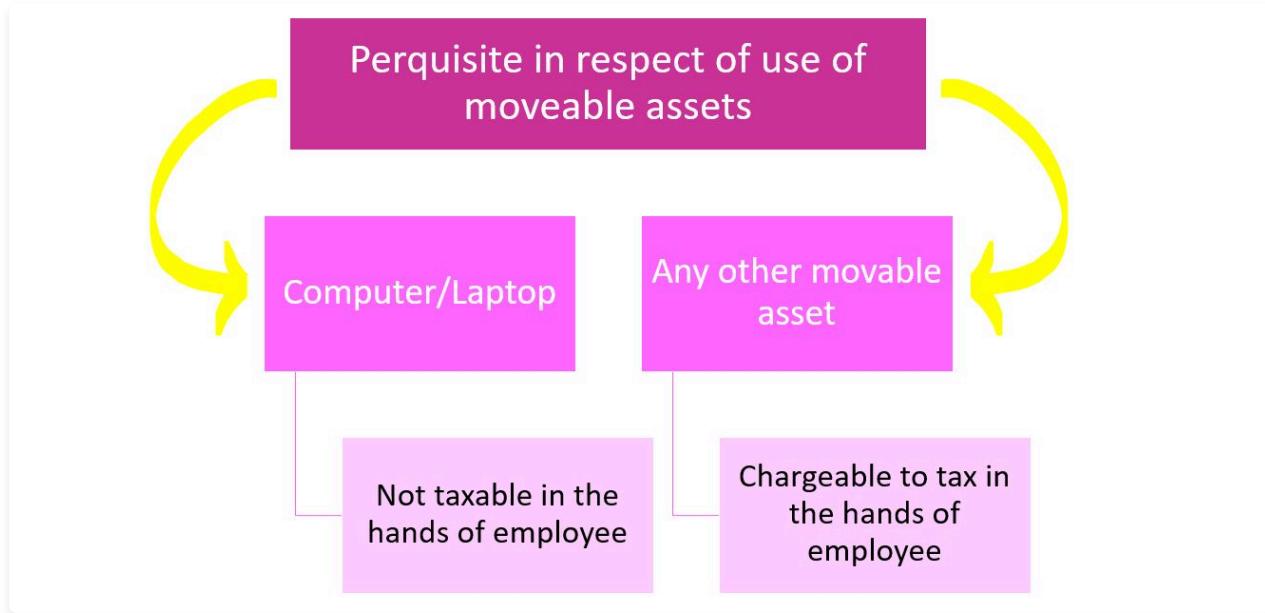
Amount payable by an employer, directly or indirectly, to effect an assurance on the life of the assessee or to effect a contract for an annuity is taxable in the hands of all employees. This rule, however, is not applicable, if the employer makes contribution or payment in RPF (up to 12% of salary of the employee), approved superannuation fund, group insurance schemes, ESI schemes and fidelity guaranteed schemes.

6. Perquisites

Interest on loan received from employer at a concessional rate of interest shall not be taxed, if the aggregate amount of such loan during the relevant previous year, does not exceed Rs. 20,000. Also, loan for medical treatment in respect of diseases as specified in Rule 3A is not taxable, subject to few conditions.

6. Perquisites

If computer/ laptop is provided by an employer to employee, nothing is chargeable to tax in the hands of employee. If any other moveable asset is provided to an employee, the perquisite is chargeable to tax in the hands of employee. 10% per annum of actual cost of asset to the employer (or hire charges) as reduced by any amount recovered from the employee is a taxable perquisite in the hands of employee.



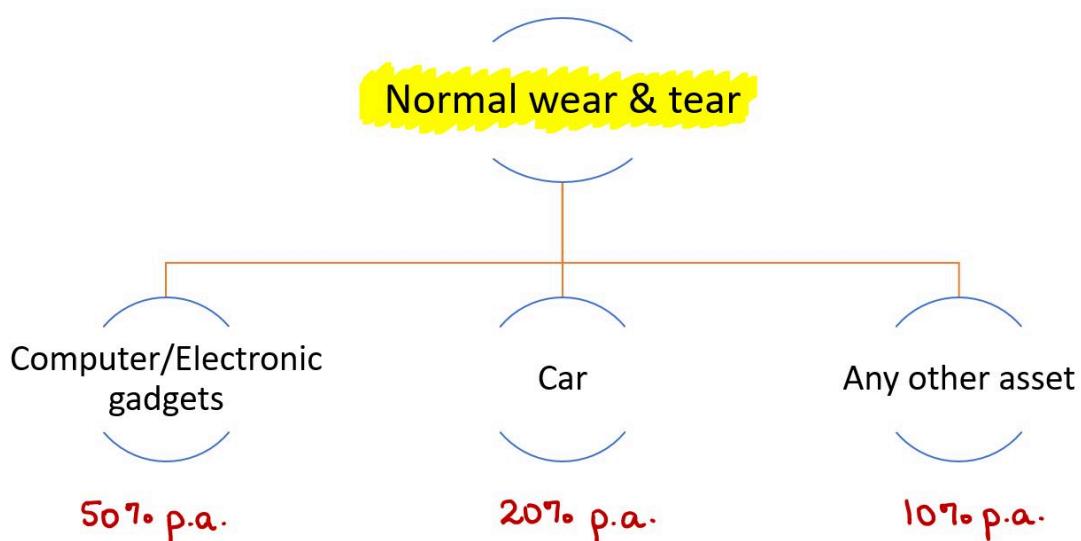
6. Perquisites

Actual Cost
(-) Normal wear & tear
(-) Sale Consideration

Value of Perquisite

Actual cost of the asset to the employer minus normal wear and tear minus sale consideration paid by the employee, is the taxable value of the perquisite. Normal wear tear for each year of use shall be calculated as follows:

