

INCOME FROM SALARIES

- A. **SALARY GRADE/PAY SCALE:** - In some organisations like Government offices, Banks, Post Offices, Railways, Universities, Colleges etc. salary to employees is paid as per pay scales or salary grades. The pay scales fixes the starting salary of an employee and also the annual increment in future years of employment.

The annual increment is granted to employee after completion of one full year of service e.g. if an employee joins his service/job on 1st September 2015, he will be granted 1st annual increment w.e.f. 1st September 2016.

EXAMPLE OF GRADE/PAY SCALE: -

8,000-300-11,000

12,000-500-20,000

The amount mentioned in between two big amounts is known as annual increment i.e. the salary of employee will increase by this amount on the completion of every 12 month of his job.

EXAMPLE:- Mr. A joined his job on 1st September 2012 in the grade of 12,000-500-20,000. Find out his salary for the previous year 2016-17.

Date of increment is 1' September every year

Amount of increment Rs. 500

1-9-2012 — 31-8-2013 ... 12,000 p.m.

1-9-2013 — 31-8-2014 ... 12,500 p.m.

1-9-2014 — 31-8-2015 ... 13,000 p.m.

1-9-2015 - 31-8-2016 ... 13,500 p.m.

1-9-2016 — 31-8-2017 ... 14,000 p.m.

1-9-2016 — 31-8-2016 @ Rs. 13,500 x 5 = 67,500

1-9-2016 — 31-3-2017 @ Rs. 14,000 x 7 = 98,000

Salary for the previous year 2016-17	1,65,500
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- B. **ADVANCE SALARY RECEIVED:** - In case an assessee receives some salary in advance in a previous year which was actually not due in that year, it shall be taxable in the year of receipt. In case, any loan or advance is taken it is not treated as advance salary.
- C. **ARREARS OF SALARY RECEIVED:** - Any amount of salary received from present or past employer during relevant previous year and which relates to some earlier previous

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years, is treated as arrears of salary. It is taxable in the year in which received and not the year to which it belongs.

- ❖ **PROVIDENT FUNDS:** - To encourage savings for the social security of employees, the Government has set up various kinds of provident funds.

Provident Funds are of four kinds:

1. Statutory Provident Fund or the Fund to which the Act of 1925 applies (S.P.F.).
2. Recognized Provident Fund (R.P.F.).
3. Unrecognized Provident Fund (U.R.P.F.).
4. Public Provident Fund (P.P.F.).

TREATMENT OF PROVIDENT FUNDS

Particulars	Fund governed by P.F. Act 1925 (S.P.F.) (For Govt. or semi employees)	Recognised provident fund (R.P.F.) (For private sector)	Unrecognized P.F. (U.R.P.F.) (for private sector)	P.F. (for
1. Employee's own contribution.	Fully qualifies for deduction u/s 80C	Fully qualifies for deduction u/s 80C	Does not qualify for deduction u/s 80C	
2. Employer's contribution	Fully exempted	It is deemed to be received by employee. Excess of Employer's contribution to R.P.F. over 12% of salary is taxable.	Ignore for the time being	
3. Interest credited to Accumulated Balance.	Fully exempted	Exempted upto rate prescribed by the Government. Excess over this amount is taxable (i.e. 9.5%)	Ignore for the time being	
4. Refund/Transferred Balance of U.R.P.F. to R.P.F.	Fully exempted	Exempted in all cases except when employee leaves service of his own accord before Completion of 5 years' continuous service. In such case the amount which has not been charged to tax is added in salary	In case of refund taxable portionl is added in salary income of the year {Entitled to relief u/s 89(1)1. In case transferred balance amount which have been taxable had the fund been RPF is added in salary	

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❖ **ALLOWANCE:** - The term allowance has been derived from the word 'to allow'. As per Oxford Dictionary the word 'Allowance' means "any amount or sum allowed regularly". These are divided into three categories on the basis of their tax treatment. These are:

A. **FULLY EXEMPTED ALLOWANCES:** -

1. Foreign allowance given by Govt. to its employees posted abroad is fully exempted. •
2. House rent allowance given to judges of High Court and Supreme Court is fully exempted.
3. Sumptuary allowance given to judges of High Court and Supreme Court is • fully exempted.

B. **FULLY TAXABLE ALLOWANCES:** -

1. **Dearness Allowance/Additional Dearness Allowance/High cost of living allowance/Interim Relief.** employees having fixed income suffer the most due to rise in prices and to compensate their loss, they are paid such allowances. So D.A. is nothing but an additional salary and it is fully taxable.

It is mentioned that:

- i. D.A. enters into pay for service benefits; or
 - ii. D.A. enters into pay for retirement benefits; or
 - iii. D.A. is given under the terms of employment; or iv. Dearness pay,
2. **City/Capital compensatory Allowance.** These are given to compensate for the high cost of living in a particular big city of India or any other capital city. These are also fully taxable.
 3. **Lunch/Tiffin/Marriage/Family/Deputation/Wardenship/Non-practising/Project/Overtime/Exiced Medical Allowance.** These allowances are fully taxable.
 4. **Entertainment Allowance.** This allowance is fully taxable irrespective of any expenditure incurred on entertainment of guests or customers.
U/s I 6(ii) a deduction is allowed to those persons who receive this allowance. With effect from assessment year 2003-04 this deduction is admissible only to Government employees for an amount equal to least of followings:
 - a. Statutory Limit R s. 5,000;
 - b. 1/5th of basic salary only; or
 - c. Actual entertainment allowance received during the previous year.

C. **PARTIALLY TAXABLE ALLOWANCE:** -

1. **HOUSE RENT ALLOWANCE:** -

- a. Employees living in hired (rented) houses. Sometimes the employer does not provide rent-free accommodation but instead of makes a provision to pay some amount in cash,

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so that the employee may be compensated to some extent as far as rent is concerned. The amount of cash paid is known as House Rent Allowance.

