

## INCOME FROM SALARIES

### ❖ SALARIES

Any remuneration paid by an employer to his employee in consideration of his services is called salary. It includes monetary value or non monetary value of benefits and facilities provided by an employer which are taxable. Any amount received other than from employer cannot be termed as salary. For e.g., A Member of Parliament / a MLA is not treated as an employee of the Government therefore salary and allowance received by him is not chargeable to tax under the head income from salary.

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

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

Under the provisions of this section the amount of salary due in the year, amount of advance salary received and the amount of arrears of salary received during the year from the present or past employer are to be included in this head.

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

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



## Some Important Points regarding Salaries

- 1. Salaries.** Every kind of remuneration of every kind of servant, public or private, and however highly or lowly placed he may be, is covered under the scope of this term used in the Income Tax Act. It means that for the purposes of the Income Tax Act, there is no distinction between the wages of labourer and salaries of high officials.
- 2. Foreign Salary and Pension.** Salary and pension received from foreign government is taxable under the head 'Salaries'.
- 3. Relationship of employer and employee.** It is very essential for a payment to fall under the head 'Salaries' that the relationship of employer and employee must exist between the payer and payee. Every servant is an employee but an agent may or may not be an employee.
- 4. Salaries and professional income.** Where the employment is merely incidental to the exercise of a profession the income from such employment would be professional income, taxable under the head "profit and gains of business or profession". When a person occupies a regular post or office amounting to service, it is employment as distinct from mere engagement in the course of the profession.
- 5. Receipts from person other than employer.** Perquisites or profits or any remuneration received from person other than the employer would be taxable under the head 'Income from Other Sources' even if they accrue to the employee by reason of his employment. For example, remuneration received by a professor of a college for acting as an examiner in a University or Board.
- 6. Payment made after cessation of employment.** Payment made by an employer to his employee after the cessation of his employment is also taxable under the head 'Salaries'. It is taxable under this head because it represents remuneration for services rendered in the past.
- 7. Payment made to employee or to the widow or legal heir.** a) Lump-sum payment made gratuitously or by way of compensation or otherwise to the widow or other legal heirs of an employee, who dies



while still in active service, will not be taxable as income.

b) Where a person or his heir receives ex gratia payment from the Central Government / State Government / Local Authority / Public Sector Undertaking, consequent upon injury to the person / death of a family member, while on duty is not liable to income tax.

8. **Pension.** Pension received by an employee after his retirement is taxable as salary. Pension earned and received abroad is taxable only in the case of ordinary resident, whether remitted to India or not. Pension paid by a foreign government to its employees serving in India is also taxable.
9. **Tax-free salary.** When a salary is paid tax-free, the employee has to include in his total income the gross salary, i.e., the aggregate of the net salary received plus the amount of tax paid on his behalf by the employer, except under the provisions of Sec.10 (10CC).
10. **Deductions by employer.** If, an employer makes certain deductions out of the salary payable to an employee, amount so deducted is deemed to be received by the employee and the amount so deducted is also taken as application of income by the employee.
11. **Salary of a Member of Parliament.** This is not chargeable under the head 'Salaries', as a Member of Parliament is not an employee of the Government. It is taxable under the head 'Income from Other Sources'.
12. **Salary of a Partner.** Any salary received by a partner from the firm in which he is a partner is not chargeable under the head 'Salaries'. It is taxable under the head 'Profits and Gains of Business or Profession'.
13. **Family Pension.** Any family pension received by the widow or legal heirs of a deceased employee is taxable under the head 'Income from Other Sources'.
14. **Voluntary foregoing - Application of Salary.** Voluntary foregoing of salary by an employee is simply an application of income by him and,



therefore, any voluntary foregoing of salary is taxable when it is due, whether paid or not u/s 15.

15. **Salary Grade or Scale of Pay.** Salary grade means that at what starting salary any employee is to be appointed and during the entire service period (if there is no revision of grade or no promotion), what will be his increment per year and what will be his maximum salary after which there will be no increment. Here salary means basic salary. For example, 8,000-250-10,000-375-12,000-450-18,800.
16. **Salary from the former employer, present employer or prospective employer.** The salary is taxable irrespective of whether it is received from the present, past or prospective employer. As any income received by the recipient in the relationship of employer and employee is taxable under the head income from salaries.
17. **Salary from more than one employer.** Salary and other service benefits received by an assessee from more than one employer in the same financial year are taxable as salary in the year of receipt.
18. **Salary is taxable on due or receipt whichever is earlier.** The salary income is taxable either on due or receipt basis whichever is earlier.
19. **Gross Salary is taxable.** While taxing the salary income it is the gross salary that is taxed not the net or take home salary. Hence any amount if deducted from gross salary has to be added to net salary.
20. **Due date of Salary.** Following are the general rules regarding this:
  - (a) **In the case of employees of the government and semi-government.** Salary for a particular month is due on the first of the next month. Thus, in such a case, salary for the month of March of the preceding financial year upto the salary for the month of the current financial year is taken into account.
  - (b) **In the case of employees of banks and non-government bodies.** Salary for a particular month is due on the last date of the same month. Thus, in such a case salary for April of the current financial year upto