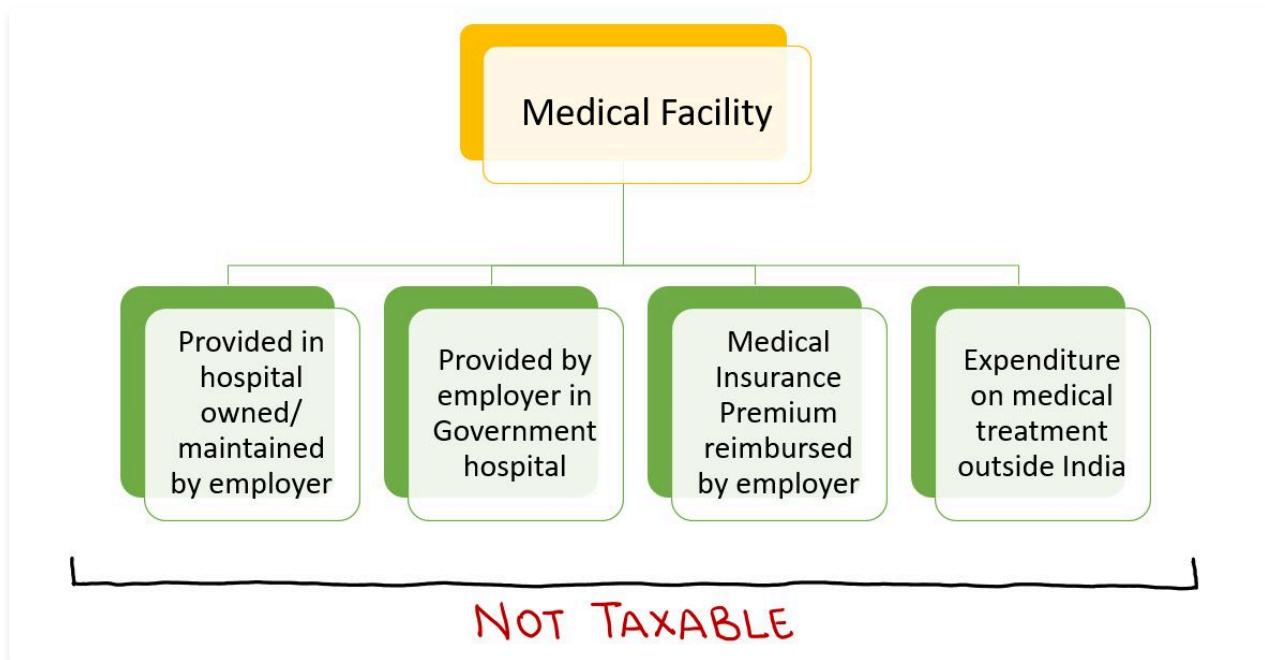
- Computer/ electronic gadgets – 50% per annum by reducing instalment method.
- Car – 20% per annum by reducing instalment method.
- Any other asset – 10% per annum of actual cost.



6. Perquisites

It could not be taxed, if cost of such meal does not exceed Rs. 50 per meal.

6. Perquisites



The following medical facilities are not chargeable to tax.

- a) Medical Facility provided in a hospital owned or maintained by the employer is not chargeable to tax.
- b) Medical Facility provided by an employer in Government hospital or a private hospital (recommended by Government for treatment of Government employees) is not chargeable to tax.
- c) Medical Insurance Premium paid or reimbursed by the employer is not chargeable to tax.
- d) Any other expenditure incurred or reimbursed by the employer for providing medical facility in India is chargeable to tax (exemption of Rs. 15,000 was available for such reimbursement up to AY 2018-19).
- e) Expenditure on medical treatment outside India incurred by an employer is not chargeable to tax, if it does not exceed the amount permitted by RBI under foreign exchange regulations.
- f) Travelling expenditure for going outside India for medical treatment purposes is generally chargeable to tax.
- g) Further, perquisite in respect of medical facility is not taxable, if the employee is a non-specified employee.

6. Perquisites

It is not taxable if the employee is a non-specified employee. Conveyance facility between office and residence is not taxable.

Conveyance facility to High Court & Supreme Court Judges, Chief Election Commissioner /other Election Commissioners and (for the AYs 2008-09 to 2020-21) serving Chairman and members of UPSC, is not chargeable to tax.

6. Perquisites

It is not taxable if it provided by an airline or the railways. It is not taxable if the employee is a non-specified employee.

6. Perquisites

It is taxable as a perquisite in the hands of an employee on the basis of actual expenditure of the employer (gift may be made either to employee or any member of his household). Gift in kind up to Rs. 5,000 per annum is exempt.

Gift in kind → Upto Rs.5000 per annum → Exempt

6. Perquisites

Expenditure incurred by the employer minus expenditure pertaining to official use minus anything recovered from the employee, is taxable.

6. Perquisites

Expenditure incurred (including annual or periodical fees) by the employer minus expenditure pertaining to official use minus anything recovered from the employee, is taxable. Health club/ sports club facility given uniformly to all employees in employer's premises, is not taxable. The initial one time deposits or fees for corporate or institutional membership, where benefit does not remain with particular employee after cessation of employment, are exempt.

6. Perquisites

Amount taxable is the fair market value of shares/ securities on the date on which option is exercised by the employee, if shares are allotted on or after April 1, 2009. Amount, if any, recovered from the employee is deductible.

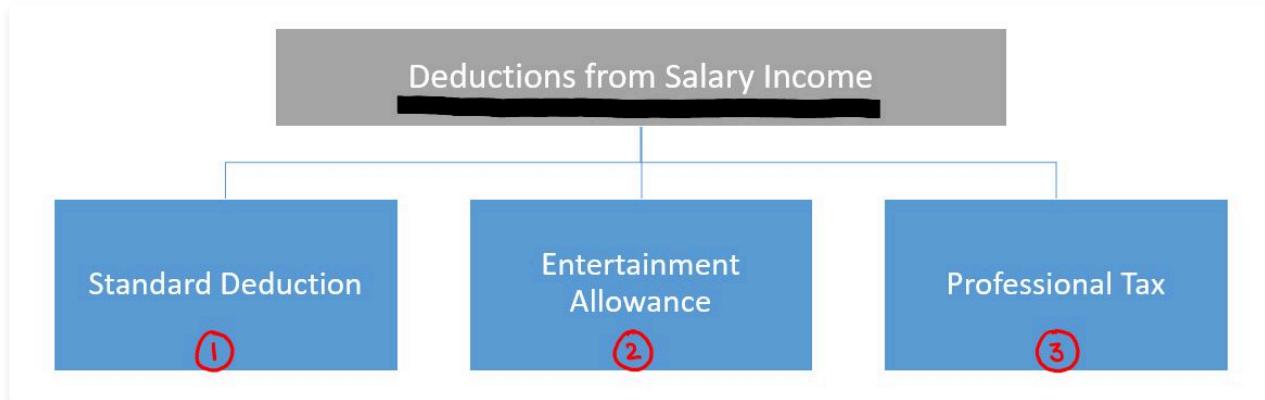
Further, tax burden on the employees of start-ups getting ESOPs (Employee Stock Option Plan), has been reduced by deferring the tax payment by 5 years or till they leave the company or when they sell their shares, whichever is earlier.

6. Perquisites

Employer's contribution toward Superannuation fund in excess of Rs. 1.5 Lakh per assessment year is taxable in the hands of employee (up to AY 2020-21).

Employer's contribution towards recognized provident fund, NPS (National Pension Scheme) and superannuation fund, in excess of Rs. 7.5 Lakh per year, is chargeable to tax from AY 2021-22 onwards.

7. Deductions from Salary Income (Section 16)



The income chargeable under the head salaries is computed after making the following deductions:

Standard deduction

The standard deduction available for salaried individuals under both the regimes for the FY 2024-25 (AY 2025-26) is as follows:

- Old Tax Regime: Rs. 50,000
- New Tax Regime: Rs. 75,000

Entertainment Allowance

Entertainment allowance received from employer is first included in gross salary and, thereafter, with effect from A.Y. 2002-03, a deduction is allowed to government employees (State or Central Government) to the extent of least of following 3 amounts:

- (i) Rs. 5,000
- (ii) 20% of basic salary
- (iii) Amount of Entertainment Allowance actually received during the year.