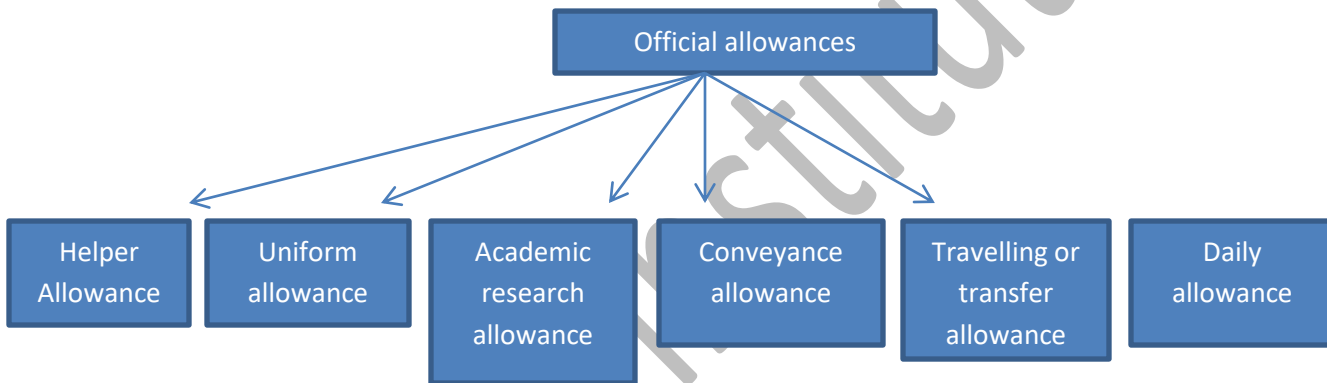
- i. 50% of salary in case of Bombay, Calcutta, Delhi and Madras, and 40% of salary in case of all other cities, or
- ii. Actual House Rent Allowance received; or
- iii. The amount by which the actual rent paid by the employee exceeds 10% of his salary.

$$\text{Taxable HRA} = \text{Actual HRA received} - \text{Exempted amount}$$

2. ENTERTAINMENT ALLOWANCE: -

Discussed Later' under section 16.

3. ALLOWANCES COVERED U/S 10(14)(i) i.e., OFFICIAL ALLOWANCES:- These allowances are given to meet employee's expenses incurred in performance of his official work or duties and in case any part of these allowances is saved, then the same shall be taxable in the hands of employee.



Followings are the prescribed allowances for the purpose of section 10(14)(i):

- 1) HELPER ALLOWANCE: - It is exempted upto actual amount spent on engaging a helper required to perform the official duties.
- 2) UNIFORM ALLOWANCE: - It is also exempted upto actual expenditure incurred on acquiring or maintain of the official uniform. Excess, if any, will be taxable.
- 3) ACADEMIC ALLOWANCE: - It is exempted upto actual expenditure incurred for research. Excess, if any, will be taxable.
- 4) CONVEYANCE ALLOWANCE: - It is exempted upto actual expenditure incurred in performance of official duties. In case amount received is more than actual expenditure, excess, if any, will be taxable.
- 5) TRAVELLING OR TRANSFER ALLOWANCE: - It is exempted upto actual expenditure incurred for the purposes of employment. Excess, if any, will be taxable.

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Any allowance (by whatever name it may be called) to meet the cost of travel on tour or on transfer shall be exempted.

- 6) **DAILY ALLOWANCE**: - Any allowance whether granted to employee (while on tour or for the period of journey in connection with transfer) to meet the ordinary daily charges incurred by such employee on account of absence from his normal place of employment shall also be exempted.

Such allowance shall include any sum paid in connection with transfer, packing and transportation or personal effects on such transfer.

Allowance mentioned in point (1) to (6) are exempt upto the amount spent by the employee for the purpose for which these allowance are given to the employee.

So, exemption shall be the least of following two amounts:-

- a. The amount of the allowance received.
- b. The amount actually spent by the employee for the purpose for which the allowance is given.

4. **ALLOWANCES COVERED U/S 10(14)(ii), I.E. PERSONAL ALLOWANCES**:-

Following are the prescribed allowances for the purposes of Section 10(14)(ii) along with prescribed amount of exemption:

1. **Any special allowance in the nature of Composite Hill Compensatory Allowance/High Attitude Allowance/Uncongenial Climate Allowance/Snow Bound Area Allowance/Avalanche Allowance.**
Exemption allowed upto Rs. 300 p.m. to Rs. 7,000 p.m.
2. **Any special Compensatory Allowance in the nature of Border area Allowance/Remote Area Allowance/Difficult Area Allowance/Disturbed Area Allowance.**
Exemption allowed upto Rs. 200 p.m to Rs. 1,300 p.m.
3. **Compensatory Field Area Allowance.**
Exemption allowed upto Rs. 2,600 p.m.
4. **Compensatory Modified Field Area Allowance.**
Exemption allowed upto Rs. 1,000 p.m.
5. **Counter Insurgency Allowance/Compensatory Field Area Allowance.**
Exemption allowed upto Rs. 3,900 p.m.
6. **Highly Active Field Area Allowance.**
Exemption allowed upto Rs. 4,200 p.m.
7. **Underground Allowance given to coal mine workers.**
Exemption allowed upto Rs. 800 p.m.

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8. **Island Duty Allowance given to Armed Forces posted in Andaman & Nicobar and Lakshweep group of islands.**
Exemption allowed upto Rs. 3,250 p.m.
9. **Allowance given to retired Chairman and members of UPSC.**
An allowance given for getting the service of an orderly and for getting services of secretarial assistance on contract basis or Rs. 14,000 per month, whichever is less, is exempt.
10. **Transport Allowance.**
As per the recommendations of 5th Pay Commission, the Central Government has allowed transport allowance to its employees. As per orders any allowance given with effect from 1-8-1997 under the name of Transport Allowance to any employee whether govt. or private shall be exempted upto Rs. 1,600 Excess, if any, shall be taxable. But in case of handicapped with disability of lower extremities or a blind employee it shall be exempted upto Rs. 3,200 P.m.
11. **Tribal Area Allowance.**
This allowance is exempted upto Rs. 200 p.m. in the States of Madhya Pradesh, Tamil Nadu, Uttar Pradesh, Karnataka, Tripura, Assam, West Bengal, Bihar and Orissa.
12. **Any Running Flight Allowance.**
Granted to an employee of transport system to meet his personal expenditure during the duty performed in the course of running of such transport from one place to another place provided that such employee is not in receipt of daily allowance it is exempted upto 70% of such allowance or Rs. 10,000 p.m. whichever is less.
13. **High Altitude Allowance.**
This type of allowance is given to armed forces operating in high altitude areas. it is exempted as under:
Altitude of 9,000-15,000 feetupto Rs. 1,060 p.m.
Altitude above 15,000 feetupto Rs. 1,600 p.m.
14. **Children Education Allowance.** If any amount is given by employer to employee as education allowance for the education of own children in India, it shall be exempted upto Rs. 100 p.m. per child for two children only.
Example. Mr. X is employed by an MNC and is paying him Rs. 500 p.m. as Children Education Allowance to all the three children who are studying in a school at Bangalore.