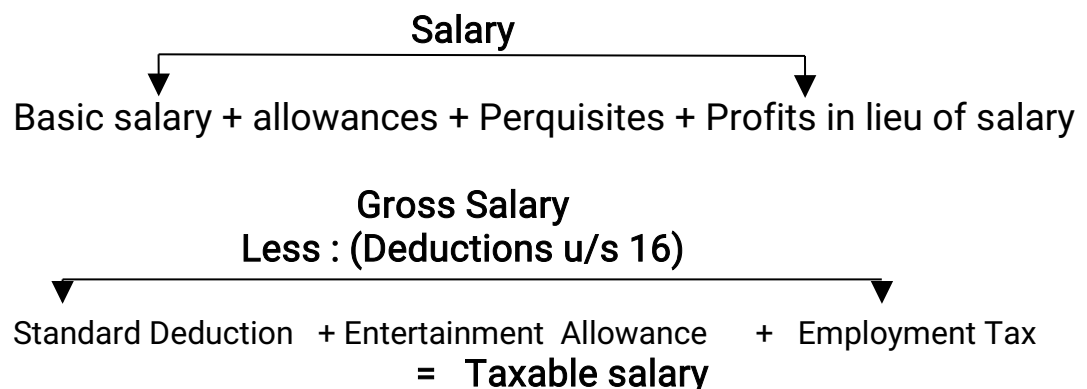


the salary for the month of March of the current financial year is taken into account.

### Definitions:

**SALARY (Sec. 17 (1)):** Salary includes:

1. Wages;
2. any annuity of pension;
3. any gratuity;
4. any fees, commission, perquisites, profit in lieu of salary or in addition to any salary or wages;
5. any advance of salary; but not loan for purchasing a car, scooter or a house etc.
6. any payment received by an employee in respect of any period of leave not availed of by him;
7. employer's contribution towards recognized provident fund in excess of 12% of the employee's salary and interest on provident fund in excess of 9.5% rate.
8. the aggregate of all sums comprised in the transferred balance to the extent to which it is chargeable to tax under sub-rule (4) of Rule 11.
9. the contribution made by the Central Government or any other employer in the previous year, to account of an employee, under a pension scheme.



### Different forms of salary

Different forms of salary are: Leave salary, compensation for

retrenchment, fees and commission, bonus, death-cum-retirement gratuity, commutation of pension, receipts by employees of public sector and other companies at time of voluntary retirement, annuity, salary and pension from UNO and other foreign pension.

## **ALLOWANCES**

Payment in cash made by an employer to his employees monthly, other than salary, is called allowance. It is a fixed sum of money paid regularly in addition to salary for the purpose of meeting some particular requirement connected with the services rendered by an employee.

For the purpose of Income tax, Allowances are divided into three categories. They are:

1. Taxable Allowances
2. Allowances Exempt up to Specified Limit
3. Fully exempted Allowances

### **Taxable Allowances**

#### **1. Dearness Allowance, Additional D.A and Dearness Pay:**

This is a very common allowance these days on account of high prices. Sometimes additional D.A is also given. It is included in the income from salary and is taxable in full. Sometime it is given under the terms of employment and sometimes without it. When it is given under the terms of employment it is included in salary for purposes of determining the exemption limits of HRA, RPF, gratuity and for determining the value of rent-free house and is also taken into account for the purposes of retirement benefits.

Sometimes D.A is given as 'Dearness Pay'. It means that it is being given under the terms of employment.

**2. Fixed Medical Allowance.** It is fully taxable.

**3. Tiffin Allowance.** It is given for lunch and refreshments to the



employees. It is also called Meal Allowance and Refreshment Allowance. It is fully taxable.

