

# **Income under the head salaries**

- Payer and payee
- Salary and wages
- Salary from more than one source
- Salary from former, present and prospective employer
- Foregoing of salary
- Salary paid tax free
- Voluntary payments
- Basis of charge
- Accountancy method of the employee not relevant
- Place of accrual of salary

# Salary under section 17(1)

**39.8 Salary under section 17(1)** - Under section 17(1), salary is defined to include the following :

- a. wages ;
- b. any annuity or pension ;
- c. any gratuity ;
- d. any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages ;
- e. any advance of salary ;
- f. any payment received by an employee in respect of any period of leave not availed by him ;
- g. the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognised provident fund to the extent it is taxable ;
- h. transferred balance in a recognised provident fund to the extent it is taxable; and
- i. the contribution made by the Central Government or any other employer to the account of an employee under a notified pension scheme referred to in section 80CCD.

# Simplified Structure of Salary

Particulars	Amount in Rs.
Salary (Basic and other components)	Add
Allowances – many – monetary	Add
Perquisites – benefits – many - value	Add
Gross salary	Total
Less: Deduction U/s 16:	
Standard deduction 16(1)	Less
Entertainment Expenses 16(2)	Less
Professional tax 16(3)	Less
Net Salary / Income from Salary	Balance Amount

# Salary

- Basic salary
- Advance salary
- Arrears of salary
- Leave encashment
- Fees
- Commission
- Bonus
- Gratuity
- Pension
- Annuity
- Provident fund
- Retrenchment compensation

# Allowance

- Fully taxable
- Partly taxable
- Totally exempt

# Perquisites

- House
- Gardener, sweeper, watchman, attendant
- Gas, water, electricity
- Education
- LTC
- Interest free / concessional loan
- Medical etc.

# Calculation of Basic salary

## Computation of Taxable salary of Mr. X / Mrs. X (For the AY 2023-24)

Particulars	Amount in Rs.
Basic salary (10,000 pm) = (10,000*12)	1,20,000

# How timing of salary affects the calculation

For the Month of	Salary
March 2022	8,000 due on 31 March
April 2022	10,000 due on 30 April
May	10,000 due on 31 May
June	10,000 due on 30 June
July	10,000
Aug worked	10,000 due on 1 Sep
Sep	10,000
Oct	10,000
Nov	10,000
Dec	10,000
Jan	10,000
Feb	10,000
March 2023	10,000
April 2023	12000



# Salary calculation

Month	Salary	Last day of the month		First day of next month	
Mar 2022	8,000			8,000	1
April 2022	10,000	10,000	1	10,000	2
May	10,000	10,000	2	10,000	3
June	10,000	10,000	3	10,000	4
July	10,000	10,000	4	10,000	5
Aug	10,000	10,000	5	10,000	6
Sep	10,000	10,000	6	10,000	7
Oct	10,000	10,000	7	10,000	8
Nov	10,000	10,000	8	10,000	9
Dec	10,000	10,000	9	10,000	10
Jan	10,000	10,000	10	10,000	11
Feb 2023	10,000	10,000	11	10,000	12
Mar 2023	10,000	10,000	12	1.4.21	
<b>Total</b>		<b>1,20,000</b>		<b>1,18,000</b>	

# Salary calculation

Month	Salary	Last day of the month			First day of next month		
Mar 2022	8,000			31.3.2020	8,000	1	1.4.2020
April 2022	10,000	10,000	1	30.4.2020	10,000	2	1.5.2020
May	10,000	10,000	2	31.5.2020	10,000	3	1.6.2020
June	10,000	10,000	3	31.6.2020	10,000	4	1.7.2020
July	10,000	10,000	4	31.7.2020	10,000	5	1.8.2020
Aug	10,000	10,000	5	31.8.2020	10,000	6	1.9.2020
Sep	10,000	10,000	6	31.9.2020	10,000	7	1.10.2020
Oct	10,000	10,000	7	31.10.2020	10,000	8	1.11.2020
Nov	10,000	10,000	8	31.11.2020	10,000	9	1.12.2020
Dec	10,000	10,000	9	31.12.2020	10,000	10	1.1.2021
Jan	10,000	10,000	10	31.1.2021	10,000	11	1.2.2021
Feb 2023	10,000	10,000	11	31.2.2021	10,000	12	1.3.2021
Mar 2023	10,000	10,000	12	31.3.2021	10,000		1.4.2021
<b>Total</b>		<b>1,20,000</b>			<b>1,18,000</b>		

# Calculation of Basic salary

X joined job on Feb 1 2014 on the pay scale 10,000-10000-15,000.

- A. Salary is due on last day of the month
- B. Salary is due on the first day of the next month

# Working Notes

2014 Feb 1	10000
2015 Feb 1	11000
2016 Feb 1	12000
2017 Feb 1	13000
2018 Feb 1	14000
2019 Feb 1	15000
2020 Feb 1	15000
2021 Feb 1	15000
2022 Feb 1	15000
2023 Feb 1	15000
2022April – March 2023 (PY)	15000 throughout
2023-24 (AY)	15000

# Calculation of Basic salary

## Computation of Taxable salary of Mr. X (For the AY 2023-24)

Particulars	Amount in Rs.
A or B. Basic Salary (15000*12)	1,80,000

# Calculation of Basic salary

X joined job on March 1 2020 on the pay scale 10,000-10000-15,000.

- A. Salary is due on last day of the month
- B. Salary is due on the first day of the next month

# Working Notes

2020 March 1	10000
2021 March 1	11000
2022 March 1	<b>12000</b>
2023 March 1	<b>13000</b>
2024 March 1	14000
2025 march 1	15000

# Calculation of Basic salary

## Computation of Taxable salary of Mr. X (For the AY 2023-24)

Particulars	Amount in Rs.
A. Basic Salary ( $12000 \times 11 + 13000 \times 1$ )	1,45,000
B. Basic Salary ( $12000 \times 12$ )	1,44,000



# Salary calculation

Month	Salary	Due on Last day of the month		Due on First day of next month	
Mar 2022	12,000			12,000 1.4.20	1
April 2022	12,000	12,000	1	12,000	2
May	12,000	12,000	2	12,000	3
June	12,000	12,000	3	12,000	4
July	12,000	12,000	4	12,000	5
Aug	12,000	12,000	5	12,000	6
Sep	12,000	12,000	6	12,000	7
Oct	12,000	12,000	7	12,000	8
Nov	12,000	12,000	8	12,000	9
Dec	12,000	12,000	9	12,000	10
Jan	12,000	12,000	10	12,000	11
Feb 2023	12,000	12,000	11	12,000	12
Mar 2023	13,000	13,000	12		
<b>Total</b>		<b>1,45,000</b>		<b>1,44,000</b>	

# Salary

- Basic salary
- Advance salary
- Arrears of salary
- Fees
- Commission
- Bonus
- Leave encashment
- Gratuity
- Pension
- Annuity
- Provident fund
- Retrenchment compensation

# Allowances

Fully Taxable	Partly Taxable	Fully exempt
<b>Dearness Allowance</b>	<b>House Rent Allowance (HRA)</b>	High court judges
City Compensatory All.	Travelling All.	United Nations Org
Tiffin All.	Transfer All.	Sumptuary all to UPSC
<b>Medical All.</b>	Daily All.	Foreign All.
Servant All.	Helper All.	Special All.
Others	Research All.	
100 ₹ pm = $100 \times 12$	Uniform All.	$100 \times 12 = 1200$
= 1200	Tribal area All.	$1200 - 1200 = 0$
	Transport All.	
	<b>Children education All.</b>	
	<b>Hostel All.</b>	
	<b>Entertainment All.</b>	
	Full amt. – exempt amt.=taxable $1200 - 200 = 1000$	

# Partially taxable Allowance: HRA

1- Who will not receive	Those who live in a accommodation provided by employer
2- Who will receive	<p>Who do not lives in a residential accommodation provided by employer:</p> <p>a. Those who lives in their own house-<b>Fully taxable</b></p> <p>b. Those who lives in a rented house</p>
3- Who is entitled to claim exemption?	Those who live in a rented house and pay rent will get exemption:
	Amount of exemption will be the <b>least of the followings</b> :
$10K \times 12M = 120,000$	1. Actual HRA received
$10K \times 12 - 10K = 110,000$	2. Excess of rent paid over 10% of salary (Rent paid- 10% of salary)
50,000 - exempt	3. 50% or 40% of salary
$120000 - 50000 = 70000$	50% of salary if resides in Delhi, Mumbai, Kolkata, Chennai
<b>Taxable HRA will be:</b>	<b>HRA received minus exemption</b>
<p>Here Salary means:</p> <ul style="list-style-type: none"> <li>• Basic salary due basis +</li> <li>• DA (if under terms of employment or used for calculating all retirement benefits) +</li> <li>• Commission (based on fixed percentage of turnover) as per terms of contract of employment)</li> </ul> <p>But excludes any other allowance and perquisites</p>	

# HRA Student 1

Basic salary	100,000
DA	10,000
Comm	5,000
LTC	10,000
HRA	3000
Student 2	
Basic salary	100,000
DA	10,000
Comm	5,000
HRA	3000

# Question

Mr. X resides in Madras, gets Rs. 3,00,000 per annum as basic salary. He receives Rs. 50,000 pa as HRA. Rent paid by him is Rs. 40,000 pa. Find out the amount of taxable HRA for the AY 2023-24.

# Solution

Mr. X resides in Madras, gets Rs. 3,00,000 per annum as basic salary. He receives Rs. 50,000 pa as HRA. Rent paid by him is Rs. 40,000 pa. Find out the amount of taxable HRA for the AY 2023-24.

- Salary means=  $300000+0+0= 300,000$  pa
  - Least of the following is exempt:
    1. Actual HRA received = 50,000 pa
    2. Rent – 10% of salary =  $40,000 - 30,000= 10,000$
    3. 50% of salary = 150,000
- Least = 10000 = exempt
- Taxable HRA =  $50000 - 10000= 40000$

# Question

Mr. X, a resident of Ajmer, receives Rs. 1,92,000 pa as basic salary during the PY 2022-23. in addition, he gets Rs. 19,200 pa as DA forming part of basic salary for computation of all retirement benefits, 7% commission on sales made by him (sale made by X during the relevant PY is Rs. 86,000) and Rs. 24,000 pa as HRA. He, however, pays Rs. 21,500 pa as house rent. Determine the quantum of house rent allowance exempt from tax.



# Solution

Mr. X, a resident of Ajmer, receives Rs. 1,92,000 pa as basic salary during the PY 2022-23. in addition, he gets Rs. 19,200 pa as DA forming part of basic salary for computation of all retirement benefits, 7% commission on sales made by him (sale made by X during the relevant PY is Rs. 86,000) and Rs. 24,000 pa as HRA. He, however, pays Rs. 21,500 pa as house rent. Determine the quantum of house rent allowance exempt from tax.

$$\text{Salary} = 192000 + 19200 + 6020 = 217220$$

1. 24000
2.  $21500 - 21722 = (\text{negative})$  Nil or zero
3. 86888

$$\text{Taxable HRA} = 24000 - \text{zero} = 24000$$

# Question

Mr. X is an employee of AB Insurance co. Ltd. During the PY 2022-23, he gets Rs. 80,000 pm as salary and Rs. 10,000 pm as DA (40% of DA is considered for calculating provident fund but only 30% is considered for calculating gratuity). He gets Rs. 55,000 pm as HRA. X resides with his joint family up to June 30, 2022 for which no rent is paid. From July 1, 2022, he takes a house on rent (monthly rent being Rs. 10,000) at Noida. However, he shifts to Delhi with effect from Jan 1, 2023 (monthly rent being Rs. 53,000). Find out the HRA chargeable to tax for the AY 2022-23.