Professional Tax

Professional tax or tax on employment levied by a State under Article 276 of the Constitution, is allowed as a deduction only in the year when it is actually paid. If the professional tax is paid by the employer on behalf of the employee, it is first included in gross salary as a perquisite (since it is an obligation of employee fulfilled by employer) and then, the same amount is allowed as deduction on account of professional tax from gross salary.

Computation of Income from Salary

Particulars	Amount
Basic Salary	XXX
Fees, Commission and Bonus	XXX
Taxable value of cash allowances	XXX
Taxable value of perquisites	XXX
Retirement Benefits	XXX
Gross Salary	XXX
Less: Deductions from Gross Salary	
1. Standard Deduction	XX
2. Entertainment allowance deduction	XX
3. Professional tax deduction	XX
Net Salary	XXX

7. Deductions from Salary Income (Section 16)

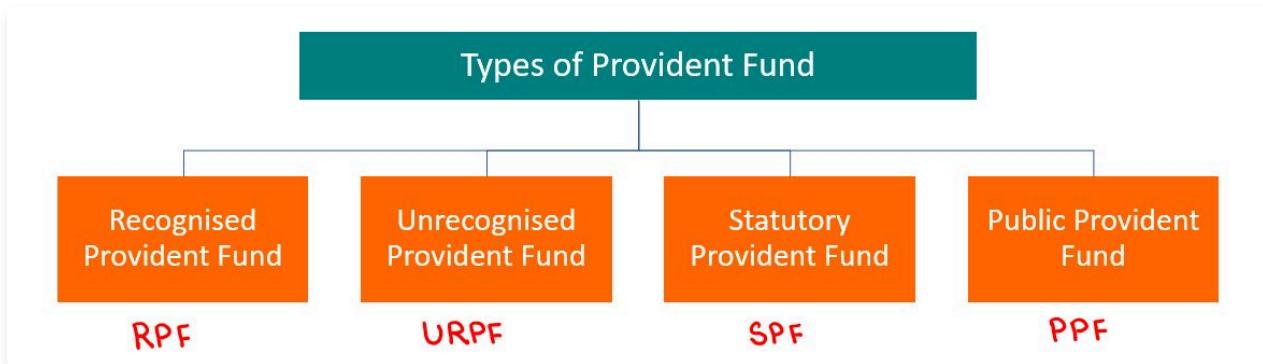
Mr. Surjit is employed by A Ltd. (basic salary being Rs. 38,750 per month). Besides, he gets Rs. 3,000 per month as entertainment allowance. He pays professional tax of Rs. 1000. Find out the salary chargeable to tax for the Assessment Year 2025-26. Also, compute salary chargeable to tax, in case the professional tax is paid by A Ltd.

Solution

(Ans. in Rs.)

Particulars	If professional tax is paid by Mr. Surjit	If professional tax is paid by A Ltd.
Basic Salary	4,65,000	4,65,000
Entertainment Allowance	36,000	36,000
Professional tax paid by the Company	—	1,000
Gross Salary	5,01,000	5,02,000
Less: Deductions u/s 16		
Standard Deduction	50,000	50,000
Entertainment Allowance (not allowed)	—	—
Professional Tax	1,000	1,000
Income under the head 'Salaries'	4,50,000	4,51,000

8. Provident Fund



Provident Fund Scheme is a welfare scheme for the benefit of employees. Under this scheme, certain amount is deducted by the employer from the employee's salary as his contribution to Provident Fund every month. The employer also contributes certain percentage of the salary of the employee to the Fund. The contributions are invested outside in securities. The interest earned on it is also credited to the Provident Fund Account. At the time of retirement, the accumulated balance is given to the employee.

The provident fund may be of the following types:

Statutory Provident Fund (SPF)

This is set up under the provisions of 'Provident Fund Act, 1925' and is maintained by Government and Semi-Government organisations, local authorities, railways, universities and recognised educational institutions.

Taxability as per the Income Tax Act, 1961

- a. Employer's contribution to provident fund – Exempt
- b. Deduction under Section 80C – Available for employee's own contribution subject to limit specified therein.
- c. Interest credited to provident fund – Exempt
- d. Payment on retirement or termination of service – Exempt

Recognised Provident Fund (RPF)

This is set up under the 'Employee's Provident Fund and Miscellaneous Provisions Act, 1952' and is maintained by private sector employers, employing 20 or more employees, as covered under the said Act. However, there is no restriction, if the employer employing less than 20 employees, wish to start such scheme. The establishments covered under PF Act, 1952 have two options; either to follow the same scheme by the Government under the PF Act or draft their own scheme of PF but get recognition from Commissioner of Income Tax.

Taxability as per the Income Tax Act, 1961

1. Employer's contribution to provident fund – Exempt up to 12% of salary – any excess is included in Gross Salary. But the government has further put a combined cap of Rs. 7,50,000 retirement funds of the employee (i.e., RPF, Superannuation Fund and NPS). This means if an Employer Contribution in all specified funds during the previous financial year exceeds Rs. 7,50,000, it will be taxable in hands of the employee.
2. Deduction under Section 80C – Available for employee's own contribution subject to limit specified therein.
3. Interest credited to provident fund – Exempt up to notified rate (now 9.5% per annum) – any excess is included in Gross Salary.
4. Payment at retirement – Taxable, except, under following circumstances:
 - a. The employee should have rendered continuous service with his employer for 5 years or more; or if not so, he should have been terminated due to ill health, due to discontinuation of employer's business or by reason beyond his control. If he has found another employment, the balance due to him should have been transferred to his account in the recognised provident fund of the new employer.

Unrecognized Provident Fund (URPF)

If a provident fund is not recognized by the Commissioner of Income Tax, it is known as unrecognized PF.

Taxability as per the Income Tax Act, 1961

1. Deduction under Section 80C – Not Available.
2. Payment at retirement – Employee's own contribution is exempt but interest on his own contribution is taxable under the

head "income from other sources". Payment received towards the employer's contribution and interest thereon is taxable as profit in lieu of salary.

Public Provident Fund

This scheme is covered under Public Provident Fund Act, 1968. The Central Government has established the Public Provident Fund for the benefits of general public to mobilize personal savings. Any member of general public (whether salaried or self-employed) can participate in this fund by opening a Provident Fund Account at the State Bank of India or its subsidiaries or other nationalised banks. A salaried employee can simultaneously become member of employees' provident fund (whether statutory, recognized or unrecognised) and public provident fund. Any amount may be deposited (subject to minimum of Rs. 500 and maximum of Rs. 1,50,000 per annum) under this account. The accumulated sum is repayable after 15 years.

Taxability as per the Income Tax Act, 1961

1. Employer's contribution to provident fund – Not Applicable, as there is only assessee's contribution.
2. Deduction under Section 80C – Available, subject to limit specified therein.
3. Interest credited to provident fund – Exempt.
4. Repayment– Fully Exempt u/s 10(11).