4. **Servant Allowance.** It is fully taxable even if it is given to low paid employee, not being an officer.
5. **Non-Practicing Allowance.** It is generally given to those medical doctors who are in government service and they are banned from doing private practice. It is to compensate them for this ban. It is fully taxable.
6. **Hill Allowance.** It is given employees working in hilly areas on account of high cost of living in hilly areas as compare to plains. It is fully taxable, If the place is located at less than 1,000 meter height from sea level.
7. **Warden Allowance and proctor Allowance.** These allowances are given in educational institutions for working as Warden of the hostel and / or working as Proctor in the institution. These allowances are fully taxable.
8. **Deputation Allowance.** When an employee is sent from his permanent place of service to some other place or institution on deputation for a temporary period, he is given this allowance. It is fully taxable.
9. **Overtime Allowance:** When an employee works for extra hours over and above his normal hours of duty he is given overtime allowance as extra wages. It is fully taxable.
10. **Other Allowances:** There may be several other types of allowances, for example, Family Allowance to armed personnel while on field without family, Project Allowance, Marriage Allowance, Rural Allowance, City Compensatory Allowance, Telephone Allowance, Dinner Allowance, Health Allowance, Holiday Allowance, Special Qualification Allowance, etc. These are taxable unless specifically exempted.

### Allowances exempt upto specified limit



**1. House Rent Allowance:** An allowance granted to an assessee by his employer to meet expenditure incurred on payment of rent in respect of residential accommodation occupied by him exempt from tax to a certain extent.

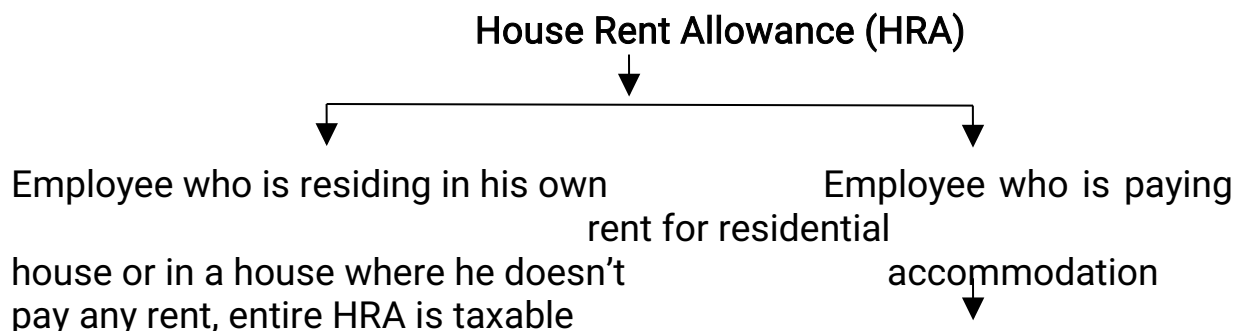
Rule 2A prescribed that the least of the following amounts shall be exempt:

- (a) House Rent Allowance actually received by the assessee; or
- (b) Excess of rent paid by the assessee over 10% of salary due to him for the relevant period; or
- (c) (i) if the accommodation is situated at Mumbai, Kolkata, Delhi or Chennai – 50% of salary due to the assessee, and  
(ii) if the accommodation is situated at any other place – 40% of salary due to the assessee.

In case an employee is living in his own house and is getting HRA or is living in a house for which he is not paying any rent, full amount of HRA receivable is taxable.

In this rule- (i) 'Salary' includes dearness allowance, if the terms of employment so provide. It also includes the commission based on fixed percentage of turnover, but excludes all other allowances, perquisites and bonus.

- (ii) 'Relevant period' means the period during which the said accommodation was occupied by the assessee during the previous year. It means that the salary of the period during which rented accommodation is not occupied by the employee will be excluded.





Least of the following is exempt:

- a) HRA actually received
- b) Rent paid – 10% of salary
- c) 40% of salary **OR** (50% in case residing in Delhi, Mumbai, Chennai or Kolkata)

**2. Entertainment Allowance:** It is an allowance given by an employer to his employee. It is first included in the income from salary under section 15, and then deduction is allowed to a government employee under section 16(ii).

**3.Special allowance for meeting certain expenditure [Section 10(14)]:** Special allowances which are exempt from tax while computing income under the head 'salaries' have been notified by the Central Government. There are two types of special allowances. They are:

- A. Those which are exclusively to be incurred in the performance of the duties of his office. These are exempt to the extent actually spent.
- B. Those which are to meet the personal expenses. These are exempt upto specified limit.

**A. Those which are exclusively to be incurred in the performance of the duties of his office Sec.10(14) (i):**

Special allowance which is granted to meet expenses wholly, necessarily and exclusively incurred in the performance of the duties of an office will be exempt from tax, to the extent to which such expenses are actually incurred for that purpose and notified by the Central Government.