Solution

Exempted allowed:	I	II	III
Received	500 p.m.	500 p.m.	500 p.m.
Exemption allowed	100 p.m.	100 p.m.	NIL

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Example. Mr. X is employed in a company at Cochin and is getting this allowance for all his three children studying in a school.

I	II	III
Rs. 80 p.m.	Rs. 150 p.m.	Rs. 200 p.m.

Find out the exemption allowed to him.

Solution. Exemption allowed to Mr. X shall be as under:

I	II	III
NIL	100 p.m.	100 p.m.

15. Hostel Expenditure Allowance.

Any allowance granted by employer to meet the hostel expenditure of employees' children it shall be exempted upto Rs. 300 p.m. for per child maximum for two children only.

16. Any Special Allowance.

In the nature of counter insurgency allowance given to the members of the armed forces operating in areas away from their permanent locations for a period of more than 30 days shall be exempted upto Rs. 3,900 p.m.

❖ **TYPES OF PERKS:** -

PERKS CAN BE DIVIDED INTO THREE CATEGORIES

- A. Perks exempted for all employees;
- B. Perks taxable for all employees;
- C. Perks taxable only for specified employees.

A. EXEMPTED FOR ALL EMPLOYEES: -

- 1. Free medical facilities as given u/s 17(2) (proviso) (see details on next pages).
- 2. Free refreshments during working hours.
- 3. Free recreational facilities.
- 4. Provision of telephone whether basic or cellular exclusively for official use.
- 5. Free meals provided in remote area or at offshore installation are fully exempted.
- 6. Free education, training or refresher course for employees.
- 7. Leave Travel Concession if given twice in a block of 4 years.
- 8. Free ration received by members of armed forces.
- 9. Perquisites allowed by Government to its employees posted abroad.
- 10. Rent free house given to an officer of Parliament, a Union Minister, and leader a Opposition in Parliament.
- 11. Free residence and Conveyance facilities to judges of Supreme Court and High Court.
- 12. Free conveyance provided by employer to employee for going to or coming from place of employment.
- 13. Any amount contributed by employer towards pension or deferred annuity scheme.
- 14. Employer's contribution to staff group insurance scheme.
- 15. Computers, laptops given to (not transferred) an employee for official/personal use.
- 16. Transfer of a moveable asset (computer, car or electronic items) more than 10 years old without consideration.

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17. Accident insurance premium paid by employer for his own benefit.
18. Interest free loan or loan at concessional rate of interest taken by employee from employer if amount of loan does not exceed Rs. 20,000 or loan is taken for medical treatment.
19. Value of any shares or debentures given free of cost or at concessional rate of employees under stock option scheme approved by the Central Govt.
20. Income Tax on perks paid by employer-21. Rent free accommodation given in remote or offshore areas.

B. PERKS TAXABLE FOR ALL EMPLOYEES:

B-1 RENT FREE HOUSE (SECTION 17(2)(i) RULE 3(I) AS AMENDED NOTIFICATION NO. 94/2009 DATED 18-12-2009)

Before calculating the value of rent free house, following information is collected:

1. **PLACE WHERE RENT FREE HOUSE IS PROVIDED:** - All cities, towns have been divided into 3 categories depending upon their population as per census of 2001 as under:
 - a. All cities, towns having population exceeding 25 lakhs.
 - b. All cities and towns having population exceeding 10 lakhs but not exceeding 25 lakhs.
 - c. All other cities, towns having population of 10 lakhs or less than 10 lakhs.
2. **MEANING OF ACCOMMODATION:** - It shall include a house, farm-house, flat, hotel accommodation, guest house, a caravan, mobile home, ship etc.

EXEMPTED ACCOMMODATION: - For an employee who is working

- a. In remote area (an area located at least 40 kms. Away from city limits of a town whose population is up to 20,000 as per latest census) at mining site; or at project execution site; or
- b. In offshore area (there is no limit as regard to distance) such accommodation shall be exempted.
- c. Value of rent free accommodation is not taxable, if rent free house has been provided to Supreme Court and High Court Judges, Union Minister, Leader of Opposition and Official of Parliament.

MORE THAN ONE ACCOMMODATION AT THE TIME OF TRANSFER: - For first three months value of one such house having lower value shall be taxable. If such accommodation is retained for more than three months thereafter value of both such houses shall be taxable.

HOTEL ACCOMMODATION: - It is treated in following manner;

- a. If hotel accommodation is provided for a total period not exceeding in aggregate 15 days in a previous year, it shall be fully exempted.
- b. If hotel accommodation is provided for a period exceeding 15 days the perk shall be taxable in following manner:

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- i. Calculated salary for rent free house as given below;
 - ii. Compute salary for number of days he stayed in the hotel;
 - iii. Calculate 24% of this salary;
 - iv. Compare it with actual bill paid by employer to the hotel for such accommodation; Which is less is taxable.
3. **MEANING OF SALARY**: - For the education of value of rent free accommodation, the word 'salary' Includes:
- i. Basic salary, pay or wages.
 - ii. Dearness Pay, Dearness Allowance if term of employment so provide or it enters into salary for calculation of value of service or retirement benefits.
 - iii. Commission.
 - iv. Bonus.
 - v. Fees.
 - vi. Value of all taxable allowances.
 - vii. Any other monetary payment, which is chargeable to tax. (by whatever name called).
 - viii. Leave encashment of salary only if it pertains to the leave earned during the previous year in which rent free house is provided to employee.