'Salary', here, means basic salary + dearness allowance / dearness pay (if terms of employment provide) + commission (if fixed as percentage of turnover achieved by employee).

9. Gratuity

Gratuity is similar to a gift given by employer for appreciation of past services of his employee.

According to Section 4(1) of the 'Payment of Gratuity Act, 1972', gratuity is paid after termination of employee after rendering continuous service for not less than 5 years:

1. on his superannuation, or
2. on his retirement or resignation, or
3. on his death or disablement due to accident or disease.

Tax Treatment of Gratuity as per Income Tax Act, 1961 is covered u/s 10(10) of the Act. If Gratuity is received by employee himself, it will be taxable under head 'salary' while if it is received by legal heir on death of employee, it will be taxable under head 'Income from other sources'. Employee can claim relief under Section 89 of Income Tax, in case of taxable gratuity.

For the purpose of taxation of gratuity, the employees are divided into 2 categories:

1. Government employees (covered under Section 10(10))
2. Private employees /Non-Government employees who can be further classified as:
 - a. employees covered by the Payment of Gratuity Act, 1972
 - b. employees not covered by the Payment of Gratuity Act, 1972

Government employees (covered under Section10(10))

Any death cum retirement gratuity received by employee of Central Government, State Government or local authority (Employee of statutory corporation is not covered), is wholly exempt from tax. Entire amount of gratuity is exempted from tax. This means that government employees do not have to pay any tax on gratuity, when received in case of death, superannuation or retirement.

Private/Non-government Employees

Any gratuity received by a private employee, **covered** under 'Payment of Gratuity Act, 1972', is exempt from tax, to the tune of *least of the following three:*

- i) Statutory limit of Rs 20 lakhs (earlier this limit was Rs 10 lakhs)
- ii) $15/26 \times \text{Last drawn salary} \times \text{Number of completed years of service or, thereof, in excess of 6 months}$
- iii) Actual gratuity received

*Note: In case of seasonal establishments, it is 7 days in place of 15 days.

In this case:

Salary = Salary last drawn by the employee + DA (but doesn't include any bonus, commission, HRA, overtime wages or any other allowance.)

Any fraction of the year greater than 6 months, will be considered as complete one year of service.

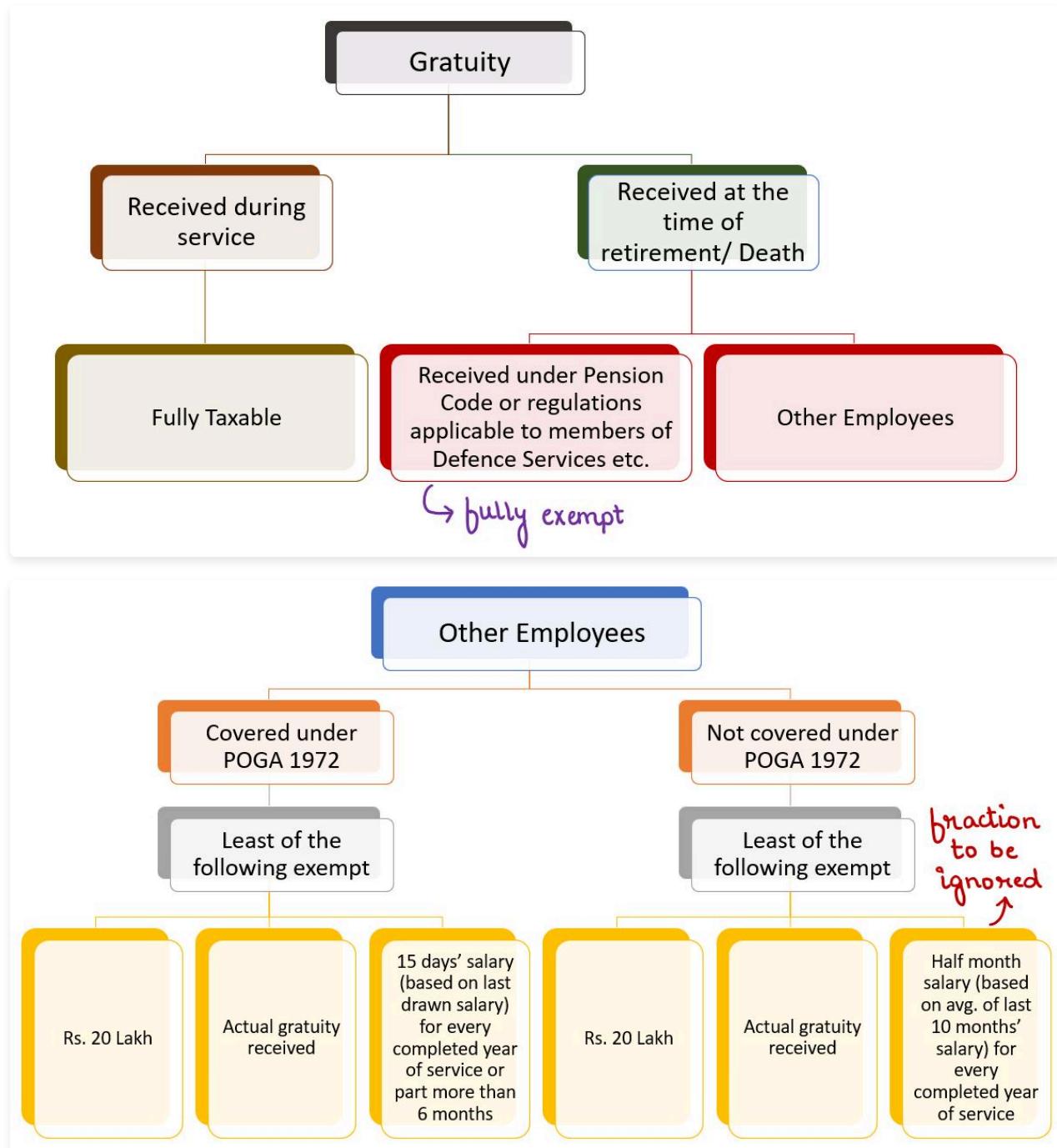
Any gratuity received by a private employee, **not covered** under 'Payment of Gratuity Act, 1972', is exempt from tax, to the tune of *least of the following three:*

- i) Statutory limit of Rs 20 lakhs (earlier this limit was Rs10 lakhs)
- ii) $15/30 \times \text{Average salary} \times \text{Number of completed years of service}$
- iii) Actual gratuity received

Key Points

- a. 'Average Salary' means salary of 10 months immediately preceding the month in which the person retires. E.g., if employee retires on 3rdJan 2023, average salary will be taken from 01.03.2022 to 31.12.2023.
 - b. 'Salary' means last drawn salary by the employee and includes DA (if terms of employment so provide) but doesn't include any bonus, commission, HRA, overtime wages or any other allowance. If terms of employment provide commission for a fixed percentage of turnover achievement, same will be included in salary.
 - c. The 'completed year of service' means complete one year. Fraction of the year in months will be ignored.
-

9. Gratuity



In case of payment received at the time of voluntary retirement of an employee of (a) Public Sector Company, (b) Any other company, (c) Authority or University established under State, Central or Provincial Act, (d) Local Authority, (e) Co-operative Societies, Universities, IITs and Notified Institutes of Management and (f) Any State Government or the Central Government, subject to certain conditions., *the least of the following is exempt from tax:*

(i) Actual amount received as per the guidelines, i.e., least of the following:

- a. 3 months' salary for each completed year of service
- b. Salary at the time of retirement × Number of months of service left for retirement; or

(ii) Rs. 5,00,000.