**The following special allowances have been notified as exempt u/s 10(14) (i):**

- 1) Travelling Allowance:** The allowance granted to meet the cost of travel on tour or on transfer. The cost of travel on transfer includes any sum paid in connection with transfer, packing and transportation of personal effects on such transfer.

- 2) **Daily Allowance:** Any allowance, granted for the period of journey on tour or on transfer to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty.
  
- 3) **Conveyance Allowance:** The allowance granted to meet the expenditure incurred on conveyance in the performance of duties of an office or employment of profit.
  
- 4) **Helper Allowance:** Any allowance granted to meet the expenditure incurred on a helper where such helper is engaged for the performance of official duties.
  
- 5) **Academic Allowance:** Any allowance granted for encouraging the academic, research and other professional pursuits.
  
- 6) **Uniform Allowance:** Any allowance granted to meet the expenditure incurred on the purchase or maintenance of uniforms for wear during the performance of official duties.

#### **B. Special Allowance to meet the personal expenses.**

Any such allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office are ordinarily performed by him or at a place where he ordinarily resides, or to compensate him for the increased cost of living, will be exempt from tax, to the extent notified by the Central Government.



**1) Special Compensatory (Tribal Areas/Scheduled Areas/Agency Areas) Allowance:** The exemption is available @ Rs. 200 p.m. in Madhya Pradesh, Tamilnadu, U.P, Karnataka, Tripura, Assam, West Bengal, Bihar, and Orissa.

**2) Any allowance granted to an employee working in any Transport System:** Any allowance granted to any employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place is exempt in the whole of India upto 70% of such allowance or Rs. 10,000 per month, whichever is less.

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

**4) Children Hostel Allowance:** Any allowance granted to an employee to meet the hostel expenditure on his child is exempt in the whole of India @ Rs. 300 p.m per child upto a maximum of **two children.**

**5) Transport Allowance:** The transport allowance granted by the Government to its employees or by an employer to employees, by whatever name called, to compensate them for the cost incurred on account of commuting between the place of residence and the place of duty, will be exempt subject to a maximum of **Rs.1600p.m.** (No exemption, w.e.f assessmet year 2019-20).

However, if the employee is blind or orthopedically handicapped with disability of lower extremities, the transport allowance shall be exempt upto **Rs. 3,200 pm.**

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

**7) Compensatory Field Area Allowance:** It is exempt upto Rs. 2,600 p.m

**8) Compensatory Modified Field Area Allowance:** It is exempt upto Rs. 1,000 p.m

**9) Counter-insurgency Allowance:** It is exempt upto Rs. 3,900 p.m

**10) High Altitude Allowance:**

(a) For altitude of 9,000 to 15,000 feet – It is exempt upto Rs.1,060 p.m

(b) For altitude above 15,000 feet – It is exempt upto Rs. 1,600 p.m

**11) Highly Active Field Area Allowance:** It is exempt upto Rs.4,200 p.m.

**12) Island Duty Allowance:** It is exempt upto Rs. 3,250 pm

### **Fully Exempted Allowances:**

**(1) Foreign Allowance:** This allowance is usually paid by the government to an Indian citizen outside India for rendering service abroad. It is not taxable at all. There may be several types of foreign allowances, e.g., Overseas Allowance, Children Education Allowance, Car Allowance, Entertainment Allowance, etc.



This exemption is not available to non-government employees and to those who are not citizens of India.

**(2) Sumptuary Allowance to High Court or Supreme Court Judges.** Such allowance given to high court/supreme court judges is fully exempt from tax.

**(3) Allowance from UNO:** Allowance paid by a UNO to its employees is fully exempt from tax.

**(4) Per-diem Allowance:** If per-diem allowance is paid for the purposes of use of hotel, boarding and lodging facilities to an employee any surplus accruing to him from such allowance is exempt from tax.