# Solution 1

- From April 1, 2022- June 30, 2022 – No rent paid hence no HRA exemption available. Taxable HRA =  $1,65,000 - 0 = 1,65,000$
- From July 1 2022- Dec 31, 2022 – Stayed in Noida on rent – total 6 months
  - Salary =  $80,000 \times 6 + 10,000 \times 6 \times 30\% = 4,98,000$
  - Least of the following is exempt:
    1. Actual HRA received in 6 months =  $3,30,000$
    2. Rent (6 Months) – 10% of salary =  $60,000 - 49,800 = 10,200$
    3. 40% of salary (6 months) =  $1,99,200$Taxable HRA =  $3,30,000 - 10,200 = 3,19,800$ .
- From Jan 1, 2023 – March 31, 2023 – Stayed in Delhi on rent – total 3 months
  - Salary =  $80,000 \times 3 + 10,000 \times 3 \times 30\% = 2,49,000$
  - Least of the following is exempt:
    1. Actual HRA received in 3 months =  $1,65,000$
    2. Rent (3 Months) – 10% of salary =  $1,59,000 - 24,900 = 1,34,100$
    3. 50% of salary (3 months) =  $1,24,500$Taxable HRA =  $1,65,000 - 1,24,500 = 40,500$

Taxable HRA =  $1,65,000 + 3,19,800 + 40,500 = 5,25,300$  Rs.

# Solution 2

- Salary =  $80000 + 10000 \times 30/100 = 83000$  pm
- From April 1, 2022- June 30, 2022 –total 3 months - No rent paid hence no HRA exemption available.
- From July 1 2022- Dec 31, 2022 – Stayed in Noida on rent – total 6 months
  - Least of the following is exempt:
    1. Actual HRA received = 55,000 pm
    2. Rent – 10% of salary =  $10,000 - 8300 = 1700$  pm
    3. 40% of salary = 33,200
- From Jan 1, 2023 – March 31, 2023 – Stayed in Delhi on rent – total 3 months
  - Least of the following is exempt:
    1. Actual HRA received = 55,000 pm
    2. Rent – 10% of salary =  $53,000 - 8300 = 44,700$
    3. 50% of salary = 41,500

Taxable HRA =  $660,000 - (0 + 10,200 + 124,500) = 525,300$  Rs.

$$55000 \times 12 - 1700 \times 6 + 41500 \times 3 = 525300$$

# Simplified Structure of Salary

Particulars	Amount in Rs.
Basic Salary	Add
Allowances	Add
Perquisites	Add
Gross salary	Total
Less: Deduction U/s 16:	
Standard deduction 16(1)	Less
Entertainment Allowance 16(2)	Less
Professional tax 16(3)	Less
Net Salary	Balance Amount

## Partially Taxable: Entertainment allowance u/s 16(ii)

1. If received by a non-government employees (statutory corporation and local authority)	Fully taxable No deduction
2. If received by Government employees (Central and State Govt.)	<p>Least of the following is deductible irrespective of actual amount spent:</p> <ul style="list-style-type: none"> <li>i. Rs.5000</li> <li>ii. 20% of basic salary</li> <li>iii. Actual amount of EA Received</li> </ul>

Here salary means **basic salary**  
excludes any allowance, benefit or other perquisites

# Definition of Govt. and Non Govt.

	Central / State	Local Authority	Statutory Corporations	Others
	Always Govt.	Sometimes Govt. Sometimes Non Govt.	Sometimes Govt. Sometimes Non Govt.	Always Non Govt.
Ent. All.	Govt.	Non Govt.	Non Govt.	Non Govt.

# Question

Mr. X a Govt. employee, gets Rs. 6,00,000 pa as basic pay. In addition, he receives Rs. 72,000 as entertainment allowance. His actual expenditure on entertainment for official purposes, however, exceeds Rs. 75,000. can he claim deduction of actual amount spent by him on entertainment?



# Solution

- Government employee
- Least of the following is deductible;
  - Rs. 5000
  - 20% of salary = 120,000
  - Allowance received = 72,000

Least = 5000 Rs.is exempt

# Simplified Structure of Salary

Particulars	Amount in Rs.
Basic Salary	600,000
E Allowances (12*6000)	72,000
Perquisites	Add
<b>Gross salary</b>	<b>672,000</b>
Less: Deduction U/s 16:	
Standard deduction 16(1)	
Entertainment Allowance 16(2)	5,000
Professional tax 16(3)	
<b>Net Salary</b>	<b>667,000</b>

# Question

- Mr. X a Govt. employee, gets Rs. 6,00,000 pa as basic pay. In addition, he receives Rs. 72,000 as entertainment allowance. His actual expenditure on entertainment for official purposes, however, exceeds Rs. 75,000.
- Determine the amount of net income of X in the above question on the assumption that:
- X also gets house rent allowance of Rs. 90,000 from employer (rent paid at Delhi is Rs. 80,000)
- Income from other sources is Rs. 3,00,000.
- X pays a sum of Rs. 2,800 on account of professional tax on March 31, 2023 (out of which Rs. 1,400 pertains to the previous year 2021-22).
- X contributes Rs. 60,000 towards recognised provident fund.
- Does it make any difference if X is a branch manager in LIC of India or A Ltd.

# Solution

## Computation of Taxable salary of Mr. X (For the AY 2023-24)

Particulars	Amount in Rs.
Basic Salary	600,000
HRA	70,000
Entertainment Allowance	72,000
<b>Gross Salary</b>	<b>7,42,000</b>
Less: Deduction u/s 16	
Standard Deduction 16(1)	50,000
Entertainment Allowance 16(2)	5,000
Professional Tax 16(3) (actual paid basis)	2,800
1. Income under the head salaries / Net Salary	684,200
5. Income from other sources	3,00,000
Gross total income	9,84,200
Less: Deduction u/s 80 C Provident Fund contribution	60,000
Net Total Income	9,24,200

# Working Notes

Salary = BS+DA+C= 600,000+0+0= 6,00,000

Least of the following is exempt:

- Actual HRA received = 90,000
- Excess of rent paid over 10% of salary = 80,000-60,000= 20,000
- 50% or 40% of salary (50% of salary if resides in Delhi, Mumbai, Kolkata, Chennai) = 3,00,000
- Least is exempt = 20,000
- Taxable HRA = 90,000- 20,000 = 70,000

# Partially exempt Allowance

Name	Nature – depends on actual expenditure
Travelling All	Cost of travel on tour
Transfer All	Cost of travel on transfer
Conveyance All	Office duties
Daily All	Official duty – transfer or tour
Helper All	Official duty
Research All	Encouraging research
Uniform All	Maintain uniform

**Exemption depends on actual expenditure by the employee**

Least of the following is exempt:

a. Amount of allowance or

b. Amount utilised

Taxable Allowance = Allowance received – exempt amount

# Question & Solution

During the previous year **2022-23** the following allowances are given to X by the employer company –

<i>Nature of allowance</i>	<i>Amount of allowance</i>  Rs.	<i>Amount actually spent for the purpose given in column 1</i>  Rs.
Travelling allowance for official purposes	36,000	32,000
Transfer allowance given at the time of transfer of X from Delhi to Ajmer	40,000	41,000
Conveyance allowance for official purposes	50,000	42,000
Helper allowance for engaging helper for official purposes	68,000	64,000
Research allowance	1,00,000	90,000
Uniform allowance for official purposes	18,000	17,000

	Amount Chargeable to tax
1	
2	
3	
4	
5	
6	

# Question & Solution

During the previous year **2022-23** the following allowances are given to X by the employer company –

<i>Nature of allowance</i>	<i>Amount of allowance</i> <i>Rs.</i>	<i>Amount actually spent for the purpose given in column 1</i> <i>Rs.</i>
Travelling allowance for official purposes	36,000	32,000
Transfer allowance given at the time of transfer of X from Delhi to Ajmer	40,000	41,000
Conveyance allowance for official purposes	50,000	42,000
Helper allowance for engaging helper for official purposes	68,000	64,000
Research allowance	1,00,000	90,000
Uniform allowance for official purposes	18,000	17,000

	<b>Amount Chargeable to tax</b>
1	Rs. 4000
2	Zero
3	8000
4	4000
5	10000
6	1000



# Partially exempt Allowance

Name	Nature – depends on actual expenditure	Exemption (2BB)
Tribal Area / Scheduled Area All.	MP, TN, UP, Karnataka, Tripura, Assam, WB, Bihar, Orissa	₹. 200 pm
All. For Transport employees	No daily all. Personal expenditure during duty while running transport	Least is exempt: a. 70% of allowance b. ₹. 10,000 pm
Children Education All.	Children education in India	₹. 100 pm per child Max of two child
Hostel Expenditure All.	Hostel expenditure on child in India	₹. 300 pm per child Max of two child
Transport All.	Commuting between residence and office a. blind, deaf, dumb, orthopedically handicapped b. Other employee	₹. 3200 pm  No exemption

**Exemption doesn't depends on actual expenditure by the employee**

Least of the following is exempt:

a. Amount of allowance or

b. Amount specified in rule 2BB

Taxable Allowance = Allowance received – exempt amount

# Question

<i>Nature of allowance</i>	<i>Amount of allowance</i>  <i>Rs.</i>
Tribal area allowance for X's posting in Assam for two months	1,000
Child education allowance for X's elder son	1,800
Child education allowance for X's younger son	900
Child education allowance for X's daughter	1,080
Hostel expenditure allowance for X's elder son	6,600
Transport allowance for commuting between office and residence	21,000

	Allowance Received	Exemption	Taxable Allowance
1	1000	400	600
2	1800	1200	600
3	900	0	900
4	1080	1080	0
5	6600	3600	3000
6	21000	0	21000

# Question & Solution

<i>Nature of allowance</i>	<i>Amount of allowance</i>  <i>Rs.</i>
Tribal area allowance for X's posting in Assam for two months	1,000
Child education allowance for X's elder son	1,800
Child education allowance for X's younger son	900
Child education allowance for X's daughter	1,080
Hostel expenditure allowance for X's elder son	6,600
Transport allowance for commuting between office and residence	21,000

	Allowance Received	Exemption	Taxable Allowance
1	1000	$200 \times 2$	600
2	1800	$100 \times 12 = 1200$	600
3	900	0	900
4	1080	$100 \times 12 = 1080$	0
5	6600	$300 \times 12$	3000
6	21000	0	21000

# Question

2. The following allowances are given by a transport company to its drivers to meet personal expenditure in the course of running trucks from one place to another place (none of these drivers is in receipt of daily allowance) –

Name of drivers	Amount of allowance (per month) Rs.	For how many months allowance is given
X	6,000	12
Y	15,000	12
Z*	14,000	2
A**	10,000	7

Drivers	Allowance received	Exempt	Taxable Allowance
X	72000	50400	
Y	180000	120000	
Z	28000	19600	
A	70000	49000	

# Question & Solution

2. The following allowances are given by a transport company to its drivers to meet personal expenditure in the course of running trucks from one place to another place (none of these drivers is in receipt of daily allowance) –

Name of drivers	Amount of allowance (per month) Rs.	For how many months allowance is given
X	6,000	12
Y	15,000	12
Z*	14,000	2
A**	10,000	7

Drivers	Allowance received	Exempt	Taxable Allowance
X	6000*12	50400/ 120000	21600
Y	15000*12	126000/120000	60000
Z	14000*2	19600/20000	8400
A	10000*7	49000/70000	21000

# Perquisites - employee

- Specified employee:
  - Director employee
  - Substantial interest in the employer company
  - Drawing in excess of ₹. 50,000 (excluding benefits non monetary)
    - 2,3,4,5,11,12,13 – Pg 74 -76
- Non specified employee: Other than specified employee

# Perquisite: RFA

Employees	Valuation
Central & State Govt.	Licence fees
	High court / Supreme court judge, Union Minister, Serving Chairman / members of UPSC - Exempt
Private sector employees or other employees	Upcoming slide

# Question

**44.1-1P1** X, an officer of the Government of Madhya Pradesh, draws Rs. 45,000 per month as basic pay. The Government has provided him a rent-free unfurnished flat whose market rent is Rs. 9,800 per month, though as per the Government rules licence fee of the flat is Rs. 1,250 per month. Determine the value of the perquisite in respect of rent-free flat for the assessment year 2023-24



# Question

**44.1-1P1** X, an officer of the Government of Madhya Pradesh, draws Rs. 45,000 per month as basic pay. The Government has provided him a rent-free unfurnished flat whose market rent is Rs. 9,800 per month, though as per the Government rules licence fee of the flat is Rs. 1,250 per month. Determine the value of the perquisite in respect of rent-free flat for the assessment year 2021-22

**Solution :** As X is a Government employee, valuation of the perquisite in respect of rent-free flat would be Rs. 15,000, being the licence fee of the flat as per Government rules (i.e., Rs. 1,250  $\times$  12). Market rental value of the flat is not taken into account.