Salary does not include the following:

1. Dearness allowances if not paid per terms of employment or enter into salary for computation or all retirement.
2. Any other allowance which is a exempt one.
3. Employer's contribution in employee's provident fund.
4. Value of other perquisites falling u/s 17(2).
5. Leave encashment or salary if it relates to the leave earned in earlier previous years.
6. Income tax of employee if paid by employer.

For the calculation of value of rent free accommodation, all components of salary which are included in the term 'salary' are to be taken on accrual basis.

Example:- Advance salary and arrears or salary is not included as it does not relates to that previous year but any salary which has accrued hut is not received in that year will be included.

If employee is simultaneously working with more than one employer:

Salary (as defined earlier) received from all such employers shall be taken into account while calculating salary for the calculation of value of rent free accommodation.

Pension after retirement is treated as salary income and so it will be included in salary received from present employer for calculation of value of rent free accommodation.

❖ **RULES REGARDING CALCULATION OF VALUE OF RENT FREE HOUSE**

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I. FOR UNFURNISHED ACCOMMODATION

A. OWNED BY EMPLOYER

- a. **GOVT. EMPLOYEES:** - The value of house is rent Fixed (**license fee**) by the govt. for such house. It can be rent charged by Govt. from another employee of same status for similar type of house. Market rental value of this type of accommodation is not taken into account and hence ignored.
- b. **OTHER EMPLOYEES** - 'Value of house to be taxed is calculated following manner:
 1. In cities the population of which is more than 25 lakhs as per census of 2001: 15% of salary
 2. In cities the population of which is exceeding 10 lakhs but not exceeding 25 lakhs as per Census of 2001: 10% of salary
 3. In cities and towns the population of which is 10 lakhs or less than 10 lakhs as per 2001 census: 7.5% of salary
 4. Hotel accommodation (for more than 15 days on transfer from one place to another) 24% of salary (for the period or days for which accommodation is provided in hotel) or actual bill whichever is less is taxable.

B. Hired by employer

15% of salary or Actual rent paid or payable by employer which ever is less taxable in all cities.

II. FOR FURNISHED ACCOMMODATION

In case of all types of employee calculate value of unfurnished house.

If furniture is owned by employer add 10% p.a of cost of furniture.

If furniture is hired actual hire charges paid or payable by employer are added.

The term 'furniture' includes usual items of furniture like sofas, beds. Chairs, tables and other household appliances. It also includes modern electrical appliances like television, radio. Refrigerator, air conditioner. gyser. etc.

B-III. OBLIGATION OF EMPLOYEE MET BY EMPLOYER {SECTION 17(2)(IV)}

In case any of the following payments are made by employer these are full taxable.

- a. **Gas and electricity bills** issued on the name of employee but paid employer- actual expenses-met by employer are taxable,
- b. **Education of Children bills** issued on the name of employee but paid employer- actual expenses met by employer are taxable. Reimbursement of tuition fee of children is also fully taxable.

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- c. **Income-tax, Professional tax** of employee paid by employer - actual expenses met by employer are taxable.
- d. **Salary of domestic servants** employed by employee but paid by employer - actual amount paid by employer is taxable.

B-IV. SUM PAYABLE BY THE EMPLOYER DIRECTLY OR THROUGH FUND TO EFFECT AN ASSURANCE/AN ANNUITY {SECTION 17(2)(v)}

Any sum payable by the employer for the employee shall be treated as perk to employee if:

- a. The amount is payable by the employer to effect an assurance on the life of the assessee; or
- b. The amount is payable by the employer to effect a contract for an annuity for employee.

B-V. ANY SPECIFIED SECURITY OR SWEAT EQUITY SHARES ALLOTTED OR TRANSFERRED TO EMPLOYEE {SECTION 17(2)(VI)} (w.e.f. 1-4-2009)

The value of any specified security or sweat equity shares allotted or transferred by the employer or former employer to the employee either free of cost or at concessional rate shall be treated as perk to employee. Such transfer to employee may be direct or indirect.

Value of perk = {F.M.V. of specified security or sweat equity share on the date on which option is exercised by the employee}

{Amount charged or recovered from the employee}

- a. **MEANING OF SWEAT EQUITY SHARES**: - 'Sweat equity shares' means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how making available rights or value additions, by whatever name called.
- b. **MEANING OF 'FAIR MARKET VALUE'**: - It means a right but not an obligation granted to an employee to apply for the specified security or sweat equity shares at a pre-determined price.
- c. **YEAR IN WHICH TAXABLE**: - The value of this perk is taxable in the year in which shares or securities are allotted or transferred to the employee but its fair market value shall be calculated on the date which the employee exercises the option.

B-VI. CONTRIBUTION TO AN APPROVED SUPERANNUATION FUND BY THE EMPLOYER {SECTION 17(2)(VII) r.w. Rule 3(7)}

The amount of any contribution made by the employer to an approved fund in respect of assessee (employee) shall also be taxable as perk to employee to the extent it exceeds Rs. 1,50,000.

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B-VII. VALUE OF ANY OTHER PRESCRIBED FRINGE BENEFITS OR AMENITIES {SECTION 17(2)(V111) r.w. Rule 3(7)}

The following benefits or amenities have been prescribed u/s 17(2)(viii):

B-VII(i). INTEREST FREE OR CONCESSIONAL LOAN FROM EMPLOYER RULE 3(7)(i)

1. Interest is to be calculated at the rate charged by State Bank of India on similar type of loan as on the 1st day of the relevant previous year. State Bank of India notifies the lending rates from time to time.
2. Interest paid by employee (or charged by employer), if any is to be deducted out of total interest for the full previous year calculated as above.