## **PERQUISITES**

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

### **1. Perquisites Taxable in case of all employees:**

The following perquisites are taxable in case of all employees:

- 1) The value of residential accommodation provided to the assessee by his employer



- 2) Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. For example-
  - a) Payment by the employer of the employee's club or hotel bills provided that they are not connected with the employer's business;
  - b) Payment by the employer of any loan due on this employee;
  - c) Payment by the employer of education expenses of the children of his employees;
  - d) Payment by the employer of the salary of the domestic servant of an employee meant for his personal use and employed by the employee;
  - e) Income tax paid by the employer in respect of the salary of his employee;
  - f) Legal expenses incurred by the employer to save or defend the employee;
- 3) Any sum payable by the employer, whether directly or through a fund, other than a recognized provident fund or an approved superannuation fund or a Deposit-linked Insurance Fund, to effect an insurance on the life of the employee or in respect of a contract for an annuity.
- 4) The value of any specified security or sweat equity shares allotted or transferred directly or indirectly by the employer or former employer free of cost or at concessional rate to the assessee.
- 5) The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent exceeding Rs. one lakh fifty thousand.
- 6) The value of any other fringe benefit or amenity as may be prescribed.

In terms of provisions of Sec. 17(2) (viii), the value of the following benefits or amenities shall be included in the income of an employee:



1. Interest free or concessional loan;
2. Holiday enjoyment;
3. Free food;
4. Gift;
5. Expenses charged to a credit card;
6. Club expenses;
7. Use of movable asset;
8. Transfer of movable asset;
9. Any other benefit or amenity

## **2. Perquisites Taxable in the case of specified employees only**

**Specified Employees:** The employees who fulfil any of the following three conditions are called specified employees:

- a) **A Director – employee:** An employee, who is also a director in the employer-company whether full-time or part-time and whether continuing as director for the whole or part of the year, is a specified employee.
- b) **Employee having substantial interest in the employer-company:** An employee is said to have substantial interest in the employer-company if he is the beneficial owner of equity shares carrying not less than 20% of voting power. He is also termed as a specified employee.
- c) **Any other employee(i.e. not covered by the above two conditions)** whose income chargeable under the head Salaries, including all monetary payments from one or more employers, but excluding the value of all benefits or amenities given in kind, exceeds Rs. 50,000 is called a specified employee.

**The following are the taxable perquisites in hands of specified**



**employees:**

- 1) Facility of Car;
- 2) Sweeper, Watchman, Gardener and Personal attendant;
- 3) Gas, electric energy and water;
- 4) Education facility to the members of employee's household;
- 5) Transport facility.

**3. Tax-free Perquisites**

The value of the following perquisites shall not be included in the salary income of an employee:

1. Medical benefits
2. Tea or snacks provided free in office or factory (work place)
3. Residential accommodation provided at site
4. Expenses on telephones including mobile phone
5. Employer's contribution to Staff Group Insurance Scheme
6. Scholarships to employees or their children paid by the employer
7. The facility of conveyance provided by the employer from residence to place of employment and vice-versa
8. Refresher courses, etc. If the employer pays fees for an employee taking refresher courses or management course in order to enable, the employee to perform his services more efficiently. Such expenses are treated as scholarship





9. Tax paid by the employer on the value of perquisites
10. Perquisites to Government employees posted abroad: Any perquisite allowed outside India by the Government of India to a citizen of India for enduring service outside India. This exemption is not available to non-government employees and also to those who are not citizens of India
11. Rent-free house and conveyance facility provided to High Court Judges
12. Rent- free house and conveyance facility provided to Supreme Court Judges
13. The value of rent-free furnished residence provided to a Minister, specified officers of Parliament or a Leader of the Opposition in Parliament
14. Laptops and computers provided by the employer for personal use of employee or any member of his household
15. Interest- free or concessional loan, if the amount of loan in aggregate does not exceed Rs. 20,000 during the 'Previous year'.
16. Transfer without consideration to an employee of a movable asset(other than computers, electronic items and car) by the employer after using it for a period of ten years or more
17. Periodicals and journals required for discharge of work
18. Leave travel concession u/s 10(5).

## **MEDICAL BENEFITS**

### **1. Medical Treatment within India;**



- a) The value of any medical treatment provided free to an employee or any member of his family in any hospital maintained by the employer;
- b) Any sum paid by the employer in respect of any expenditure incurred by the employee on medical treatment of himself and members of his family
  - (i) in a hospital maintained by government or any local authority or approved by the government for medical treatment of its employees;
  - (ii) in respect of the prescribed diseases or ailments in any hospital approved by the Chief Commissioner.
- c) Premium paid by the employer on the health insurance of the employee ( including members of his family), under an approved scheme, or group medical insurance by the employer for his employees (including members of their families);
- d) Reimbursement by the employer of any premium paid by the employee on his health insurance or on the health insurance of any member of his family under an approved scheme;
- e) Limited Exemption: If the medical treatment of the employee or any member of his family is done at any private hospital, nursing home or clinic other than those stated in clauses (a) and (b) above the exemption will be restricted to Rs. 15,000. No exemption w.e.f. the Assessment Year 2019-20.