## Private sector employees or other employees

<i>Population of city as per 2001 census where accommodation is provided</i>	<i>Where the accommodation is owned by the employer</i>	<i>Where the accommodation is taken on lease or rent by the employer</i>
Exceeding 25 lakh	15 per cent of salary in respect of the period during which the accommodation is occupied by the employee	<i>a. 15% of salary; or b. lease rent (paid or payable) by employer, whichever is less.</i>
Exceeding 10 lakh but not exceeding 25 lakh	10 per cent of salary in respect of period during which the accommodation is occupied by the employee	
Any other	7.5 per cent of salary in respect of period during which the accommodation is occupied by the employee	

# Meaning of Salary for RFA

salary includes :

- a. basic salary ;
- b. dearness allowance / pay, if terms of employment so provide\* ;
- c. bonus ;
- d. commission ;
- e. fees ;
- f. all other taxable allowances (excluding amount not taxable) ; and
- g. any monetary payment which is chargeable to tax (by whatever name called).

# Salary does not include

- i. dearness allowance/ pay, if not taken into account while calculating retirement benefits, like provident fund, gratuity, etc., or if term of employment does not so provide ;
- ii. employer's contribution to provident fund account of an employee ;
- iii. all allowances which are exempt from tax ;
- iv. value of perquisites [under section 17(2)]; and
- v. lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, severance pay leave encashment, voluntary retrenchment benefits, commutation of pension and similar payments.

# Question

**44.1-2P1** X, an employee of ABC (P.) Ltd., posted at Ajmer (population : 18 lakh), draws Rs. 3,00,000 as basic salary, Rs. 10,000 as dearness allowance (forming part of salary for all retirement benefits) and Rs. 5,000 as commission. Besides, the company provides a rent-free unfurnished accommodation in Ajmer. The house is owned by the company. Fair rent of the accommodation is Rs. 50,000 per annum. Determine the taxable value of the perquisite for the assessment year 2023-24

# Question & Solution

**44.1-2P1** X, an employee of ABC (P.) Ltd., posted at Ajmer (population : 18 lakh), draws Rs. 3,00,000 as basic salary, Rs. 10,000 as dearness allowance (forming part of salary for all retirement benefits) and Rs. 5,000 as commission. Besides, the company provides a rent-free unfurnished accommodation in Ajmer. The house is owned by the company. Fair rent of the accommodation is Rs. 50,000 per annum. Determine the taxable value of the perquisite for the assessment year 2023-24

**Solution :** Value of the perquisite in respect of rent-free accommodation owned by the employer depends upon salary of an employee. Salary for the purpose of computation of the perquisite value works out to be Rs. 3,15,000 (i.e., Rs. 3,00,000 + Rs. 10,000 + Rs. 5,000). Fair rent value of accommodation is not taken into consideration.

As the accommodation is situated in a city having population exceeding 10 lakh but not exceeding 25 lakh, 10% of salary, Rs. 31,500 is taxable value of the perquisite.

# Question

**44.1-2P2** X gives the following information for the previous year ending March 31, 2023

	Rs.
Basic salary	9,00,000
Dearness allowance (85 per cent is considered for calculating pension but only 70 per cent is considered for calculating provident fund)	80,000
Dearness pay (not considered for retirement benefits)	50,000
Fixed commission and bonus	1,80,000
Advance salary (pertaining to next year) and arrears of salary (for 2013-14) (not taxed earlier)	1,23,000
Income-tax paid by employer	20,000
Fixed lunch allowance	24,000
Children education allowance (for two children)	9,600

X has been provided with a rent-free unfurnished house. Find out the taxable value of perquisite in the following situations –

**Situation 1** - X is a Government employee (i.e., Central Government employee or State Government employee or a Government employee on deputation to a public sector undertaking). He has been allotted a rent-free accommodation by the Government. License fee of the house according to the house allotment scheme of the Government is Rs. 6,000 per annum.

**Situation 2** - X is an employee of LIC of India. He has been allotted a rent-free accommodation which is owned by the employer.

**Situation 3** - X is an employee of a private sector company. He has been allotted a rent-free accommodation. House is owned by the employer.

**Situation 4** - X is a non-Government employee. He has been allotted a rent-free accommodation. House is taken on rent by the employer (rent being Rs. 2,40,000 per annum).

**Situation 5** - X is a non-Government employee. He has been allotted a rent-free accommodation. House is taken on rent by the employer (rent being Rs. 72,000 per annum).

Find out the taxable value of the perquisite in respect of rent-free accommodation on the assumption that –

- the house is situated in Mumbai (population is more than 25 lakh); or
- the house is situated in Pratapgarh (population as per 2001 census is 8 lakh but it is 12 lakh as per 2011 census).



# Solution

**Solution :** "Salary" for the purpose of computation of perquisite value shall be determined as follows –

	Rs.
Basic salary	9,00,000
Dearness allowance (only 70% is considered for calculating pension as well as provident fund and the same should be considered for calculating perquisite value of rent-free house)	56,000
Dearness pay (not considered for retirement benefits)	Nil
Fixed commission and bonus	1,80,000
Advance salary and arrears of salary (these are not considered being pertaining to some other financial year)	Nil
Income-tax paid by employer (it is a perquisite, not to be considered)	Nil
Fixed lunch allowance	24,000
Children education allowance (only taxable portion to be included which is Rs. 9,600 – Rs. 2,400, being exemption available at the rate of Rs. 100 per month per child for two children)	7,200
Salary for the purpose of calculating taxable value of perquisite in respect of rent-free house	<u>11,67,200</u>



# Solution

Taxable value of the perquisite shall be calculated as follows -

	<i>Place where house is situated</i>	
	<i>Mumbai Above 25 lakh Rs.</i>	<i>Pratapgarh 8 lakh Rs.</i>
<i>Situation 1 - Government employee</i>	6,000 <sup>1</sup>	6,000 <sup>1</sup>
<i>Situation 2 - Employee of LIC (treated as non-Government employee) (house is owned by employer)</i>	1,75,080 <sup>2</sup>	87,540 <sup>3</sup>
<i>Situation 3 - Company employee (house is owned by employer)</i>	1,75,080 <sup>2</sup>	87,540 <sup>3</sup>
<i>Situation 4 - Non-Government employee (rent of house : Rs. 2,40,000)</i>	1,75,080 <sup>4</sup>	1,75,080 <sup>4</sup>
<i>Situation 5 - Non-Government employee (rent of house : Rs. 72,000)</i>	72,000 <sup>5</sup>	72,000 <sup>5</sup>

# Valuation of Rent Free Furnished Accommodation

## Calculate:

Step 1: unfurnished house valuation

Step 2: Add value of furniture

## Value of Furniture

If Owned	10% pa of original cost of furniture
If hired	Actual hire charges paid or payable

<b>Furniture meaning</b>	Radio sets, television, refrigerators, air conditioners, other household appliances
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# Valuation of rent free Furnished accommodation

## Furnished accommodation in a hotel, motel, service apartment or guest house

Valuation: Least of the following:

1. 24% of salary paid or payable
2. Actual charges paid or payable

Exception:

Relocation: nothing chargeable to tax for 15 days (in aggregate)

# Question

**44.2-P1** X received during the previous year ending March 31, 2023 emoluments consisting of basic pay : Rs. 1,62,000; special allowance : Rs. 17,000 and reimbursement of medical expenditure : Rs. 3,800. His employer has also provided a rent-free furnished flat in Bombay. Lease rent of the unfurnished flat is Rs. 50,000. Some of the household appliances provided to X (with effect from June 1, 2022) are owned by the employer (cost price of which is Rs. 36,000, date of purchase is April 1, 1960 and written down value, as on April 1, 2022 Rs. 620). Employer pays Rs. 10,000 annually as hire charges for three air-conditioners installed throughout the previous year in rent-free flat. Compute the value of the perquisite if : (a) X is a Secretary in the Ministry of Law and Rs. 4,000 is the licence fee of unfurnished flat as per the Central Government rules ; (b) X is the Managing Director of ABC (P.) Ltd. Does it make any difference, if X has been provided a hotel accommodation throughout the year (tariff being Rs. 1,20,000 per annum) ?

# Solution

**Solution :** *Valuation of unfurnished flat :*

1. If X is a Secretary to the Central Government - Rs. 4,000 is the taxable value of the unfurnished flat.
2. If X is the Managing Director of ABC (P.) Ltd. - Salary for the purpose of calculating taxable value of the perquisite works out to be Rs. 1,79,000 (i.e., Rs. 1,62,000 + Rs. 17,000)†. As lease rent of unfurnished flat (i.e., Rs. 50,000) exceeds 15% of salary, Rs. 26,850 (being 15% of salary) is taxable value of the perquisite.

*Valuation of furniture*

10% per annum of cost of furniture [i.e., Rs. 36,000 × 10/100 × 10/12]

Add : Rent of air-conditioners

Valuation of furniture

*Valuation of furnished flat :*

	Rs.
10% per annum of cost of furniture [i.e., Rs. 36,000 × 10/100 × 10/12]	3,000
Add : Rent of air-conditioners	10,000
Valuation of furniture	<u>13,000</u>

Valuation of		
Unfurnished flat Rs.	Furniture Rs.	Furnished flat Rs.
If X is a Secretary to the Central Government 4,000	13,000	17,000
If X is a Managing Director of ABC (P.) Ltd. 26,850	13,000	39,850

If X is a Secretary to the Central Government

If X is a Managing Director of ABC (P.) Ltd.

*Valuation of hotel accommodation* - Rs. 42,960 (being 24% of salary or Rs. 1,20,000, whichever is lower) is chargeable to tax whether X is a Government employee or non-Government employee.

# Valuation of accommodation provided at concessional rent

**In all cases**

Step 1: Valuation of unfurnished or furnished house

Step 2: Deduct rent charged by the employer

# Question

**44.2-P1** X received during the previous year ending March 31, 2023 emoluments consisting of basic pay : Rs. 1,62,000; special allowance : Rs. 17,000 and reimbursement of medical expenditure : Rs. 3,800. His employer has also provided a rent-free furnished flat in Bombay. Lease rent of the unfurnished flat is Rs. 50,000. Some of the household appliances provided to X (with effect from June 1, 2022) are owned by the employer (cost price of which is Rs. 36,000, date of purchase is April 1, 1960 and written down value, as on April 1, 2022 Rs. 620). Employer pays Rs. 10,000 annually as hire charges for three air-conditioners installed throughout the previous year in rent-free flat. Compute the value of the perquisite if : (a) X is a Secretary in the Ministry of Law and Rs. 4,000 is the licence fee of unfurnished flat as per the Central Government rules ; (b) X is the Managing Director of ABC (P.) Ltd. Does it make any difference, if X has been provided a hotel accommodation throughout the year (tariff being Rs. 1,20,000 per annum) ?