B-VII(ii). VALUATION OF PERK IN RESPECT OF TRAVELLING, TOURING, ACCOMMODATION

- a. **WHERE THESE FACILITIES ARE PROVIDED TO ALL THE EMPLOYEES:** - Find out the amount spent by the employer to provide these facilities to its employees and deduct any amount recovered from the employee and balance, if any, shall be taxable value of the perk.
- b. Find out the value at which these facilities are offered by other agencies to the general public and deduct any amount recovered from the employee and the balance amount, if any, shall be taxable value of this perk.
- c. **EXTENSION OF OFFICIAL TOUR AS VACATION:** - The value of perquisite shall be taken only for the extended period.

B-VII(iii) FOOD OR BEVERAGES FACILITY

If employer provides free food and non-alcoholic beverages to an employee, it shall be treated as perk for the employee. The value of this facility shall be the amount of expenditure incurred by the employer for this purpose. However, the amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity. Thus,

Value of perk = (amount spent by employer) – (amount charged / recovered by employer from employee)

Cases when Food and beverage facility is Exempt

1. Free food or non-alcoholic beverages provided by employer during working hours provided in remote area, or an off-shore installation.
2. Tea or snacks provided during working hours.
3. Food or non-alcoholic beverages provided by employer during working hours at office or business premises or through paid vouchers which are non-transferable and usable only at

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eating joints, shall be exempt upto Rs. 50 per meal. However, if the cost per meal exceeds Rs. 50 then excess shall be taxable as perk for employee.

B-VII(iv) VALUATION OF PERQUISITE IN RESPECT OF GIFT VOUCHER OR TOKEN

Gift or gifts in kind from an employer of an amount of Rs. 5,000 in a previous year shall be exempted and excess if any is taxable. However, any amount of gift received in cash or convertible into money is fully taxable. So cash gift may be less than Rs. 5,000 or more, it is fully taxable in the hands of the employee. But if an employee gets a gift of Rs. 20,000 in-kind, only Rs. 15,000 (20,000-5,000) shall be chargeable to tax.

B-VII(v) VALUATION OF PERQUISITE IN RESPECT OF CREDIT CARD

Taxable value of the perk shall be the amount spent by the employer to provide this type of facility to the employee or any other member of his household. The expenditure by employer shall also include membership fee and annual fee of the credit card.

Expenditure incurred by employer	* * *
Less expenditure on its use for official purposes.	* * *
Less any amount received or recovered by employee	* * *
Taxable value of the Perk	* * *

B-VII(vi) VALUATION OF PERQUISITE IN RESPECT OF CLUB FACILITY

In case employee or any other member of his household enjoys the facilities provided in a club and the expenditure for the same is met or re-imbursed by the employer the taxable value of his perk shall be equal to the amount spent or re-imbursed by the employer.

Value of perk = (Amount spent by employer) — (Amount charged/recovered by employer from employee)

Cases when club facility is exempt

1. Club facility used in connection with official work or for business purposes. The following conditions are fulfilled:
 - a. Complete details in respect of such expenditure are maintained by the employer which may include the date of expenditure, the nature of expenditure and its business expediency;
 - b. The employer gives a certificate or such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

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2. Health club, sports club or similar club facility provided uniformly to all employee by the employer.
3. Initial membership fee where the employer has obtained corporate membership of the club and the facility is enjoyed by the employee or any member of his household.

B-VII(vii) USE OF MOVABLE ASSETS

The employer except computers and laptops-actual benefit derived by employee is taxable i.e. 10% of cost of that asset is tax for which asset is given for use to employee is less than full year the value of benefit shall be calculated by taking actual number of days used by total number of days of that financial year.

Moveable asset does not include a car

(10% of cost of asset X number of days asset is used/number of days of the financial year)

Valuation of this perk shall be determined as under:

- a. If the asset is owned by employer — 10% of the original cost of such asset.
- b. If the asset is hired by employer — charges paid or payable by the employer.

B-VII(viii) TRANSFER OF MOVABLE ASSETS OF THE EMPLOYEE

Taxable value is to be calculated by charging depreciation at the following rates:

1. Electronic items 50% p.a. on WDV basis
2. Motor car or other conveyance 20% p.a. on WDV basis
3. Any other item 10% p.a. on actual cost basis

Taxable value of this perk = (Actual cost to the employer - Normal wear and tear of the asset — Any amount paid by employee or recovered from him)

Depreciation is to be charged on year to year basis i.e., period of 12 months to be counted from date of acquisition.

B-VII(ix) ANY OTHER BENEFIT OR AMENITY PROVIDED BY EMPLOYER {RULE 3(8)}

In case employee has been provided any other benefit, amenity, concession, privilege etc. by the employer, it is fully taxable.

C-I. VALUATION OF PERQUISITE OF MOTOR CAR OR ANY OTHER AUTOMOTIVE CONVEYANCE {RULE 3(2)}

In case employer had provided a car or any other vehicle for the private use of the employee or any other member of his family, it is a perquisite which is taxable in the hands of the employee provided he/she is an employee of a specified category.

The valuation of his perk shall be made as under:

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A. Motor car is owned or hired by employer and its running and maintenance expenses are met or reimbursed by employer.

1. **Car is fully used in the performance of official duties of the employee.** When car is used for official work only and the employer or his family is not deriving any benefit, so no perk will be considered in this case. So a log book is required to be maintained.
Value of Perk — NIL

Note: It does not matter whether the cubic capacity of engine of motor car exceeds 1.6 litres or not.

2. **Car is fully used for the private, personal or family purposes of the employee.** Find out the amount spent by the employer on petrol, repairs, depreciation @ 10% of cost of car or cars, salary of driver etc. and in case any amount is charged from the employee the same shall be deducted out of above mentioned expenses incurred by employer and the amount so derived shall be valuation of this perk.

Value of Perk = Actual expenses incurred by the employer on running and maintenance of car + Salary of chauffeur -+ Normal wear and tear if car (10% of actual cost) — Any amount charged by employer from employee

Find out the amount spent by employer on running and maintenance of car including depreciation, salary of chauffeur, etc. ***

Less any amount paid or reimbursed by employee ***

Value of perk to be taxed ***

3. **Car is used partly in the performance of duties and partly for private or personal purposes.**

- i. The expenses on maintenance and running are met or reimbursed by the employer

a. Where cubic capacity of engine does not exceed 1.6 litres Rs. 1,800 p.m.

b. Where cubic capacity of engine exceeds 1.6 litres Rs. 2,400 p.m.