## **2. Medical Treatment outside India:**

- a) If the employer incurs any expenditure on the medical treatment of the employee or any member of his family outside India, to the extent permitted by the RBI; and
- b) If the employer incurs any expenditure on travel and stay abroad



of the patient (employee or any member of his family) and one attendant who accompanies the patient in connection with such treatment, it will be exempt subject to the conditions that (i) the expenditure on medical treatment and stay abroad will be exempt to the extent permitted by the RBI and (ii) the expenditure on travel shall be exempt in the case of an employee whose gross total income (excluding this expenditure) does not exceed Rs. 2 lakh.

## **VALUATION OF PERQUISITES**

Tax-free perquisites are not to be valued at all. Those perquisites which are either taxable in all cases or in specified cases are to be valued.

### **1. VALUATION OF RESIDENTIAL ACCOMMODATION**

For the purpose of determining the value of residential accommodation provided by the employer, the employees have been divided into two categories:

#### **(1) Government Employees:**

These include the employees holding office or post in connection with the affairs of union or State or serving with anybody or undertaking under the control of such Government on deputation.

**Valuation:** The value of the rent-free unfurnished house will be taken to be the licence fee determined by the Government in accordance with the rules framed by Government for allotment of residences. If the accommodation is furnished, the value of the perquisite will first be computed on the above basis and then increased by an amount equal to 10% per annum of the original cost of the furniture (including refrigerators, television sets, radio sets, air-conditioning plant or equipments other household appliances) provided. If such furniture is hire by the employer the hire charges payable for the furniture will be taken into account.



From the above value, if any amount is paid or payable by the employee during the previous year shall be reduced and the balance shall be the value of perquisite.

**Computation of value of Residential Accommodation in case of Govt. Employees**

|  |                    |
|--|--------------------|
| Amount determined as per Government Rules                  | XXXXX              |
| Add: 10% p.a. of cost of furniture or Hire charges, if any |                    |
| XXXXX  |                    |
| _____  | XXXXX              |
| Less: Amount paid or payable by the employee (if any)      | XXXXX              |
|  | _____              |
| <b>Value of Accommodation</b>                              | <b>_____XXXXXX</b> |

**(2) Other Employees:**

**(a) Accommodation owned by employer:**

- (i) 15% of salary in cities having population exceeding 25 lakh as per 2001 census,
- (ii) 10% of salary in cities having population exceeding 10 lakh but not exceeding 25 lakh as per

2001 census,

(iii) 7.5% of salary in any other places,

in respect of the period during which the accommodation was occupied by the employee during the P.Y.

**(b) Accommodation is taken on lease or on rent by the employer:**

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

Where the accommodation is furnished 10% p.a. of the cost of furniture shall be added to the above value. If the furniture is hired by the employer the hire charges payable for the furniture will be taken into account.

From the above value, if any amount is paid or payable by the employee during the P.Y. shall be reduced and the balance shall be the value of perquisite.

**(c) Accommodation provided in a Hotel:**

Where the accommodation is provided by the employer (Government or non-Government) to the employee in a hotel, its value shall be as under:

(i) Where the accommodation is provided on his transfer from one place to another and the period in aggregate does not exceed 15 days- the value shall be taken as nil.

(ii) In any other case, the value shall be taken 24% of salary paid or payable for the previous year

(for the period during which such accommodation is provided) or the actual charges paid or payable to such hotel, whichever is less.

From the above value, if any amount is paid or payable by the employee shall be reduced and the balance shall be the value of perquisite.

**(d) Accommodation provided at site:**

Where the accommodation is provided to an employee working at a mining site or an onshore oil exploration site or a project execution site or a dam site or a power generation site or an off-shore site which:

(i) being of temporary nature and having plinth area not exceeding 800 square feet, is located not less than 8 k.m. away from the local limits of any municipality or cantonment board; or

(ii) is located in a remote area, the value of such accommodation shall be taken as nil.

**(e) Accommodation at the time of transfer:**

Where on account of transfer of an employee from one place to another, he is provided with accommodation at the new place of posting while he retains the accommodation at the other place, the value of perquisite shall be taken for one accommodation which has lower value.

## **2. VALUATION OF MOTOR CAR**

**(1) Car owned or hired by the employer. Car is used wholly and exclusively in the performance of his official duties.**

Value shall be taken as nil provided the prescribed conditions are satisfied.