**44.3-P1** Continuing Problem 44.2-P1, suppose the employer, instead of providing flat or hotel accommodation free of rent, charges Rs. 16,000 per annum as rent of furnished flat. Find out the taxable value of the perquisite in respect of accommodation provided at concessional rent.



# Solution

**Solution :** *Value of perquisite will be computed as under :*

Flat –

- If X is a Secretary to the Central Government
- If X is a Managing Director of ABC (P.) Ltd.

Hotel accommodation

<i>Valuation of rent-free furnished flat or hotel accommodation as per solution to 44.2-P1</i>	<i>Rent charged by employer</i>	<i>Valuation of flat provided at concessional rate</i>
Rs. (1)	Rs. (2)	Rs. (1) minus (2)
17,000	16,000	1,000
39,850	16,000	23,850
42,960	16,000	26,960



# Question

➡ **44.3-P2** X, a regular employee of A Ltd., gets the following emoluments during the previous year **2022-23**  
Basic salary : Rs. 60,000 per month (which has been increased to Rs. 70,000 per month from January 1, **2023** ; dearness allowance Rs. 4,000 per month (72 per cent of which is part of salary for computing all retirement benefits) ; education allowance : Rs. 550 per month per child for 4 children ; medical allowance : Rs. 400 per month ; transport allowance : Rs. 1,950 per month (out of which Rs. 100 per month is used for covering the journey between office and residence and Rs. 250 per month is used for other purposes). Besides, he gets Rs. 20,000 per month as house rent allowance up to November 30, **2022** (rent paid at Ghaziabad : Rs. 18,000 per month). With effect from December 1, **2021** , he has been provided a furnished flat by the employer at Delhi (rent paid by employer : Rs. 26,000 per month ; rent of furniture provided : Rs. 12,780 ; rent recovered from X : Rs. 900 per month). Find out the salary chargeable to tax for the assessment year **2023-24** on the assumption that with effect from January 1, **2023** he joins a part-time employment with B Ltd. (salary Rs. 18,000 per month) with the permission of A Ltd. (without leaving the job of A Ltd.).

# Solution

	Rs.	Rs.
Basic salary (Rs. 60,000 × 9 + Rs. 70,000 × 3)		7,50,000
Dearness allowance (Rs. 4,000 × 12)		48,000
Education allowance (Rs. 550 × 4 × 12)	26,400	
Less : Exemption (Rs. 100 × 2 × 12)	<u>2,400</u>	24,000
Medical allowance (Rs. 400 × 12)		4,800
Transport allowance (Rs. 1,950 × 12)		23,400
House rent allowance (Rs. 20,000 × 8)	1,60,000	
Less : Exempt [see Note 1]	<u>93,696</u>	66,304
Furnished house [see Note 2]		62,118
Salary from B Ltd. (Rs. 18,000 × 3)		54,000
Salary		<u>10,32,622</u>
Less: Standard deduction		50,000
Income from salary		<u>9,82,622</u>

Notes –

1. House rent allowance exempt from tax - Salary for this purpose is Rs. 62,880 per month (i.e., basic salary : Rs. 60,000 per month + dearness allowance : 72% of Rs. 4,000 per month). The amount of exemption is –

- Rs. 25,152 per month (being 40% of Rs. 62,880) ;
- Rs. 20,000 per month (being house rent allowance) ; or
- Rs. 11,712 per month (being excess of rent paid over 10% salary, i.e., Rs. 18,000 – Rs. 6,288), whichever is lower.

Hence, the amount exempt from tax is Rs. 11,712 per month from April 1, 2022 to November 30, 2022 i.e., Rs. 93,696).

# Solution Contd.

2. *Valuation of the perquisite in respect of furnished flat* - X has been provided a furnished flat at Delhi with effect from December 1, 2022. Salary, for this purpose, from December 1, 2022 to March 31, 2023 is as follows –

	Rs.
Basic salary ( $\text{Rs. } 60,000 \times 1 + \text{Rs. } 70,000 \times 3$ )	2,70,000
Dearness allowance (72% of $\text{Rs. } 4,000 \times 4$ )	11,520
Education allowance [ $(\text{Rs. } 550 \times 4 - \text{Rs. } 100 \times 2) \times 4$ ]	8,000
Medical allowance ( $\text{Rs. } 400 \times 4$ )	1,600
Transport allowance [ $\text{Rs. } 1,950 \times 4$ ]	7,800
House rent allowance (not received during December 1, 2019 to March 31, 2020)	—
Salary from B Ltd. ( $\text{Rs. } 18,000 \times 3$ )	54,000
Total salary	<u>3,52,920</u>
Lease rent of 4 months ( $\text{Rs. } 26,000 \times 4$ ) : $\text{Rs. } 1,04,000$ . The perquisite shall be valued as follows –	
Value of unfurnished flat (15% of $\text{Rs. } 3,52,920$ or $\text{Rs. } 1,04,000$ , whichever is lower)	52,938
Add : Rent of furniture	<u>12,780</u>
Value of rent-free furnished flat	<u>65,718</u>
Less : Rent paid by X ( $\text{Rs. } 900 \times 4$ )	<u>3,600</u>
Value of the perquisite	<u>62,118</u>

3. Now, exemption is not available in respect of transport allowance (for covering journey between office and residence).

# Perquisite – Free Domestic Servant

Cost to the employer – salary paid or payable

Concessional

Garden maintenance

# Perquisite – gas, electricity, water

Actual cost to the employer (manufacturing cost if owned)

Concessional

# Perquisite – Free education

1.	Training to employees – not taxable	
2.	Education facility to family members	tuition fees paid or reimbursement – fully taxable
3.	Education to family members when institution owned or arrangement made:	
	3A. Institute owned by the employer	Reasonable cost of education in similar institute in or near the locality is taxable
	3B. Exemption available for children	Upto Rs. 1000 pm per child is exempt
	3C. Educational institution arrangement made	above same rule will be applicable
4.	Concessional	

# Question

**44.6-P1** Find out the taxable value of the perquisite for the assessment year 2023-24 in the following cases –

1. X is an employee in the Accounts Department of A Ltd. On November 27, 2022 he attends a seminar on "Perquisite Valuation". Seminar fees of Rs. 7,500 is paid by A Ltd.
2. Y's son is a student of ninth class of DPS, Noida. Rs. 17,800 being tuition fees of Y's son is paid/reimbursed by B Ltd. where Y is employed. There is no arrangement between B Ltd. and DPS, Noida.
3. Star Public School, Ajmer, is owned and maintained by C Ltd., a manufacturing company. Books of account of the school and C Ltd. are maintained separately. Z is an employee of C Ltd. The following family members of Z are students in Star Public School –

	Cost of education in a similar institution	Amount charged from Z
A, daughter of Z	Rs. 5,500 per month	Rs. 800 per month.
B, dependent brother of Z	Rs. 6,000 per month	Rs. 1,600 per month

4. Suppose in (3) (supra) Star Public School is not owned/maintained by C Ltd. As per arrangement of C Ltd. with the school, family members of employees of C Ltd. can have educational facility in the school. 100 seats are reserved for this purpose for which the company annually pays Rs. 10 lakh to the school (no separate billing by the school to the employees of C Ltd.). Family members of Z are students of the school. Cost of education in a similar institute and amount charged from Z by C Ltd. are given in the table in (3) (supra).



# Solution

1. Expenditure on training/ education of an employee is not chargeable to tax. Rs. 7,500 is, therefore, not chargeable to tax in the hands of X.
2. Rs. 17,800, being tuition fees paid/reimbursed by B Ltd., is taxable in the hands of Y.
3. School is maintained by the employer. Amount taxable in the hands of Z is Rs. 97,200 as follows –

	Rs.
A (daughter of Z) $[12 \times (\text{Rs. } 5,500 - \text{Rs. } 1,000 - \text{Rs. } 800)]$	44,400
B (brother of Z) $[12 \times (\text{Rs. } 6,000 - \text{Rs. } 1,600)]$	52,800
4. The taxable amount will be the same as is given in (3) (*supra*).



# Leave Travel Concession (LTC)

<i>Different situations</i>	<i>Amount of exemption (exemption is available only in respect of fare for going anywhere in India along with family twice in a block of four years)</i>
<ul style="list-style-type: none"> <li>▶ Where journey is performed by air</li> <li>▶ Where journey is performed by rail</li> <li>▶ Where the places of origin of journey and destination are connected by rail and journey is performed by any other mode of transport</li> <li>▶ Where the places of origin of journey and destination (or part thereof) are not connected by rail</li> <li>▷ Where a recognised public transport system exists</li> <li>▷ Where no recognised public transport system exists</li> </ul>	<p>Amount of economy class air fare of the national carrier by the shortest route or the amount spent, whichever is less.</p> <p>Amount of air-conditioned first class rail fare by the shortest route or amount spent, whichever is less.</p> <p>Amount of air-conditioned first class rail fare by the shortest route or the amount spent, whichever is less.</p> <p>First class or deluxe class fare by the shortest route or the amount spent, whichever is less.</p> <p>Air-conditioned first class rail fare by the shortest route (as if the journey had been performed by rail) or the amount actually spent, whichever is less.</p>

# LTC contd.

► *Meaning of "family"* - The aforesaid exemption is available in respect of fare for going anywhere in India along with "family". For this purpose, "family" includes spouse and children\*\* of the employee. It also includes parents, brothers and sisters of the employee, who are wholly or mainly dependent upon the employee. However, family does not include more than two surviving children of an individual born on or after October 1, 1998 (in reckoning this limit of two children, children born out of multiple births after the first child will be treated as 'one child only').

► *Only two journeys in a block of 4 years is exempt* - Exemption on the aforesaid basis is available in respect of two journeys performed in a block of four calendar years. The different blocks are –

a. 2010-2013 (i.e., January 1, 2010 to December 31, 2013);

b. 2014-2017 (i.e., January 1, 2014 to December 31, 2017);

c. 2018-2021 (i.e., January 1, 2018 to December 31, 2021).

► *"Carry-over" concession* - If an assessee has not availed travel concession or assistance during any of the specified four-year block periods on one of the two permitted occasions (or on both occasions), exemption can be claimed in the first calendar year of the next block (but in respect of only one journey). This is known as "carry over" concession. In such case, the exemption so availed will not be counted for the purposes of claiming the future exemptions allowable in respect of two journeys in the subsequent block.

# **Employee's obligation met by employer**

- For any obligation which otherwise would have been payable by the employee is taxable.

# Question

The following illustrations are given to have better understanding –

1. X is general manager in A Ltd. He engages a domestic servant on monthly salary of Rs. 2,000. The entire salary (*i.e.*, Rs. 24,000) is paid by A Ltd. to the domestic servant (or salary is paid by X and A Ltd. reimburses the entire amount).

In this case, the perquisite (*i.e.*, Rs. 24,000) is taxable in the hands of X under section 17(2)(iv) in all cases, as the obligation of X to pay salary to the domestic servant, is met by his employer.

2. 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.

3. Z is employed by A Ltd. and presently he is finance head at Mumbai. A Ltd. takes a building on lease at Mumbai (lease rent being Rs. 1.1 lakh per month, interest-free refundable deposit of Rs. 2 crore given to the landlord by A Ltd.). A Ltd. spends Rs. 1.5 crore on renovation of the building to suit the requirement of Z. After renovation the building is given as rent-free perquisite to Z for his residence. In this case, perquisite value of rent-free accommodation will be calculated under rule 3 (*i.e.*, 15 per cent of salary). Amount spent on renovation of building of Rs. 1.5 crore cannot be taxed under section 17(2)(iv) as an obligation of the employee met by the employer (as the lease deed nowhere imposes an obligation on Z to carry out repairs and renovation).