9. Gratuity

Mr. X, an employee of Central Government, receives Rs. 9,24,000 as gratuity at the time of his retirement on September 30, 2024. Calculate the amount of Gratuity exempted from tax.

Solution

Mr. X → Central Govt. Employee
↓
Gratuity fully exempt

9. Gratuity

Mr. Y an employee of ABC Ltd., receives Rs. 45,000 as gratuity under the Payment of Gratuity Act, 1972. He retires on November 10, 2024 after rendering service of 30 years and 4 months. At the time of retirement, his monthly salary was Rs. 2,340 (inclusive of DA of Rs. 200 per month). Calculate the amount of gratuity chargeable to tax.

Solution

Mr. Y → Covered under Payment of Gratuity Act

Gratuity Exemption
Least of the following

$$\begin{cases} \rightarrow \text{Rs. } 20,00,000 \\ \rightarrow \frac{15}{26} \times 2340 \times 30 = \frac{10,53,000}{26} = \text{Rs. } 40,500 \\ \rightarrow \text{Rs. } 45,000 \end{cases}$$

Gratuity Exemption

In this case:

- (i) Salary = Salary last drawn by the employee + DA (but doesn't include any bonus, commission, HRA, overtime wages or any other allowance).
- (ii) Completed year of service means any fraction of the year greater than 6 months will be considered as complete one year.

Therefore, the least of the above is Rs. 40,500 and is exempt from tax. The amount of taxable gratuity is Rs. 4,500 (i.e. Rs. 45,000 – Rs. 40,500).

9. Gratuity

X, not being covered by the Payment of Gratuity Act, 1972, retires on January 6, 2025 from a Private company and received Rs. 1,24,000 as gratuity after service of 29 years and 11 months. His average monthly salary during March 1, 2024 to December 31, 2024 is Rs. 8,500. Besides, he gets Rs. 2,000 per month as DA (but it is considered only for calculating Provident Fund and not gratuity or pension). Determine the amount of (a) taxable gratuity (b) gratuity exempt from tax for the AY 2025-26.

Solution

Mr X → Not covered under Payment of Gratuity Act

Gratuity Exemption
Least of the following

$$\rightarrow \text{Rs. } 20,00,000$$

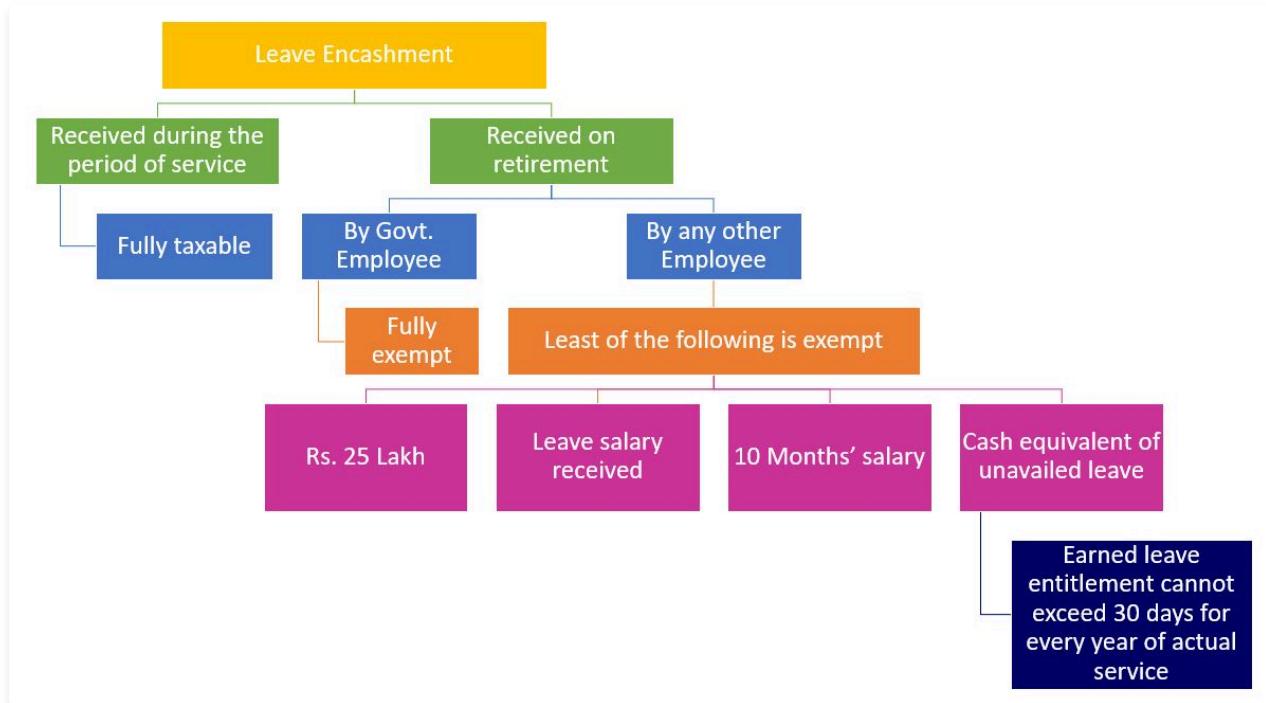
$$\rightarrow \frac{15}{30} \times 8,500 \times 29 = \text{Rs } 1,23,250$$

$$\rightarrow \text{Rs. } 1,24,000$$

Gratuity Exempt

$$\text{Taxable Gratuity} = 1,24,000 - 1,23,250 \\ = \text{Rs } 750$$

10. Encashment of Earned Leaves



If an employee does not utilize all his leaves available to him per annum, such unutilized leaves, either get lapsed or get carried forward which can be encashed later.

The taxation of 'Leave salary' for various categories of employees is shown here under:

Status of Employee	Nature of Leave Encashment	Taxability
Government/ Non-Government employee	Leave encashment during Continuity of employment	It is chargeable to tax. However, relief can be taken under Section 89.
Government employee	Leave encashment at the time of retirement/leaving job	It is fully exempt from tax under Section 10(10AA)(i).
Non-Government employee**	Leave encashment at the time of retirement / leaving job	It is fully or partially exempt from tax in some cases under Section 10(10AA)(ii).