**(2) Car owned by employer and it is used exclusively for the private or personal purposes of the employee or any member of his household:**

Actual amount of expenditure incurred on the running and maintenance of motor car XXXXX

Add: (i) Remuneration, if any, paid to the chauffeur (driver)  
XXXXX

(ii) Depreciation @ 10% p.a. of the actual cost of the motor car  
XXXXX

XXXXX

Less: Amount charged from the employee if any  
XXXXX

**Value of perquisite**

XXXXXX

**(3) Car is taken on lease and it is used exclusively for the private or personal purposes of employee or any member of his household:**

Amount spent on running and maintaining the car XXXX

Add: Remuneration, if any, paid to the chauffeur (driver) XXXX

XXXXXX

Less: Amount charged from the employee XXXX

**Value of perquisite**

XXXXXX

**(4) Car owned or hired by employer. Car is used partly in the performance of duties and partly for private or personal purposes of employee or any member of his household:**



**(a) If the entire expenses of maintenance and running of the motor car are borne by the employer:**

(i) Small car (Cubic capacity of engine of the car does not exceed 1.6 litre)  
Rs. 1,800 p.m.

(ii) Large car (Cubic capacity of engine of the car exceeds 1.6 litre)  
Rs.2,400 p.m.

If chauffeur is also provided, add Rs. 900 p.m.

**(b) If the expenses of maintenance and running for his private or personal purpose are met by the assessee (i.e., the employee):**

(i) Small car Rs. 600 p.m.

(ii) Large car Rs.900

If chauffeur is also provided, add Rs.900 p.m.

**(5) Employee uses more than one car for private purposes:**

Where more than one motor car is owned or hire by the employer and the employee or any member of his household is allowed the use of such motor cars (otherwise than wholly and exclusively in the performance of duties), the value of perquisite shall be:

**a) In respect of one car:**

(i) Small car Rs. 1,800 p.m. (ii) Large car Rs. 2,400 p.m.

If chauffeur is also provided, add Rs.900 p.m.

**b) In respect of other car / cars:**

Assuming the car / cars is used exclusively for private purposes and the value shall be determined as discussed in 2 if the car is owned by the employer or as discussed in 3 if the car is taken on lease by the employer.



**(6) Car owned by the employee;**

**(a)** The actual running and maintenance charges (including chauffeur's remuneration) are met or reimbursed by the employer and such reimbursement is for the use of the car wholly and exclusively for official purposes- Value shall be taken as nil provided the prescribed conditions are satisfied.

**(b)** Where reimbursement of expenses of the car is wholly for personal purposes of the employee or any member of his household- Value shall be taken equal to amount reimbursed.

**(c)** Where reimbursement of expenses of the car is partly for official purposes and partly of personal purposes of the employee or any member of his household:

**(i) Small car-** The value of perquisite shall be the actual amount of expenditure incurred by the employer less Rs. 1,800 p.m. + Rs. 900 p.m. for chauffeur, if any, provided the prescribed conditions are satisfied.

**(ii) Large car –** The value of perquisite shall be the actual amount of expenditure incurred by employer less Rs/. 2,400 p.m. + Rs.900 p.m. for chauffeur, if any, provided the prescribed conditions are satisfied.

**Prescribed Conditions:** Where it is claimed that vehicle is used wholly and exclusively in the performance of official duty or the actual expenses on running and maintenance of the vehicle, owned by the employee, for official purposes are more than prescribed amount (Car Rs.1,800/Rs.2,400 p.m. as the case may be and other automotive Rs.900 p.m.), the following documents should be maintained:

(a) Complete details of journey undertaken for official purpose which may include date of journey, destination, mileage and the amount of expenditure incurred.

(b) A certificate of the employer to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

### **3. SWEEPER, GARDNER, WATCHMAN OR PERSONAL ATTENDANT**

Where the employer provides to his employee or his household services of a sweeper, a Gardner, a watchman or a personal attendant, the value of the perquisite shall be the total amount of salary paid or payable by the employer or any other person on his behalf, less the amount paid by the employee for such services.

### **4. GAS, ELECTRIC ENERGY OR WATER**

(i) Where the employer provides gas, electric energy or water for household consumption of the employee, the value of the benefit shall be the amount paid on that account by the employer to the agency supplying the gas, electric energy or water.

(ii) Where such supply is made from resources owned by the employer (without purchasing them from any other outside agency), the value of perquisite shall be the manufacturing cost per unit incurred by the employer.

However, in both the cases, if employee is paying any amount in respect of such services, the amount so paid shall be deducted from the aforesaid value.