# Amount payable by employer to effect an assurance on the life of employee

**44.9 Amount payable by employer to effect an assurance on the life of employee [Sec. 17(2)(v)]** - 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 is, however, not applicable if the employer makes contribution/payment towards the following –

- a. recognised provident fund (up to 12 per cent of salary of the employee);
- b. approved superannuation fund (up to Rs. 1,50,000);
- c. group insurance schemes;
- d. employees' state insurance schemes; and
- e. fidelity guarantee scheme.



# Interest free loan or concessional loan

**44.10 Valuation of perquisite in respect of interest-free loan or loan at concessional rate of interest** - If a loan is given by an employer to the employee (or any member of his household), it is a perquisite chargeable to tax. It is taxable on the following basis –

Step 1	Find out the “maximum outstanding monthly balance” (i.e., the aggregate outstanding balance for each loan as on the last day of each month).
Step 2	Find out rate of interest charged by the State Bank of India (SBI) as on the first day of the relevant previous year in respect of loan for the same purpose advanced by it [see para 44.10-1].
Step 3	Calculate interest for each month of the previous year on the outstanding amount mentioned in Step 1 at the rate of interest given in Step 2.
Step 4	From the total interest calculated for the entire previous year under Step 3, deduct interest actually recovered, if any, from the employee during the previous year.
Step 5	The balancing amount [i.e. Step 3 minus Step 4] is taxable value of the perquisite.

# Interest free loan or concessional loan

**44.10-1** WHEN PERQUISITE IS NOT CHARGEABLE TO TAX - In the following cases, the perquisite is not chargeable to tax —

Exemption 1	If a loan is made available for medical treatment in respect of diseases specified in rule 3A (the exemption is, however, not applicable to so much of the loan as has been reimbursed to the employee under any medical insurance scheme).
Exemption 2	Where the amount of original loan (or loans) does not exceed in the aggregate Rs. 20,000.

*Example 1* - X takes a loan of Rs. 2,00,000 from his employer on May 1, 2022 for medical treatment of Mrs. X (medical treatment is specified in rule 3A). Hospital bill is Rs. 2,00,000. The perquisite is not chargeable to tax. Suppose in this case insurance claim of Rs. 50,000 is received on October 15, 2022 which is retained by X. In such a situation, interest on Rs. 50,000 will be chargeable in hands of X with effect from October 15, 2022

*Example 2* - X takes a loan of Rs. 15,000 from his employer on May 28, 2022 (no other loan is taken so far). As the amount of loan does not exceed Rs. 20,000, nothing is chargeable to tax. Suppose in this case another loan of Rs. 5,500 is taken from the employer on July 17, 2022. Now the aggregate amount of loan exceeds Rs. 20,000. Consequently, interest on Rs. 20,500 (i.e., Rs. 15,000 + Rs. 5,500) will be chargeable to tax with effect from July 17, 2022

*Example 3* - X takes a loan of Rs. 1,70,000 from his employer on October 1, 2006 (is repayable by way of quarterly instalments). On April 1, 2022 the outstanding amount is Rs. 20,000. The perquisite is not exempt from tax, as the amount of original loan is more than Rs. 20,000.

# Interest free loan or concessional loan

**44.10-2 OTHER POINTS** - The following points should be noted –

1. Interest will be calculated according to the method given above. No other method (*e.g.*, cost of capital/fund to employer) shall be taken into consideration.
2. If a closely-held company gives a loan to an employee who holds at least 10 per cent voting power, such loan is deemed as dividend under section 2(22)(e), if a few conditions are satisfied. Even in such a case, the perquisite value of interest-free loan is chargeable to tax.
3. Notional interest on interest-free security deposit given by the employer for a flat belonging to the employee taken on lease, cannot be treated as perquisite.



# Question

**44.10-P1** Determine the taxable value of the perquisite in the following cases :

1. X is employed by A Ltd. On June 1, 2022, the company gives an interest-free housing loan of Rs. 14,00,000. Loan is repayable within 5 years (SBI lending rate : 8.65%).
2. Y is employed by B Ltd. On April 1, 2022, he takes car loan of Rs. 12,50,000 from B Ltd. B Ltd. recovers interest @ 2.5 per cent per annum from Y. (SBI lending rate : 9.25 per cent).
3. C Ltd. gives the following interest-free loan to Z, an employee of the company – Rs. 15,000 for child's education and Rs. 5,000 for purchasing a refrigerator. No other loan is given by C Ltd.
4. A purchases a Honda City 1.6 Lxi on March 1, 2022, on a loan of Rs. 8,00,000 taken at concessional rate of 8.25 per cent per annum from his employer XYZ Ltd. As per the agreed terms of repayment, A is supposed to repay in monthly instalments of Rs. 25,000 starting from January 1, 2023. Compute the taxable value of perquisite in respect of concessional loan for the previous year 2022-23. SBI lending rate is 9.25 per cent).
5. B takes an interest-free loan of Rs. 7,00,000 from his employer PQR Ltd., on June 16, 2022, for medical treatment of his wife who is suffering from a disease specified in rule 3A. Mrs. B is also covered under a mediclaim insurance cover. Insurance company reimburses her of the hospitalization charges of Rs. 2,50,000 on January 1, 2023. According to terms of repayment of loan, B has to pay Rs. 12,000 per month on the seventh day of each month starting November 2022. Ascertain the taxable value of perquisite in respect of interest-free loan for the previous year 2022-23. SBI lending rate for similar loan is 18.5 per cent. The amount paid by the insurance company is retained by B.

# Solution

**Solution :** For the assessment year 2023-24, the taxable value of the perquisite will be as under –

1. The lending rate of SBI on April 1, 2022 for similar loan is 8.65% per annum. Rs. 1,00,917 (being interest @ 8.65% on Rs. 14,00,000 from June 1, 2022 to March 31, 2023) taxable in the hands of X.
2. The SBI lending rate for a similar loan is 9.25%. Rs. 84,375 [being interest @ 6.75% (i.e., 9.25% - 2.5%) on Rs. 12,50,000 for one year] is taxable in the hands of Y.
3. Nothing is taxable in the hands of Z as the amount of loan does not exceed Rs. 20,000.

# Solution

4. The lending rate of SBI for a similar loan is 9.25%. Maximum monthly outstanding amount for the various months in the previous year **2022-23** as follows:

Month	Maximum monthly outstanding amount on last day of the month Rs.	Interest Rs.
April 30, 2019	8,00,000	666.67 (i.e., Rs. 8,00,000 $\times$ 1% $\times$ 1/12)
May 31, 2019	8,00,000	666.67
June 30, 2019	8,00,000	666.67
July 31, 2019	8,00,000	666.67
August 31, 2019	8,00,000	666.67
September 30, 2019	8,00,000	666.67
October 31, 2019	8,00,000	666.67
November 30, 2019	8,00,000	666.67
December 31, 2019	8,00,000	666.67
January 31, 2020	7,75,000	645.83 (i.e., Rs. 7,75,000 $\times$ 1% $\times$ 1/12)
February 29, 2020	7,50,000	625 (i.e., Rs. 7,50,000 $\times$ 1% $\times$ 1/12)
March 31, 2020	7,25,000	604.16 (i.e., Rs. 7,25,000 $\times$ 1% $\times$ 1/12)
	Total	7,875

Taxable value of concessional loan is Rs. 7,875 for the previous year **2022-23**

# Solution

5. The perquisite in respect of interest-free loan provided for medical treatment in respect of a disease specified in rule 3A is not taxable. However, it will not include that amount as has been reimbursed to the employee under any medical insurance scheme. Therefore, out of loan of Rs. 7,00,000 granted to B, Rs. 2,50,000 reimbursed by insurance company on January 1, 2023 will be taken into account for computing taxable value of perquisite. The SBI lending rate for a similar loan is 18.5% on April 1, 2022

Month	Maximum monthly outstanding amount on the last day of the month Rs.	Interest Rs.
January 31, 2023	2,38,000	3,669 (i.e., Rs. 2,38,000 × 18.5% × 1/12)
February 29, 2023	2,26,000	3,484 (i.e., Rs. 2,26,000 × 18.5% × 1/12)
March 31, 2023	2,14,000	3,299 (i.e., Rs. 2,14,000 × 18.5% × 1/12)
	Total	10,452

Taxable value of interest-free loan is Rs. 10,452 for the previous year 2022-23

# Movable assets

**44.11 Perquisite in respect of use of movable assets** - If computer/laptop is provided by an employer to his employee, nothing is chargeable to tax in the hands of employee. If any other movable asset is provided to an employee, the perquisite is chargeable to tax in the hands of employee. 10 per cent 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 an employee.

# Sale of Movable assets

**44.12 Valuation of the perquisite in respect of sale of movable assets by an employer to his employees at a nominal price** - Actual cost of the asset to the employer *minus* normal wear and tear *minus* sale consideration paid by the employee, is taxable value of the perquisite.

► Normal wear and tear shall be calculated only if after purchasing the asset and before its transfer, the employer has used it for his business purposes. Moreover, normal wear and tear is deductible only for completed years (not for fraction of year).

► Normal wear and tear for each year of use shall be calculated as follows -

- a. computer/ electronic gadgets : 50 per cent per annum by reducing instalment method;
- b. car : 20 per cent per annum by reducing instalment method; and
- c. any other asset : 10 per cent per annum of actual cost).

► Electronic gadgets for the above purpose mean data storage and handling devices like computer, digital diaries and printers. They do not include household appliance (*i.e.*, white goods like washing machines, microwave ovens, mixers, hot plates, ovens etc.).



# Question

**44.12-P1** Find out the taxable value of the perquisite in the following cases for the assessment year 2022-22

1. X is given a laptop by the employer-company for using it for office and private purpose (ownership is not transferred). Cost of the laptop to the employer is Rs. 96,000.
2. On October 15, 2022 the company gives its music system to Y for domestic use. Ownership is not transferred. Cost of music system (in 2009) to the employer is Rs. 15,000.
3. The employer company sells the following assets to the employees on January 1, 2023

Name of employee

Asset sold

Cost of the asset to employer

Date of purchase (put to use on the same day)

Sale price

Before sale on January 1, 2023 these assets were used for business purpose by the employer.

Z Car	A Computer	B Fridge
Rs. 6,96,000	Rs. 1,17,000	Rs. 40,000
May 15, 2020	May 15, 2020	May 15, 2020
Rs. 2,10,000	Rs. 24,270	Rs. 1,000

# Solution

1. X is provided use of laptop by the employer. The perquisite is not chargeable to tax.
2. Y is provided a music system by the employer. The taxable value of the perquisite is determined @ 10% per annum of cost. Accordingly Rs. 690 (being Rs. 15,000 × 10/100 × 168 days ÷ 365 days) is chargeable to tax.
3. The taxable value of the perquisite in the hands of Z, A and B shall be determined as follows –

Cost of the asset on May 15, 2020

Less : Normal wear and tear for the first year ending May 14, 2021 20% of Rs. 6,96,000, 50% of Rs. 1,17,000, 10% of Rs. 40,000)

Balance on May 15, 2021

Less : Normal wear and tear for the second year ending May 14, 2022 20% of Rs. 5,56,800, 50% of Rs. 58,500, 10% of Rs. 40,000)

Balance on May 15, 2022

Less: Normal wear and tear from May 15, 2019 to January 1, 2023 for a part of the year, normal wear and tear is not deductible)

Balance as on January 1, 2023

Less : Sale consideration

Taxable value of the perquisite

Car Rs.	Computer Rs.	Fridge Rs.
6,96,000	1,17,000	40,000
1,39,200	58,500	4,000
5,56,800	58,500	36,000
1,11,360	29,250	4,000
4,45,440	29,250	32,000
Nil	Nil	Nil
4,45,440	29,250	32,000
2,10,000	24,270	1,000
2,35,440	4,980	31,000

*Note* - In the case of car and computer/electronic items, normal wear and tear is calculated @ 20% and 50% per annum respectively on the basis of written down value. In the case of any other asset, normal wear and tear is calculated at the rate of 10% per annum of cost of the asset to the employer. Normal wear and tear for a part of the year is not taken into consideration.