**In case of Non-Government employees, 'Leave Salary' is exempt from tax to the extent of LEAST of the following:

- (i) Amount specified by the Government, i.e., Rs. 3,00,000 (limit applicable up to AY 2023-24, now revised to **Rs. 25,00,000**)
- (ii) Leave salary actually received.
- (iii) 10 months' salary (on the basis of average salary of last 10 months).
- (iv) Cash equivalent of leave (based on last 10 months' average salary immediately preceding the date of retirement) to the credit of the employee at the time of retirement or death.

Key Points

1. 'Salary', for this purpose, means Basic Salary + DA (to the extent it forms part of retirement benefits) + Turnover based Commission, if any.
2. 'Average Salary' for the aforesaid purpose, is to be calculated on the basis of average salary drawn during the period of 10 months ending on the date of retirement.
3. While computing 'completed year of service', fraction of the year in months will be ignored.
4. Earned leave entitlement cannot exceed 30 days for every year of actual service rendered for the employer from whose service he has retired.
5. From AY 2024-25 and onwards, the limit of Rs. 3 lakh is now increased to Rs. 25 lakh owing to the general increase in income from salary.

10. Encashment of Earned Leaves

Mr. X, an employee of ABC Ltd. retired from the company on 30.11.2024. At the time of his retirement, he received Rs. 2,88,000 as leave salary from his employer. The following information is provided by the employee:

Sl. No.	Particulars	Amt. (in Rs.)
1	Salary at the time of retirement (per month)	18,000
2	Period of Service	20 Years 8 Months
3	Leave Encashment	2,88,000
4	Leave availed while in service	14 months
5	Balance unavailed leave at the time of retirement	16 months
6	Average Salary for the month of Feb 2024 to Nov. 2024	17,600
7	Leave entitlement	1½ month for every completed year of service

Compute the amount of taxable leave encashment.

Solution

Minimum of following 4 will be Exempt

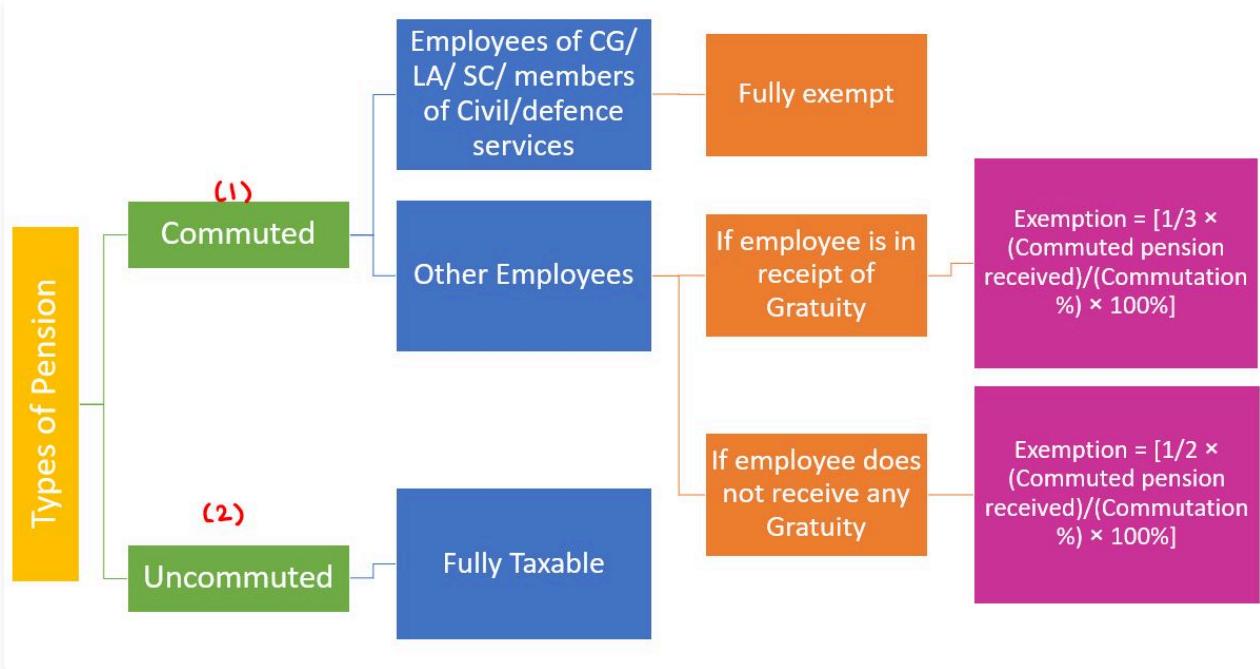
- ① Amt. specified by Govt = Rs. 3,00,000
 - ② Leave salary actually received = Rs 288,000
 - ③ 10 month's salary = $17600 \times 10 = \text{Rs. } 1,76,000$
 - ④ Cash Equivalent of Leaves
(Leave encashment for 6 Months)
@ 17,600 per month
- = 1,05,600 (see note below)
 ↗
 Leave Encashment
 Exempt

Hence, Rs. 1,05,600 would be exempt and the balance of Rs. 1,82,400 (Rs. 2,88,000 – Rs. 1,05,600) would form part of gross salary (or taxable leave encashment).

Note: Although, he is entitled to 1½ months leave for every completed year of service, for the purpose of calculating limit for clause (iv) above, the calculation will be done on the basis of maximum 30 days' leave for every completed year of service. Therefore, the maximum leave allowable for purpose of clause (iv), i.e., $30 \times 20 = 600$ days (i.e., 20 months). Leave already availed by employee is 14 months. Therefore, the unavailed leave calculated on basis of 30 days leave for every completed year of service is 6 months ($20 - 14$).

11. Pension

'Pension' is a periodical payment received by an employee after his retirement and is taxed as salary. *Pension received from United Nations Organisation is not taxable.*



The basis of charge is given below:

Uncommuted Pension

It is periodical payment of pension. For instance, X gets monthly pension of Rs. 2,000. It is taxable as 'salary' under Section 15, in the hands of a Government employee as well as non-Government employee.

Commutated Pension

Commutation means inter change. It is a lump sum payment in lieu of periodical payment. For instance, after his retirement, X gets Rs. 2,000 per month as monthly pension as per service rules, he gets 25 % on his pension commuted for Rs. 60,000 (after commutation he will get the remaining 75 per cent, i.e., Rs. 1,500 by way of monthly pension). In this case, Rs. 60,000 is commuted pension, which X has received in lieu of 25 % of his monthly pension.

Commutated pension is taxable as per following rules:

Any commuted pension received by a Government employee (i.e., an employee of Central Government, State Government, local authority and statutory corporation) is *wholly exempt* from tax under Section 10(10)(i).

Any payment in commutation of pension received by a non-Government employee will be exempt from tax to the extent given below:

a) If the employee is in receipt of gratuity

$$\left[\frac{1}{3} \times \frac{\text{Commutated Pension Received}}{\text{Commutation \%}} \times 100\% \right]$$

b) If the employee does not receive any gratuity

$$\left[\frac{1}{2} \times \frac{\text{Commutated Pension received}}{\text{Commutation \%}} \times 100\% \right]$$

11. Pension

X retired on 15.04.2024 from ABC Ltd. He was entitled to a pension of Rs. 8,000 per month. At the time of retirement, he got 75% of the pension commuted and received Rs. 2,40,000 as commuted pension. Compute the taxable portion of commuted pension if:

- (a) He is also entitled to gratuity
- (b) He is not entitled to gratuity.