## 5. EDUCATION FACILITY

(A) Where an educational institution is itself owned and maintained by the employer or where free educational facilities are allowed in any other educational institution by reason of his being in employment of that employer, the value shall be:

### (a) Education facility provided to children of the employee:

(i) if the cost of such education or the value of such benefit per child does not exceeds Rs.1,000 p.m.-Nil

(ii) if cost or value exceeds Rs.1,000 p.m. – Cost of such education in a similar institution in or near the locality less the amount recovered from the employee.

### (b) Education facility provided in any other educational institution:

Cost of education in similar institution in or near the locality less the amount recovered from the employee

(B) Education facility provided in any other educational institution: Education facility provided to the children of the employee or other household members – The value shall be the expenditure incurred by the employer.

## 6. TRANSPORT FACILITIES

Where an undertaking is engaged in the carriage of passengers or goods and it provides to any employee or to any member of his household for private journey free of cost or at concessional fare, in any conveyance owned, leased or made available by any other arrangement by the undertaking for the purpose



of transport of passengers or goods – The value of the benefit or amenity shall be the value at which such benefit or amenity is offered by the undertaking to the public.

If any amount is paid or recovered from the employee for such benefit or amenity, it shall be deducted from the aforesaid value.

Note: In case of an employee of an Airline or the Railways, the value of transport facility shall be exempt.

## 7. INTEREST ON FREE LOAN

- Interest on loan given to employee by the employer is exempted if the loan amount is less than Rs.20,000
- If the loan amount is more than Rs. 20,000, the prevailing SBI rates have to be taken for calculating perquisites. If the rate of interest charged by the employer is below SBI rates, then the difference in the rate is taken as perquisites.

## 8. FREE FOOD, etc

The value of free food and non-alcoholic beverages provided by the employer to an employee shall be as under:

- a) Tea and snacks provided during working hours – nil.
- b) Free food and no-alcoholic beverages provided during working hours in a remote area or an off-shore installation – nil
- c) Free food and non-alcoholic beverages provided during working hours at the office or business premises or through paid vouchers which are not transferable and usable at eating joints, the value thereof shall be the amount of expenditure incurred by the employee as reduced by i) the amount paid or recovered from the employee, and ii) **Rs. 50 per meal.**

## 9. GIFT



The value of any gift or voucher or token in lieu of which such gift may be received by the employee or by a member of his household on ceremonial occasions or otherwise shall be sum equal to the amount of such gift.

Where the gifts are given to the employees on social and religious occasions like Diwali, Christmas, New year, the anniversary of the organization, et., such gifts up to Rs. 5,000 in the aggregate during the previous year would be exempt, beyond which it would be taxed as perquisite.

However, gifts made in cash or convertible into cash, like gift cheque etc., shall not be exempt.

## **PROFIT IN LIEU OF SALARY**

Profit in lieu of salary includes the following:

- 1) The amount of any compensation due to or received by an assessee from his employer or former employer in connection with the termination of his employment or the modification of the terms and conditions relating to thereto.
- 2) Any payment due to or received by an assessee from an employer or a former employer. Where an employer gives to his employee any sum by way of personal gift and not in appreciation of his services, it is not taxable in the hands of the employee.
- 3) Any payment made from unrecognized provident fund or other fund will be included only to the extent of employer's contributions and interest thereon. Interest on employee's own contribution is also taxable but it will be taxed under the head 'Income from Other Sources' and not as salary income.
- 4) Any payment received under a Key man Insurance Policy including the amount of bonus.



5) Any amount due or received (whether in lump-sum or otherwise) by an assessee from any person.

- Before joining any employment with that person; or
- After cessation of his employment with that person.

### Deductions

The income chargeable under the head 'Salaries' shall be computed after making the following deductions:

- 1) Standard Deduction up to Rs. 40000 [Sec. 16(ia)]
- 2) Entertainment Allowance [Section 16(ii)]
- 3) Employment Tax [Section 16(iii)]

1) Entertainment Allowance: Amount granted as entertainment allowance to an employee by his employer is included under the head 'Salaries' and then the following deduction is allowed in this connection:

a) In the case of a Government employee:

1. Amount received;
2. 1/5 of basic salary;
3. Rs. 5,000 whichever is less

b) In the case of any other employee : Nil



**Note:** Any entertainment expenses incurred by the employee (whether government employee or non-government employee) is not taken into consideration at all.

2) Tax on Employment: Any sum paid by the assessee on account of a tax on employment, leviable by or under any law, is allowable as deduction.

Notes: (1) If the amount of employment tax has been paid by the employer, it will be added in salary income and then the deduction will be allowed.