- ii. The expenses on running and maintenance for private or personal use are fully met by employee himself.

a. Where cubic capacity of engine does not exceed 1.6 litres Rs. 600 p.m.

b. Where cubic capacity of engine exceeds 1.6 litres Rs. 900 p.m.

- iii. Facility of Chauffeur, in case of chauffeur or driver is also provided by employer to run the motor car Rs. 900 p.m. shall be added in the above mentioned amounts mentioned in point (i) and (ii) above.

Value of Perk = Amount specified for use of car + Rs. 900 p.m. for driver's salary.

Note: No deduction shall be allowed out of the value of perk calculated as per points (i), (ii) and (iii) above in respect of any amount charged/recovered by employer from employee as such account.

B. Car is owned by employee but its running and maintenance expenses are met or reimbursed by employer.

INCOME FROM SALARIES

1. Car is being used wholly and exclusively for official purposes. No value to be taxed but a proper log book must be maintained.
2. Car is being used partly for official purposes and partly for personal or private purposes. Taxable value of this perk shall be calculated as under:

Find out the actual amount of expenditure incurred by employer ***

Less:

Rs. 1800 p.m. for small car and Rs. 2,400 p.m. for big car plus

Rs. 900 p.m, for driver or a higher sum for official purposes subject to certain conditions * * *

Value of perk * * *

C. Where the employee owns any other automotive conveyance but the actual running and maintenance expensive are met or reimbursed by the employer.

1. Employee's conveyance is being used only for official purposes no value to be taxed but a proper log book is required to be maintained.
2. Employee's conveyance used partly for official purposes and partly for personal or private purposes of the employee.

Taxable value of the perk shall be the actual amount of expenditure incurred by the employer as reduced by the amount of Rs. 900 p.m. or a higher sum for official purposes subject to certain conditions.

Employee or any member of his household uses more than one car belonging to employer

Valuation of one car (at the choice of the employee) shall be @ Rs. 1,800 p.m. or 2,400 p.m. as the case may be and the valuation of any other car or cars shall be made as if he had been provided with such a car or cars exclusively for his private or personal purposes.

Car at concessional rate:

First of all calculate the value as if car has been provided totally free of cost * * *

Less any amount charged from the employee for the use of the car * * *

Value of perk to be taxed * * *

Free use of car between office and residence:

Use of employer's car to go to the place of employee's work and come back to his residence is not a taxable perk and hence it is ignored.

Conveyance facility to high court and Supreme court judges

It is fully exempted.

Meaning of Month

Month means a complete calendar month and if there is a part of the month, the same shall be ignored.

INCOME FROM SALARIES

C-IV. FREE EDUCATIONAL FACILITIES TO CHILDREN OF EMPLOYEE'S HOUSEHOLD {RULE 3(5)}

1. **Payment or reimbursement of fees of school, college, etc.** It is a taxable perquisite whether the employee is a specified or non-specified type of employee.

2. **Educational facilities in a school or college maintained by employer (Employer's institute).** In case school, college, etc. is run or maintained by the employer and free educational facilities are given to the children of employee or nay other member of his household, the valuation of this perk is to be calculated as under:

i. Free educational facilities to employee's own children:

a. Where the cost of education in that school or college or in a similar type of institutions in or near the locality does not exceed Rs. 1,000 p.m., the taxable value of perk shall be taken as nil.

b. Where the cost of education exceeds Rs. 1,000 p.m. the taxable value of perk shall be the cost to the employer minus (-) Rs. 1,000 and (-) any amount paid or received from the employee.

ii. Free educational facilities to nay member/members of employee's household:

Taxable value of the perk shall be its cost to the employer minus (-) any amount paid by employee or received or recovered from the employee.

C-V. FACILITY OF FREE OR CONCESSIONAL PRIVATE JOURNEY TO AN EMPLOYEE BY THE EMPLOYER ENGAGED IN THE CARRIAGE OF PASSENGERS OR GOODS {RULE 3(6)}

If an employer who is engaged in the carriage of passengers or goods provides the facility of personal/private journey either free of cost or at concessional rate to any employee or to any member of his household, the value of perk shall be taken to be the value at which such benefit or amenity is offered by such employer to the public.

However, if employer charges/recovers any amount from the employee for such facility then such amount shall be deducted while calculating the value of perk.

Value of Perk — {Normal freight or fare chargeable from public} — {Amount charged/recovered from employee}

In case this facility is provided to an employee of railways and airlines, nothing shall be chargeable to tax.

Conveyance facility provided to the employee for journey between office and his residence is also not chargeable to tax.

C-VI. MEDICAL FACILITIES

INCOME FROM SALARIES

Medical facilities other than exempted (as discussed under exempted perquisites) are taxable in the hands of 'specified employees'. However, medical facility in the form of reimbursement by employer is taxable in the hands of all employees u/s 17(2)(iv).

Leave Travel Concession/Assistance {section 10(5)}

Through this provision employees are encouraged to travel anywhere in India along with their families and to help the employee the travel expenses are given by employer which are exempt u/s 10(5). The other details of this exemption are as follows:

- 1) **If journey is performed by air.** Least of following two amount shall be exempted
 - a. Economy class air fare of the national carrier by the shortest route.
 - b. Actual amount spent by the employee or journey by air travel.
- 2) **If journey is performed by rail.**
 - a. Air-conditioned first class rail fare by the shortest route.
 - b. Actual amount spent by the employee on journey by rail.
- 3) If place of origin of journey and place of destination is connected by rail. In case place of origin of journey and place of destination of journey of employee is connected with rail but the employee uses any other mode of transportation, the amount of exemption allowed shall be least of following 2 amounts
 - a. Air conditioned first class rail fare by the shortest route.
 - b. Actual amount spent by the employee on that journey.
- 4) **If place of origin of journey and place of destination is not connected by rail.**
 - a. If a recognized public transport system is operating.
 - I. First class or delux class fare by the shortest route.
 - II. Actual amount spent by the employee on that journey.
 - b. If a recognized public transport system does not exist.
 - i. Air conditioned first class rail fare by the shortest route.
 - ii. actual amount spent by the employee on this journey.