# Medical Facility

**44.13 Valuation of medical facilities** - Before discussing the broad provisions, one should note down the following points –

1. Fixed medical allowance is always chargeable to tax.
2. For the purpose of valuation of the perquisite in respect of medical facilities, “family” means –
  - a. the spouse and children of the individual; and
  - b. the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.

**44.13-1 MEDICAL FACILITIES IN INDIA** - The provisions are given below –

1. *Employer's hospital/Government hospital/approved hospital* - The perquisite in respect of medical facility provided by an employer in the following hospitals/ clinic is not chargeable to tax –
  - a. hospital owned/ maintained by the employer,
  - b. hospital of Central Government/State Government/local authority,
  - c. private hospital if it is also recommended by the Government for the treatment of Government employees,
  - d. specified medical facility (given in rule 3A) in a hospital approved\* by the Chief Commissioner.
2. *Health insurance premium* - Medical insurance premium paid or reimbursed by the employer is not chargeable to tax.
3. *Any other facility in India* - Any other expenditure incurred or reimbursed by the employer for providing medical facility in India is chargeable to tax.

# Medical Facility Contd.

**44.13-2 MEDICAL FACILITIES OUTSIDE INDIA** - Any expenditure incurred by the employer (or reimbursement of expenditure incurred by the employee) on medical treatment of the employee or any member of the family of such employee outside India, is taxable subject to the conditions given below –

<i>Perquisite not chargeable to tax</i>	<i>Condition to be satisfied</i>
<ul style="list-style-type: none"><li>▶ Medical treatment of employee or any member of family of such employee outside India</li><li>▶ Cost on travel of the employee/any member of his family and one attendant who accompanies the patient in connection with treatment outside India</li><li>▶ Cost of stay abroad of the employee or any member of the family for medical treatment and cost of stay of one attendant who accompanies the patient in connection with such treatment</li></ul>	<p>Expenditure shall be excluded from perquisite only to the extent permitted by the Reserve Bank of India</p> <p>Expenditure shall be excluded from perquisite only in the case of an employee whose gross total income, as computed before including therein the expenditure on travelling, does not exceed Rs. 2,00,000</p> <p>Expenditure shall be excluded from the perquisite only to the extent permitted by the Reserve Bank of India</p>

# Question

**44.13-P1** Find out the taxable value of the perquisite in respect of medical facility in the following cases –

1. X gets a fixed medical allowance of Rs. 600 per month from his employer.
2. Y, a director in the employer-company, gets medical treatment in dispensary maintained by his employer. The expenditure on medical treatment provided to Y and his family members during the previous year 2022-23 is as follows :

	Rs.
Y, Mrs. Y and minor child of Y	9,100
Major son of Y (not dependent upon Y)	2,700
Parents of Y (dependent upon Y)	3,000
Parents of Mrs. Y (dependent upon Y)	12,000
Brother of Y (dependent on Y)	6,000
Sister of Y (not dependent on Y)	17,000
Besides, Y gets reimbursement of ordinary medical expenses (amount reimbursed by the employer being Rs. 11,000 for Y and Rs. 3,000 for treatment of Mrs. Y).	

3. Z (salary : Rs. 2,40,000) pays "mediclaime" health insurance premium (which is later on reimbursed by his employer) as follows :

	Rs.
On Z's life	800
On Mrs. Z's life	600
On the life of Z's father (not dependent upon Z)	1,000
On the life of major son of Z (not dependent upon Z)	2,700
On the life of brother of Z (dependent upon Z)	400
On the life of father of Mrs. Z (dependent upon Z)	500
On the life of grandfather of Z (dependent upon Z)	1,000

4. A (salary : Rs. 3,60,000) gets the following reimbursement from his employer during the previous year 2022-23
 

Reimbursement of expenses incurred for caesarean operation of Mrs. A in a hospital approved by the Chief Commissioner	28,600
Reimbursement expenses of eye's treatment (including surgical operation) in a hospital approved by the Chief Commissioner	2,700
Reimbursement of ordinary medical expenses paid to a private nursing home	16,200

# Solution

1. Fixed medical allowance of Rs. 600 per month (i.e., Rs. 7,200) is chargeable to tax. It is an allowance and not a perquisite. It is always taxable irrespective of the expenditure incurred by the concerned employee.
2. The perquisite will be chargeable to tax as under :

Y, Mrs. Y and minor child of Y  
 Major son of Y  
 Parents of Y  
 Parents of Mrs. Y  
 Brother of Y  
 Sister of Y  
 Total  
 Less : Amount not taxable  
 Amount taxable

<i>Value of medical facility provided in a dispensary maintained by the employer</i>	
<i>Not taxable at all Rs.</i>	<i>Taxable Rs.</i>
9,100	—
2,700	—
3,000	—
—	12,000
6,000	—
—	17,000
20,800	29,000
20,800	Nil
Nil	29,000

Amount taxable in the hands of Y is as follows –

Medical facility in the dispensary maintained by the employer (as calculated above)	Rs. 29,000
Reimbursement of medical expenditure (Rs. 11,000 + Rs. 3,000)	14,000
Total	<u>43,000</u>

# Solution

3. Reimbursement of "mediclaim" insurance premium shall be taxable as under :

	Not taxable Rs.	Taxable Rs.
On Z's life	800	—
On Mrs. Z's life	600	—
On the life of Z's father	—	1,000
On the life of Z's major son	2,700	—
On the life of Z's dependent brother	400	—
On the life of Mrs. Z's father	—	500
On the life of Z's grandfather	—	1,000
Total	4,500	2,500

4. Reimbursement of expenses will be taxable as under :

	Not taxable Rs.	Taxable Rs.
Operation of Mrs. A	28,600	—
Eye's treatment	2,700	—
Private nursing home bills	—	16,200
Total	31,300	16,200

	Not taxable Rs.	Taxable Rs.
Less : Not taxable	31,300	Nil
Amount taxable	Nil	16,200



# Car/conveyance

Situation 1	Car is owned or hired by employer	Expenses incurred by employer	Official purposes	Not perquisite
Situation 2	Car is owned or hired by employer	Expenses incurred by employer	Personal purposes	Total expenditure + 10% pa of actual cost – Exp recovered
Situation 3	Car is owned or hired by employer	Expenses incurred by employer	Partly official and partly personal purposes	Rs. 1800 pm (1600 cc or less) Rs. 2400 pm (above 1600 cc) + driver Rs. 900 pm <b>Exp recovered not deductible</b>
Situation 4	Car is owned or hired by employer	Expenses incurred by employer for official purposes & by employee for personal purposes	Partly official and partly personal purposes	Rs. 600 pm (1600 cc or less) Rs. 900 pm (above 1600 cc) + driver Rs. 900 pm <b>Exp recovered not deductible</b>
Situation 5	Car is owned by employee	Expenses incurred by employer	Partly official and partly personal purposes	Expenditure by employer - Official expenditure - Exp recovered  Official use (Alternative) Rs. 1800 pm (1600 cc or less) Rs. 2400 pm (above 1600 cc) + driver Rs. 900 pm
Situation 6	Automotive conveyance (other than car) owned by employee	Expenses incurred by employer	Official Purposes  Partly official and partly personal purposes	Not chargeable to tax  Expenditure by employer - Official expenditure - Exp recovered  Official use (Alternative) Rs. 900 pm

# Car/conveyance

- ▶ *Meaning of month* - The word “month” in the provisions given above denotes completed month according to the English calendar and a part of the month is left out of consideration.
- ▶ *When two (or more car) are allowed* - If an employer provides two or more cars (which fall in *Situation 3*), the taxable value in respect of only one such car (selected by the employee) shall be determined according to the rules given for *Situation 3*. In respect of other remaining car or cars, the value of the perquisite shall be calculated under *Situation 2*.
- ▶ *Car facility between office and residence* - The use of motor car by an employee for the purposes of going from his residence to the place where the duties of employment are to be performed or from such place back to his residence, is not chargeable to tax.
- ▶ *Conveyance facility to judges* - Conveyance facility provided to High Court/Supreme Court Judges is not chargeable to tax.
- ▶ *Conveyance facility to Chairman/members of UPSC* - Conveyance facility (including transport allowance) provided to serving Chairman/members of UPSC is not chargeable to tax.

# Question

**44.14-P1** Find out the taxable value of the perquisite in respect of car in the following different situations for the assessment year

2022-23

1. X is employed by a company. He has been provided a car (1200cc) owned by the employer, cost of the car is Rs. 4,26,000. The expenditure incurred by the company on maintenance of the car are – petrol : Rs. 46,000, driver: Rs. 36,000 and maintenance: Rs. 10,000. The car can be used by X partly for official purposes partly for private purposes. A sum of Rs. 12,000 is recovered from X.

2. Assume in Situation 1 that the car is used only for private purposes.

3. A car (1800cc) is owned by the employer (cost of the car being Rs. 4,80,000). X, an employee, can use it partly for official purposes and partly for private purposes. Expenses for private purposes are, however, incurred by X. During the previous year 2022-23 the total expenditure incurred by X is Rs. 50,000 on car and Rs. 20,000 on driver.

4. Assume in Situation 3 that the car can be used only for private purposes.

5. X owns a car (1400cc). He uses it partly for official purposes and partly for private purposes. During the previous year 2022-23, he incurs a sum of Rs. 40,000 on running and maintenance of car. Besides, he has engaged a driver (salary Rs. 24,000). The employer reimburses the entire expenditure of Rs. 64,000. Logbook of the car is not maintained.

6. Assume that in Situation 5 that the logbook of the car is maintained and 70 per cent of the expenditure is attributable towards the official use of the car. The employer to this effect gives a certificate.

7. A car (1700cc) is owned by the employer. All expenses (Rs. 56,000) are incurred by the employer. The employer maintains logbook of the car. X, an employee, uses the car only for official purposes. The employer gives a certificate that the car is used only for official purposes.

- . . .



# Solution

1. The employer owns the car. All expenses are met by the employer. The car is partly used for official purposes and partly for private purposes. The perquisite will be valued as follows –

	Rs.
Car (Rs. 1,800 × 12)	21,600
Driver (Rs. 900 × 12)	10,800
Total (amount recovered from X is not deductible)	<u>32,400</u>

2. Car can be used only for private purposes. The value of the perquisite will be determined as follows –

Depreciation (10% of Rs. 4,26,000)	42,600
Petrol	46,000
Driver	36,000
Maintenance	10,000
Total	<u>1,34,600</u>

Less: Amount recovered from X	12,000
Value of the perquisite	<u>1,22,600</u>

3. The employer owns the car. It can be used partly for official purposes and partly for private purposes. X incurs expenses for private purposes. The perquisite will be valued as follows –

	Rs.
Car (Rs. 900 per month)	10,800
Driver (it is not provided by employer)	<i>Nil</i>
Total	<u>10,800</u>

# Solution

4. The employer owns the car which can be used by X only for private purposes. All expenses are incurred by X. Rs. 48,000 (being 10% of Rs. 4,80,000) is the taxable value of the perquisite.

5. X owns a car which is used by him for official and private purposes. The value of the perquisite shall be determined as follows –

	Rs.
Amount reimbursed by the employer	64,000
Less: Deduction for official use (for car : Rs. 1,800 × 12 + for driver : Rs. 900 × 12)	32,400
Value of the perquisite	<u>31,600</u>

6. The value of the perquisite shall be determined as follows –

Amount reimbursed by the employer	64,000
Less: Amount for official purposes as certified by the employer [70% or Rs. 64,000]	44,800
Value of the perquisite	<u>19,200</u>

7. The employer maintains complete details of the expenditure. A certificate is given by the employer that the expenditure is incurred only for official purposes. Therefore, nothing is chargeable to tax.