Solution:

(a) 75% of commuted pension is equal to Rs. 2,40,000. Hence, commuted value of 1/3 of the pension would amount to

$$\frac{240000 \times 100}{75} \times \frac{1}{3} = \text{Rs. } 1,06,667$$

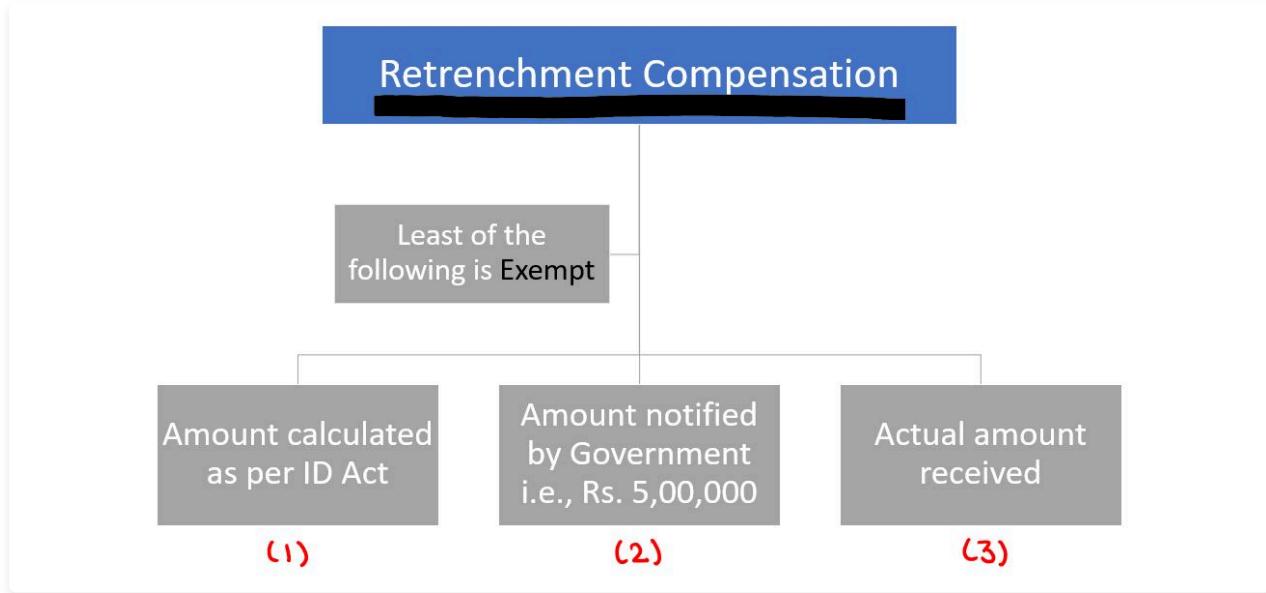
Therefore, Rs. 1,06,667 would, therefore, be exempt and balance Rs. 1,33,333 would be taxable.

(b) 75% of commuted pension is equal to Rs. 2,40,000. Hence, commuted value of 50% of pension would amount to

$$\frac{240000 \times 100}{75} \times \frac{1}{2} = \text{Rs. } 1,60,000$$

Therefore, Rs. 1,60,000 would be exempt and Rs. 80,000 would be taxable.

12. Retrenchment Compensation



Compensation received by workman at the time of retrenchment, is exempt from tax to the extent of the **least** of the following:

- 1) An amount calculated in accordance with the provisions of the 'Industrial Disputes Act, 1947'*; or
- 2) Such amount as notified by the Government (i.e., 5,00,000); or
- 3) The actual amount received.

*Under the said Act, a workman is entitled to retrenchment compensation equal to 15 days' average pay, for every completed year of service or any part, thereof, in excess of 6 months.

Compensation in excess of the aforesaid limits is taxable as 'salary' or 'profits in lieu of salary'. However, the aforesaid limit is not applicable in cases where compensation is paid under any scheme approved by the Government.

13. Profits in lieu of Salary

Section 17(3) of Income Tax Act, 1961 gives an inclusive definition of "Profits in lieu of Salary". As the name suggests, these payments are received by the employee 'in lieu of' or 'in addition to salary or wages'.

1. Compensation on account of termination of employment
2. Compensation on account of modification of terms and conditions of employment
3. Payment from PF or another fund
4. Keyman Insurance Policy
5. Lump sum Payment or otherwise

Profit in
lieu of Salary

It includes the following:

- 1) The amount of any compensation due to or received by an assessee from his employer or former employer or in connection with the termination of his employment.
- 2) The amount of any compensation due to or received by an assessee from his employer or former employer or in connection with the modification of the terms and conditions of employment.
- 3) Any payment due to or received by an assessee from an unrecognised provident fund or an unrecognised superannuation fund, to the extent, to which such payment does not consist of contributions by the employee or interest on such employee's contribution.
- 4) Any payment due to or received by an assessee from his employer or former employer *except* the following:
 - a) Death-cum-retirement gratuity — Section 10(10)
 - b) Commuted value of pension — Section 10(10A)
 - c) Retrenchment compensation received by a workman — Section 10(10B)
 - d) Payment received from a statutory provident fund — Section 10(11)
 - e) Payment received from recognised provident fund — Section 10(12)
 - f) Any payment from an approved superannuation fund — Section 10(13)
 - g) House rent allowance exempt under section 10(13A).

1. Introduction

This is the only head of income, which taxes notional income. The taxability may not necessarily be of actual rent or income received but the potential income, which the property is capable of yielding. Accordingly, if a person owns a property which is lying vacant, notional income with respect to such property may be liable to tax even though the owner may not have received any income from such property. Further, if the property is let out and the rent received is less than the potential rent, which the property is capable of yielding, tax would be payable on the rent which the owner is capable of getting and not on the actual rent.

2. Conditions of Chargeability

The annual value of a property, consisting of any building or land appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head 'Income from House Property' under Section 22 of the Act. However, if a house property, or any portion thereof, is occupied by the assessee, for the purpose of any business or profession, carried on by him, the profits of which are chargeable to income-tax, the value of such property is not chargeable to tax under this head.

Basis of Charge

- Property should consist of building or land appurtenant thereto
- Assessee should be the owner of the property
- Property should not be used by the owner for the purpose of any business or profession

Thus, three conditions are to be satisfied for property income to be taxable under this head.

1. The property should consist of building or land appurtenant thereto.
2. The assessee should be the owner of the property.
3. The property should not be used by the owner for the purpose of any business or profession carried on by him, the profits of which, are chargeable to income-tax.

Therefore, unless, all the aforesaid conditions are satisfied, the property income cannot be charged to tax under the head 'Income from House Property'.

3. Basic Terms

Now, before moving further, let us discuss a few basic terms one by one.