OTHER POINTS

- a. **Block of 4 years.** A block will be consist of 4 calendar years, e.g.,
 - 2004-2007 - 1-1-2004 31-12-2007
 - 2008-2011 - 1-1-2008 - 31-12-2011
 - 2012-2015 1-1-2012- 31-12-2015
 - 2016-2019 1-1-2016 31-12-2019

An exemption under this clause shall be allowed only in case of two journeys undertaken by the employee in one block of 4 calendar years.

INCOME FROM SALARIES

- b. **Carry over clause.** In case employee could not avail of the benefit of this exemption in any block of 4 years by not undertaking one or both the journeys, the benefit of this exemption can be claimed in the first calendar year of the next block.

For example, the employee could not undertaken any or both the journeys in the block of 2008-2011, then he can claim the benefit of carry over and undertaken the journey and get the exemption in the first calendar year of the next block, i.e., in the calendar year of 2012. The benefit of exemption of 2 journeys in this block will also be available.

- c. **Rail/Air/Bus fare only.** The exemption shall be available only and strictly in case of rail, air and bus fare. Any other type of expenditure incurred by the employee is to be ignored.
- d. **Exemption only regarding actual expenditure.** Exemption shall be allowed only if the journey has been undertaken and actual expenditure incurred on fare shall be eligible for exemption.
- e. **Family.** 'Family' for this purpose shall include legally wedded wife/husband, children and parents, brothers, sisters of the employee if they are wholly and mainly dependent upon the employee.
- f. **Not more than 2 children.** This exemption shall be available only in case 2 children of the employee but his restriction does not apply in respect born before 1-10-1998 and also in respect of multiple births after one child.

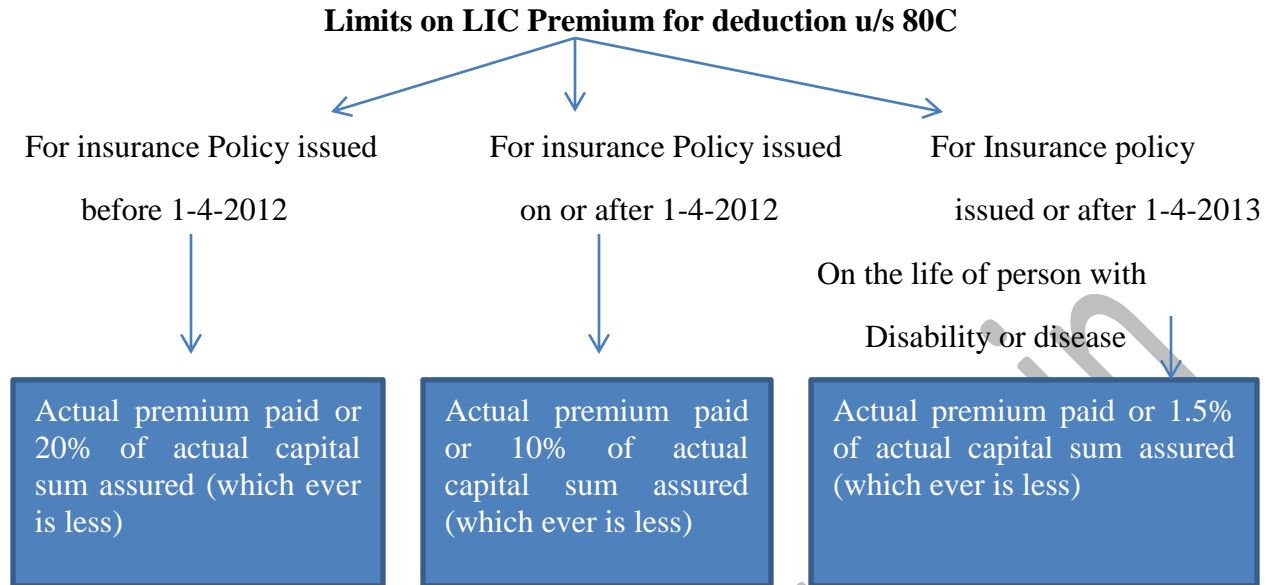
DEDUCTION U/S 80C OUT OF GROSS TOTAL INCOME

RATE OF DEDUCTION: - Total amount deposited in various approved savings schemes or Rs. 1 pp ,50,000 p.a. w.e. is less shall he allowed as deduction. This limit of 1,50,000 also includes the amount of deduction allowable to the assessee u/s 80CCC and 80CCD.

QUALIFYING AMOUNT (Q.A.) FOR DEDUCTION u/s 80c

1. **Deposits made in Provident Funds.**
 - a. Deposits made in Public Provident Fund. This Provident Fund account can be opened in the name of the employee (assessee), spouse or children and amount deposited by the assessee during the previous year in any of these accounts shall qualify up to a maximum of Rs. 1,50,000. Repayment of any loan taken will not qualify for the deduction.
2. Payment of Life Insurance Premium.

INCOME FROM SALARIES



Note: For persons suffering from disability (as referred to in Section 80U) or disease "as specified in the rules made u/s 80DDB, the deduction u/s 80C shall be available if the premium for the policy does not exceed 15 % of capital sum assured for policies issued on or after 1-4-2013.