# Free Transport and Lunch

**44.15 Valuation of perquisite in respect of free transport provided by a transport undertaking to its employees** - Taxable value of the perquisite shall be determined on the basis of value at which the employer offers such benefit to the public as reduced by any amount recovered from the employee. Nothing is, however, chargeable to tax in the hands of employees of railways/airlines.

**44.16 Valuation of perquisite in respect of lunch/refreshment, etc.** - These provisions are given below -

- ▶ *Refreshment and/or non-alcoholic drink* - Nothing is taxable if provided during working hours or extended working hours.
- ▶ *Food provided in remote area or in an off shore installation* - Nothing is taxable if provided during working hours or extended working hours.
- ▶ *Food provided at any other place* - Cost to the employer in excess of Rs. 50 per meal (as reduced by the amount recovered from the employee) is the taxable value of perquisite in the hands of the employee. This facility can also be provided through non-transferable paid vouchers usable only at eating joints.

## Provisions illustrated

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The employer provides tea/coffee to X in office (employer's expenditure being Rs. 6,000 per annum). Besides the employer provides free lunch during office hours (cost being Rs. 120 per meal for 300 working days, amount recovered from X is Rs. 20 per meal).

In this case, nothing is taxable in respect of tea/coffee provided in office. However, Rs. 15,000 [*i.e.*,  $300 \times (\text{Rs. } 120 - \text{Rs. } 50 - \text{Rs. } 20)$ ] in respect of subsidized lunch, is chargeable to tax.

# Travelling, Touring, Accommodation

**44.17 Valuation of perquisite in respect of travelling, touring, accommodation** - It is taxable as perquisite.

► *Basis of valuation* - The basis of valuation is given below –

1. *When such facility is available uniformly to all employees* - It is taxable as a perquisite in the hands of an employee on the basis of actual expenditure of the employer as reduced by any amount recovered from the employee.
2. *When such facility is not available uniformly to all employees* - It is taxable as a perquisite in the hands of an employee on the basis of value at which such facilities are offered by other agencies to the public as reduced by any amount recovered from the employee.

► *Other points* - Where the employee is on an official tour and the expenses are incurred in respect of any member of his household accompanying him, the amount of expenditure so incurred shall be taxable on proportionate basis. Where any official tour is extended as a vacation, the value of such perquisite will be limited to the expenses incurred in relation to such extended period of stay or vacation.

# Gift, voucher or token

**44.18 Valuation of perquisite in respect of gift, voucher or token** - Gift may be made either to employee or any member of his household. It is taxable as a perquisite in the hands of an employee on the basis of actual expenditure of the employer. Gift-in-kind up to Rs. 5,000 per annum is exempt\*.

## **Provisions illustrated**

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The employer provides a cash gift/ gift cheque of Rs. 3,000 to X. Besides, he gets a wrist watch of Rs. 18,000 as Diwali gift from the employer.

Rs. 3,000, being cash or gift cheque, is chargeable to tax. Further, Rs. 13,000 (*i.e.*, Rs. 18,000 – Rs. 5,000) is taxable in respect of gift-in-kind.

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# Credit Card

**44.19 Valuation of perquisite in respect of credit card** - The perquisite in respect of credit card is taxable as follows –

*Step 1* - Find out expenditure incurred by the employer in respect of credit card used by the employee or any member of his household.

*Step 2 - Less* : Expenditure on use for official purposes.

*Step 3 - Less* : Amount, if any, recovered from the employee

The balance amount (if it is positive) is the taxable value of the perquisite.

► *How to find out “expenditure incurred by employer” for the purpose of Step 1* - It includes out of pocket expenditure incurred by the employer pertaining to a credit card provided to the employee (or any member of his household) [e.g., membership fees, annual fees, amount charged to credit card (including any add-on-card)].

► *How to find out “expenditure for official use” for the purpose of Step 2* - Expenditure on use of credit card for official purposes is deductible. To claim deduction, the following conditions should be satisfied –

1. Complete details in respect of such expenditure are maintained by the employer which may, *inter alia*, include the date of expenditure and the nature of expenditure.
2. The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.



# Club Expenditure

**44.20 Valuation of perquisite in respect of club expenditure** - The perquisite in respect of club facility is taxable as follows –

*Step 1* - Find out expenditure incurred by the employer in respect of club facility used by the employee or any member of his household.

*Step 2 - Less* : Expenditure on use for official purposes.

*Step 3 - Less* : Amount, if any, recovered from the employee.

The balance amount (if it is positive) is the taxable value of the perquisite.

► *How to find out “expenditure incurred by employer” for the purpose of Step 1* - It includes any expenditure on club facility used by the employee (or any member of his household) which is paid or reimbursed by the employer. Further, it includes amount of annual or periodical fees paid or payable to a club. However, it does not include the following –

- a. expenditure pertaining to health club, sports facilities, etc., provided uniformly to all classes of employees by the employer at employer’s premises; and
- b. initial one time deposits or fees for corporate or institutional membership, where benefit does not remain with a particular employee after cessation of employment.

► *How to find out “expenditure for official use” for Step 2* - It shall be determined on the basis of two conditions mentioned in para 44.19.

# Contribution to superannuation Fund

**44.22 Employer's contribution towards approved superannuation fund** - Employer's contribution towards an approved superannuation fund is chargeable to tax in the hands of employees to the extent such contribution exceeds Rs. 1.50 lakh per assessment year. It is taxable in the year in which contribution is made.



# Any Other Benefit / Amenity

**44.23 Any other benefit, amenity, etc.** - This is a residual head. It covers any other benefit or amenity, service, right or privilege provided by any employer. However, it does not cover the following –

1. *Perquisite already included in preceding paras* - Any perquisite, which is included in preceding paras [i.e., paras 44.1 to 44.22], is not taxable under this head.

2. *Telephone/mobile phone* - The perquisite in respect of telephone/mobile phone is not taxable in the case of any employee of any organization. Moreover, in the case of retired Chairman and retired members of UPSC, the value of a residential telephone free of cost and the number of free calls to the extent of Rs. 1,500 per month (over and above the number of free calls per month allowed by the telephone authorities), is not chargeable to tax.

► *Mode of valuation* - The value of benefit, amenity, service, right or privilege which come under this residual head, shall be determined on the basis of cost to the employer under an arm's length transaction as reduced by the employee's contribution, if any.

# Question & Solution

**44.23-P1** *X is employed by A Ltd., a garment manufacturing company (salary being Rs. 30,000 per month). Besides, he has been provided the following perquisites –*

- 1. Fixed and mobile telephone (expenditure of the employer: Rs. 18,000 per annum approximately).*
- 2. X can purchase every year up to 10 shirts manufactured by the company at a concessional price of Rs. 50 per shirt (manufacturing cost to the employer: Rs. 200 per shirt, MRP: Rs. 1,100 per shirt, discount given to whole sellers: 42 per cent on MRP). During the previous year, X has purchased 6 shirts.*
- 3. Rent-free house owned by the employer in Mumbai.*

*Find out the value of perquisites chargeable to tax in the hands of X.*

## **Solution :**

Value of perquisites given in the problem will be determined as follows –

- 1. Telephone including mobile phone - It is not chargeable to tax.*
- 2. Sale of garments at concessional rate - It is not covered by any of the preceding paras. Consequently, it would be taxable under residual category (given in para 44.23) in the hands of X [value of the perquisite being Rs. 900, i.e.,  $(Rs. 200 - Rs. 50) \times 6$ ].*
- 3. Residential house - It will be taxable in the hands of X (value being Rs. 54,000, i.e., 15% of the salary).*

# Permissible Deductions

**45.** The income chargeable under the head “Salaries” is computed after making the following deductions :

- a. standard deduction [see para 45.1];
- b. entertainment allowance deduction [see para 45.2] ; and
- c. professional tax [see para 45.3].

**45.1 Standard deduction [Sec. 16(i)/(ia)]** - Standard deduction is Rs. 50,000 or the amount of salary, whichever is lower (from the assessment year 2020-21<sup>†</sup>).

**45.2 Entertainment allowance [Sec. 16(ii)]** - As explained earlier, entertainment allowance is first included in salary and thereafter a deduction is allowed in accordance with the rules mentioned in para 42.2.

**45.3 Professional tax or tax on employment [Sec. 16(iii)]** - Professional tax or tax on employment, levied by a State under article 276 of the Constitution, is allowed as deduction.

The following points should be kept in view –

1. Deduction is available only in the year in which professional tax is paid.
2. If the professional tax is paid by the employer on behalf of an employee, it is first included in the salary of the employee as a “perquisite” (since it is an obligation of the employee discharged by the employer)\* and then the same amount is allowed as deduction on account of “professional tax” from gross salary.
3. There is no monetary ceiling under the Income-tax Act. Under article 276 of the Constitution, a State Government cannot impose more than Rs. 2,500 per annum as professional tax. Under the Income-tax Act, whatever professional tax is paid during the previous year, is deductible.

# Simplified Structure of Salary

Particulars	Amount in Rs.
Salary (Basic and other components)	Add
Allowances	Add
Perquisites	Add
Gross salary	Total
Less: Deduction U/s 16:	
Standard deduction 16(1)	Less
Entertainment Expenses 16(2)	Less
Professional tax 16(3)	Less
Net Salary / Income from Salary	Balance Amount

# NPS

**41.4 National Pension System (NPS)** - NPS is applicable to new entrants to Government service or any other employer. As per the scheme, it is mandatory for persons entering the Government service on or after January 1, 2004, to contribute 10 per cent of salary every month towards NPS. A matching contribution is required to be made by the employer to the said account. The tax treatment under the new scheme is as follows –

1. Contribution by the employer to NPS is first included under the head “Salaries” in hands of the employee.
2. Such contribution is deductible to the extent of 10 per cent of the salary of the employee under section 80CCD(2). However, this deduction has been increased to 14 per cent of salary in the case of a Central Government employee, with effect from the assessment year 2020-21.
3. Employee’s contribution to NPS (to the extent of 10 per cent of the salary of the employee) is also deductible under section 80CCD(1).
4. When pension is received out of the aforesaid amount, it will be chargeable to tax in the hands of the recipient [for detailed discussion, see para 142].
5. “Salary” for the purpose of *points 1 and 2 (supra)* includes dearness allowance, if the terms of employment so provide\*\*, but excludes all other allowances and perquisites. It also includes commission if commission is payable at a fixed percentage of turnover achieved by an employee.
6. The aggregate amount of deduction under sections 80C, 80CCC and 80CCD(1) [*i.e.*, contribution by employee (or any other individual) towards NPS] cannot exceed Rs. 1,50,000.
7. Moreover, from the assessment year 2016-17, the employee (or any other individual who has joined NPS) can contribute an additional amount (up to Rs. 50,000) towards NPS and claim the same as deduction under section 80CCD(1B). Contribution under section 80CCD(1B) is not covered by cumulative ceiling which is given in point No. 6 (*infra*).