3. Basic Terms

The term 'building' includes residential houses, bungalows, office buildings, warehouses, docks, factory buildings, music halls, lecture halls, auditorium, etc.

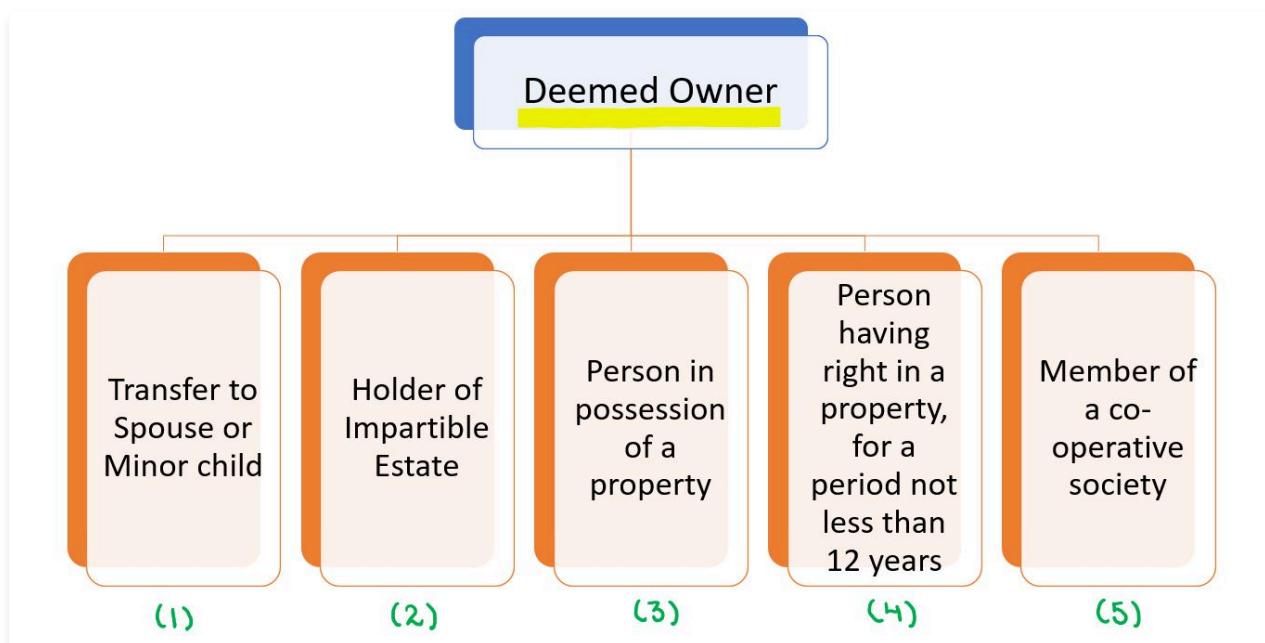
The appurtenant lands, in respect of a residential building, may be in the form of approach roads to and from public streets, compounds, courtyards, backyards, playgrounds, kitchen garden, motor garage, stable or coach home, cattle-shed, etc. attached to and forming part of the building. In respect of non-residential buildings, the appurtenant lands may be in the form of car-parking spaces, roads connecting one department with another department, playgrounds for the benefit of employees, etc.

3. Basic Terms

It is only the owner (or deemed owner) of house property who is liable to tax on income under this head. The property may be let out to a third party either for residential purposes or for business purposes. Annual value of property is assessed to tax in the hands of the owner even if he is not in receipt of the income.

Income from subletting is not taxable under this section. *For example*, A owns a house property. He lets it out to be B. B further lets it (or a portion of it) out to C. Rental income of A is taxable under the head 'Income from house property'. However, since B is not the owner of the house, his income is not taxable as 'income from house property', but as 'income from other sources' under Section 56. The word 'owner' includes a legal owner as well as 'Deemed Owner'. For the purpose of Section 22, the owner may be an individual, HUF, firm, company, co-operative society or association of persons, etc.

3. Basic Terms



Section 27 of the Income Tax Act provides that, in certain circumstances, persons who are not legal owners, are to be treated as deemed owners of house property, for the purpose of tax liability under this head.

Transfer to Spouse or Minor child

If an individual transfers a house property to his or her spouse (except in connection with an agreement to live apart) or to a minor child (except a married daughter) without adequate consideration, he is deemed as the owner of the property for tax purposes. However, if an individual transfers cash to his or her spouse or minor child, and the transferee acquires a house property out of the gifted amount, the transferor shall not be treated as the deemed owner of the house property.

Holder of Impartible Estate

The holder of an Impartible Estate is deemed to be the owner of all the properties comprised in the estate.

Person acquiring property under Power of Attorney transaction

Such person, by satisfying the conditions of Section 53A of the Transfer of Property Act, that is under a written agreement, the purchaser has paid the consideration or is ready to pay the consideration and has taken the possession of the property, is the deemed owner of the property, although he may not be the registered owner.

A person who has acquired a right in a building, by way of a lease for a term of not less than 12 years (whether fixed originally or extended through a provision in the agreement)

Such person is the deemed owner of the property. This provision does not cover any right by way of a lease renewable from month to month or for a period not exceeding one year.

Property held by a member of Co-operative Society/ Company/ AOP

Any such member of these entities, to whom a building (or part thereof) is allotted or leased under the house building scheme of the society, company or AOP, is treated as deemed owner of such property.

3. Basic Terms

The owner of a house property is not liable to tax under this head, if the property is used by him for his own business or profession (whose income is chargeable to tax).

For example, X owns a property. He uses the property as his office, godown or factory. As the property is used for the purpose of carrying on own business or profession, nothing is taxable under Section 22.

Chargeability to tax does not mean that the income is actually taxed. It is possible that, in a particular year, the profits are not sufficient enough to attract tax liability. This means that the income from such business or profession is not exempt from tax.

3. Basic Terms

Income from House property situated outside India

in case of

Resident and Ordinarily resident in India and HUF

Taxable, whether such income is brought to India or not

Non-resident or Resident but not ordinarily resident in India

Taxable, only if it received in India

The following points are worth noting in this regard:

- 1) A resident assessee is taxable under Section 22 in respect of annual value of a property situated in a foreign country.
- 2) A resident but not ordinarily resident or a non-resident is, however, chargeable under the said section, in respect of income from house property situated abroad, provided income is received in India during the previous year.
- 3) If tax incidence is attracted under Section 22, in respect of a house property situated abroad, annual value will be computed as if property is situated in India.

3. Basic Terms

Annual value of house property will be charged under the head "Income from house property", where it is held by the assessee as stock-in-trade of a business also.

However, the annual value of property being held as stock in trade would be treated as NIL for a period of 2 years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority, if such property is not let-out during such period.

Where the assessee is a builder/ construction company, the house property would be its stock-in-trade and rental income therefrom would be assessable under the head "Income from House Property."

However, where the assess is engaged in the business of letting out of properties, income therefrom would be assessable under the head "Profits and gains of business or profession."

Chapters 3501-3600 of 6035