# Deduction

Deduction US 80	Max Amount
80 C – Provident Fund & others	} 1,50,000
80 CCC – Pension fund	
80 CCD (1) – Employee contri – 10%	
80 CCD (2) – Employer contri – 10% or 14%	10% of salary
80 CCD (1B) – Additional Contri by employee	Max 50,000
Total	maximum claim

# Question

X is employed (since 2010) by the Punjab Central Government (or any other non-Government employer). During the previous year 2019-20, he gets Rs. 30,000 per month as salary and Rs. 10,000 per month as dearness allowance (60 per cent is considered for retirement benefits). Employer annually contributes Rs. 45,000 towards NPS. X, however, annually contributes Rs. 1,05,000. Income from other sources of X is Rs. 9,50,000. X deposits every year Rs. 90,000 in public provident fund, which is deductible under section 80C. Further, X is eligible for a deduction of Rs. 25,000 under section 80CCC. Income of X will be calculated as follows –

# Question & Solution

X is employed (since 2010) by the Punjab Central Government (or any other non-Government employer). During the previous year 2019-20, he gets Rs. 30,000 per month as salary and Rs. 10,000 per month as dearness allowance (60 per cent is considered for retirement benefits). Employer annually contributes Rs. 45,000 towards NPS. X, however, annually contributes Rs. 1,05,000. Income from other sources of X is Rs. 9,50,000. X deposits every year Rs. 90,000 in public provident fund, which is deductible under section 80C. Further, X is eligible for a deduction of Rs. 25,000 under section 80CCC. Income of X will be calculated as follows –

	Rs.	Rs.
Salary (Rs. 30,000 × 12)		3,60,000
Dearness allowance (Rs. 10,000 × 12)		1,20,000
Employer's contribution towards NPS		45,000
Gross salary		5,25,000
Less: Standard deduction		50,000
Income under the head "Salaries"		4,75,000
Income from other sources		9,50,000
Gross total income		14,25,000
Less: Deductions –		
Under section 80CCD(1B) (assessee's contribution to NPS up to Rs. 50,000)		50,000
Under section 80CCD(2) [employer's contribution towards NPS : Rs. 45,000 but subject to a maximum of 10% of salary of Rs. 4,32,000 (i.e., Rs. 3,60,000 + 60% of dearness allowance of Rs. 1,20,000)]		43,200
Under section 80C (PPF contribution)	90,000	
Under section 80CCC	25,000	
Under section 80CCD(1) [X's contribution towards NPS : Rs. 55,000 (i.e., Rs. 1,05,000 – Rs. 50,000 considered under section 80CCD(1B)) but subject to a maximum of 10% of salary of Rs. 4,32,000]	43,200	
Total	1,58,200	
Amount deductible under sections 80C, 80CCC and 80CCD(1) within overall limit of Rs. 1,50,000 (the aforesaid amount of Rs. 1,58,200 is deductible to the extent of Rs. 1,50,000)		1,50,000
Net income		11,81,800



80C – 90000	158200	
80CCC- 25000		150000
80CCD1 55000 10% salary 43,200		
80 CCD2 45000 10%of salary 43,200		10% of salary 43200
80 CCD 1B employee conti 50,000		50000

# 80C

- Section 80C provides deduction in respect of specified qualifying amounts paid or deposited by the assessee in the previous year.
- Deduction under section 80C is available only to an **individual** or a **Hindu undivided family**.
- ***Computation of deduction under section 80C*** - The deduction is calculated as per the following steps—
  - *Step 1* - Gross qualifying amount
  - *Step 2* - Net qualifying amount
  - *Step 3* - Amount of deduction

# 80C

**STEP 1 - GROSS QUALIFYING AMOUNT** - Gross qualifying amount is the aggregate of the following :

1. Life insurance premium (including payment made by Government employees to the Central Government Employees' insurance scheme and payment made by a person under children's deferred endowment assurance policy) [see Note 1]
2. Payment in respect of non-commutable deferred annuity [see Note 2]
3. Any sum deducted from salary payable to a Government employee for the purpose of securing him a deferred annuity (subject to a maximum of 20% of salary) [see Note 3]
4. Contribution (not being repayment of loan) towards statutory provident fund and recognized provident fund
5. Contribution (not being repayment of loan) towards 15-year public provident fund [see Notes 4, 6 and 9]
6. Contribution towards an approved superannuation fund
7. Subscription to National Savings Certificates, VIII Issue or IX Issue [see Note 7] and deposit in Sukanya Samridhi Account [see Note 10]
8. Contribution for participating in the unit-linked insurance plan (ULIP) of Unit Trust of India [see Note 5]
9. Contribution for participating in the unit-linked insurance plan (ULIP) of LIC Mutual Fund (*i.e.*, formally known as Dhanraksha plan of LIC Mutual Fund) [see Note 5]
10. Payment for notified annuity plan of LIC (*i.e.*, Jeevan Dhara, Jeevan Akshay) or any other insurer (*i.e.*, Immediate Annuity Plan of ICICI Prudential Life Insurance Co. Ltd., Tata AIG Easy Retire Annuity Plan)
11. Subscription towards notified units of Mutual Fund or UTI
12. Contribution to notified pension fund set up by Mutual Fund or UTI
13. Any sum paid (including accrued interest) as subscription to notified Home Loan Account Scheme of the National Housing Bank or contribution to any notified pension fund set up by the National Housing Bank
14. Any sum paid as subscription to any scheme of—
  - a. public sector company engaged in providing long-term finance for purchase/construction of residential houses in India (*i.e.*, public deposit scheme of HUDCO)
  - b. housing board constituted in India for the purpose of planning, development or improvement of cities/towns
15. Any sum paid as tuition fees (not including any payment towards development fees/donation/payment of similar nature) whether at the time of admission or otherwise to any university/college/educational institution in India for full time education of any two children of an individual [Note 8]
16. Any instalment or part payment towards the cost of purchase/construction of a residential property to a housing board or co-operative society (or repayment of housing loan taken from Government, bank, cooperative bank, LIC, National Housing Bank, assessee's employer where such employer is public company/public sector company/ university/co-operative society)
17. Amount invested in approved debentures of, and equity shares in, a public company engaged in infrastructure including power sector or units of a mutual fund proceeds of which are utilised for the developing, maintaining, etc., of a new infrastructure facility
18. Amount deposited as term deposit for a period of 5 years or more in accordance with a scheme framed by the Government
19. Subscription to any notified bonds of National Bank for Agriculture and Rural Development (NABARD)
20. Amount deposited under Senior Citizens Saving Scheme [Note 9]
21. Amount deposited in five year time deposit scheme in post office.
22. Amount contributed (for a fixed period of not less than 3 years) by a Central Government employee to his NPS (Tier-II) account (applicable from the assessment year 2020-21).

# 80C

## *STEP 1 - GROSS QUALIFYING AMOUNT -*

- Gross qualifying amount is the total of all investments specified.
- *STEP 2 - NET QUALIFYING AMOUNT -* is determined as under:
  - Gross qualifying amount; or Rs. 1,50,000, whichever is lower.
- *STEP 3 - AMOUNT OF DEDUCTION -* Net qualifying amount is deductible.
- The maximum amount deductible under section 80C is Rs. 1,50,000. Moreover, the aggregate amount of deduction under sections 80C, 80CCC and 80CCD(1) [*i.e.*, contribution by employee (or any other individual) towards National Pension Scheme (NPS)] cannot exceed Rs. 1,50,000\*.

# 80C - Notes:

1. In the case of an individual, policy should be taken on his own life, life of the spouse or any child (child may be dependent/ independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, policy may be taken on the life of any member of the family.

- Insurance premium cannot exceed the maximum ceiling given below –

	<i>Policy on the life of a person with disability or severe disability or on the life of a person suffering from disease or ailment as given in section 80DDB</i>	<i>Policy on the life of any other person</i>
If policy is issued before April 1, 2012	20% of sum assured*	20% of sum assured*
If policy is issued during 2012-2013	10% of sum assured**	10% of sum assured**
If policy is issued on or after April 1, 2013	15% of sum assured**	10% of sum assured**

\*Sum assured does not include any premium agreed to be returned and/or any benefit by way of bonus.

\*\*Sum assured means minimum amount assured under the policy without including any premium agreed to be returned and/or any benefit by way of bonus.

# 80C Notes Contd.

2. Annuity plan should be taken in the name of the individual, his wife/her husband or any child of such individual.
3. It should be for the benefit of the individual, his wife or children.
4. According to the Public Provident Fund Scheme, an individual can open public provident fund account in his own name or in the name of minor of whom he is guardian. However, according to the Income-tax Act, to get the benefit of the deduction under section 80C, amount deposited by an individual in his own account or in the account of his/her spouse or in the account of any child (in the case of HUF in the account of any member of the family) is eligible for deduction.
5. In the case of an individual, ULIP should be taken on his own life, life of the spouse or any child (child may be dependent/ independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, ULIP may be taken on the life of any member of the family.
6. There is no maximum ceiling under the Income-tax Act. However, under the public provident fund scheme, the maximum contribution is Rs. 1,50,000.
7. Accrued interest (which is deemed as reinvested) is also qualified for deduction (applicable for all years except last year).
8. Full-time education includes any educational course offered by any university, college, school or other educational institution to a student who is enrolled full-time for the said course. Full-time education includes even play-school activities, pre-nursery and nursery classes. The amount allowable as tuition fees shall include any payment of fee to any university, college, school or other educational institution in India except the amount representing payment in the nature of development fees or donation or capitation fees or payment of similar nature — Circular No. 8/2012, dated October 5, 2012.
9. Date of encashment of cheque/draft is taken as date of deposit in the case of public provident fund and Senior Citizens Savings Scheme.
10. In the case of an individual, deposit in Sukanya Samriddhi Account can be made in the name of individual†, or any girl child of that individual or any girl child for whom such person is the legal guardian, if the scheme so specifies.

# Question

X (age 42 years) is a resident salaried employee (salary being Rs. 40,000 per month). During the previous year 2019-20, he makes the following investment deposits or payments —

- a. life insurance premium (policy taken in 2010) on the life of his married daughter : Rs. 6,000 (sum assured : Rs. 20,000);
- b. life insurance premium (policy taken in 2012) on his own life : Rs. 2,700 (sum assured : Rs. 60,000);
- c. life insurance premium (policy taken in 2012) on the life of his dependent sister : Rs. 10,000 ;
- d. contribution towards recognised provident fund : Rs. 9,000 ;
- e. contribution towards public provident fund : Rs. 1,30,000 ;
- f. repayment of loan taken from LIC for purchase of residential house property : Rs. 30,000 ;
- g. contribution towards notified equity - linked saving scheme of UTI (i.e., MEP 2020) : Rs. 14,000.

Find out the tax liability of X for the assessment year 2021-22 assuming that income from house property is Rs. 2,28,900.

# Solution

## Solution :

Salary	Rs. 4,80,000
Less : Standard deduction	50,000
Income from salary	4,30,000
Income from house property	2,28,900
Gross total income	6,58,900
Less : Deduction under section 80C [see Note]	1,50,000
Net income	5,08,900
Tax on Rs. 5,08,900	14,280
Less: Rebate under section 87A	Rs. Nil
Balance	14,280
Add : Surcharge (not applicable if net income does not exceed Rs. 50 lakh)	Nil
Tax	14,280
Add : Health and education cess (4% of tax and surcharge)	571
Tax liability (rounded off)	14,850
<i>Note : Computation of deduction under section 80C</i>	
<i>Gross qualifying amount</i>	
Insurance premium on the life of X's daughter (maximum 20% of sum assured)	4,000
Own life insurance premium	2,700
Insurance premium on the life of sister (not eligible for rebate)	—
Recognised provident fund	9,000
Public provident fund	1,30,000
Repayment of loan taken from LIC	30,000
MEP 2020	14,000
Total (maximum deduction : Rs. 1,50,000)	1,89,700
Maximum	1,50,000
Amount of deduction	1,50,000



# Partially exempt Allowance (Extra)

Allowance	Nature	Exemption
Hill Area All / special compensatory All	High altitude, uncongenial climate, snow bound area, avalanche	300 pm – 7000 pm
Border Area All	Remote locality, difficult or distributed area	200 pm – 1300 pm
Compensatory Field area all	No boarder area all	2600 pm
Compensatory modified area all	No boarder area all	1000 pm
Counter insurgency all	Member of armed forces No boarder area all	3900 pm
Underground all	Uncongenial, unnatural climate - mines	800 pm
High altitude all	Member of armed forces	1060 pm – 900-15000 feet 1600 pm – above 15000 feet
Highly active field area all	Member of armed forces	4200 pm
Island duty all	Member of armed forces	3250 pm