3. **Amount deposited in the Sukanya Samridhi Account.,**
4. **Amount deducted out of Govt. employee's salary towards deferred annuity.** The amount so deducted but not exceeding 20% of his salary will qualify for this deduction.
5. **Payment made towards Group Insurance.**
6. **Deposits made in approved Superannuation Fund.**
7. **Payment for a deferred annuity.**
8. **Deposits made in Unit Linked insurance Plan (ULIP).**
9. **Amount invested in National Savings Certificates — VIII Issue or IX issue.**
10. **Amount invested in National Savings Scheme (NSS) 1992.**
11. **Amount paid to LIC under Jeevan dhara, Jeevan Akshay Policies.**
12. **Amount invested in notified Pension Funds set up by mutual Funds or UT1.**
13. **Amount deposited with National Muslim Bank.**
14. **Amount deposited with an authority engaged in Housing Development or Town or Rural Development.**
15. **Any subscription in deposit scheme of Central Govt.**
16. **Term Deposits with Banks.**
17. **Amount deposited or invested in Equity Linked Saving Scheme (ELSS).**
18. **Repayment of house building loan.**
19. **Payment of tuition fees.**

INCOME FROM SALARIES

- a. For the purpose of full time education of any two children of the individual. The amount, which shall qualify under section., shall not exceed actual amount paid as tuition fee for two children only.
20. **Amount paid as subscription to equity shares or debentures.**
21. **Amount paid as subscription to units of a mutual fund.**
22. **Investment in Notified bonds issued by INABARD.**
23. **Deposits in Post Office Time Deposit and Senior Citizens Savings Scheme.**
 - a. Five year time deposit in an account under Post Office Time Deposit Rules 1981.
 - b. Deposit in an account under the senior citizens Savings Scheme Rules 2004. These deposits are for 5 years and if withdrawn before the expiry of the period of 5 years, the amount so withdrawn shall be deemed to be income of the assessee of the year in which withdrawn. Not taxable if withdrawn by legal heirs.

OTHER POINTS

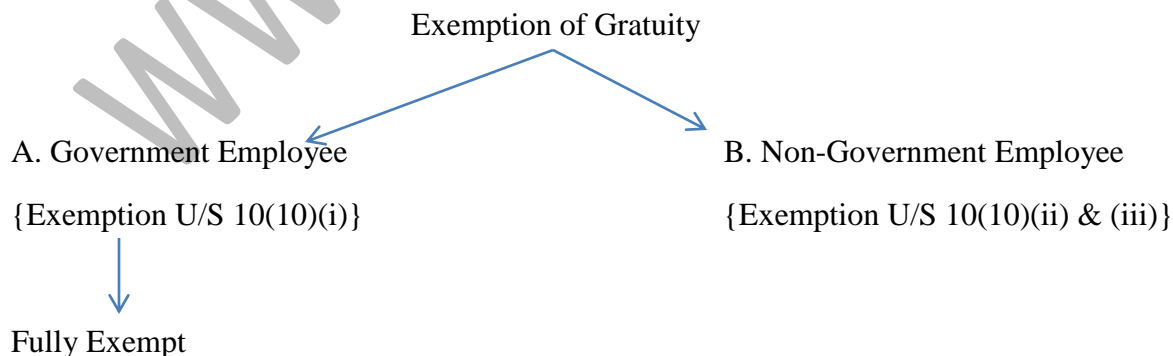
1. Deduction u/s 80C shall be allowed even if investment is made in these savings scheme out of assessee's savings of past previous year or out of any other income which is otherwise exempt under Income-Tax Act.
2. Deduction u/s 80C shall be allowed out of assessee's gross Total Income. This deduction is not allowed out of assessee's income of long Term Capital Gain and income from gambling.
3. Deduction u/s 80C shall be allowed only if amount has been actually deposited or paid in these savings schemes up to 31' March. So any amount due but not paid up to 31st March shall not qualify for this deduction.

1. DEATH-CUM-RETIREMENT GRATUITY {SECTION 10(10)}

Gratuity refers to a lumpsum payment made by an employer to his employee at the time of leaving job in appreciation of his long and loyal services.

Occasions to receive gratuity

- I. **At the time of leaving job** II. **In the event of death of employee**



INCOME FROM SALARIES

B(I) Employee covered	B(II) Employee not covered
Under POGA, 1972	under POGA 1972
{Sec. 10(10)(ii)}	{Sec. 10(10) (iii)}
↓	↓
Exemption upto	Exemption upto
least of 3 amounts	least of 3 amounts

B-I. Non-Government employee receiving gratuity under payment of gratuity Act, 1972 (POGA). Any gratuity received by such an employee shall be exempt to the extent of least of following 3 amounts:

- a. 15 days salary (7 days in case of employees working in seasonal factories) for each completed year of service or part thereof in excess of six months on the basis of monthly salary last drawn.
- b. Notified limit Rs. 10,00,000.
- c. Gratuity actually received by the employee and balance shall be taxable.

Taxable Gratuity = Gratuity received — Exempt

2. **Calculation of Length of Service/Service Period.** While calculating length of service period exceeding 6 months is to be taken as full year.

For example. Part of the year upto 6 months is to be ignored. In case employee has worked with more than one employer but is receiving gratuity only from present employer, his total service, i.e., from all previous employers from whom has not received any gratuity, shall be counted.

3. **How to calculate 15 days salary?** A. In case of monthly rated employees.

Example:

Calculate wages for 3 months ending on the date of retirement ***

Less: Any amount received as overtime payment ***

Wages of 3 months ***

Divide by 3 find out wages of one month

15 day's wages = Wages of one month x 15/26

4. **Meaning of salary.** 'Salary' means salary last drawn by the employee and it also includes dearness allowance but does not include bonus and other allowances.

Thus, Salary = Basic salary + D.A. (whether enters or not)

5. **Whole life exemption limit.** The notified exemption limit of Rs. 10,00,000 is a whole life exemption limit for an employee. It can be explained as follows:

- a. If employee receives gratuity for the 1st time in his life. While calculating exemption, the notified limit of Rs. 10,00,000 shall be applicable and he shall be granted exemption in respect of least of 3 limit discussed earlier.

INCOME FROM SALARIES

- b. If employee receives gratuity for the Second/Third or subsequent times. While calculating exemption on subsequent occasion, the notified exemption limit to be taken shall be as follows:
Maximum Notified Limit of Rs. 10,00,000 (less) Exemption claimed in the past.
6. **Gratuity received during service.** In case gratuity is received by an employee during the continuance of service with the same employer, it shall be fully taxable in the hands of such employee

B--II. NON-GOVERNMENT EMPLOYEES RECEIVING GRATUITY (NOT COVERED UNDER PAYMENT OF GRATUITY ACT). Least following 3 amounts shall be exempt:

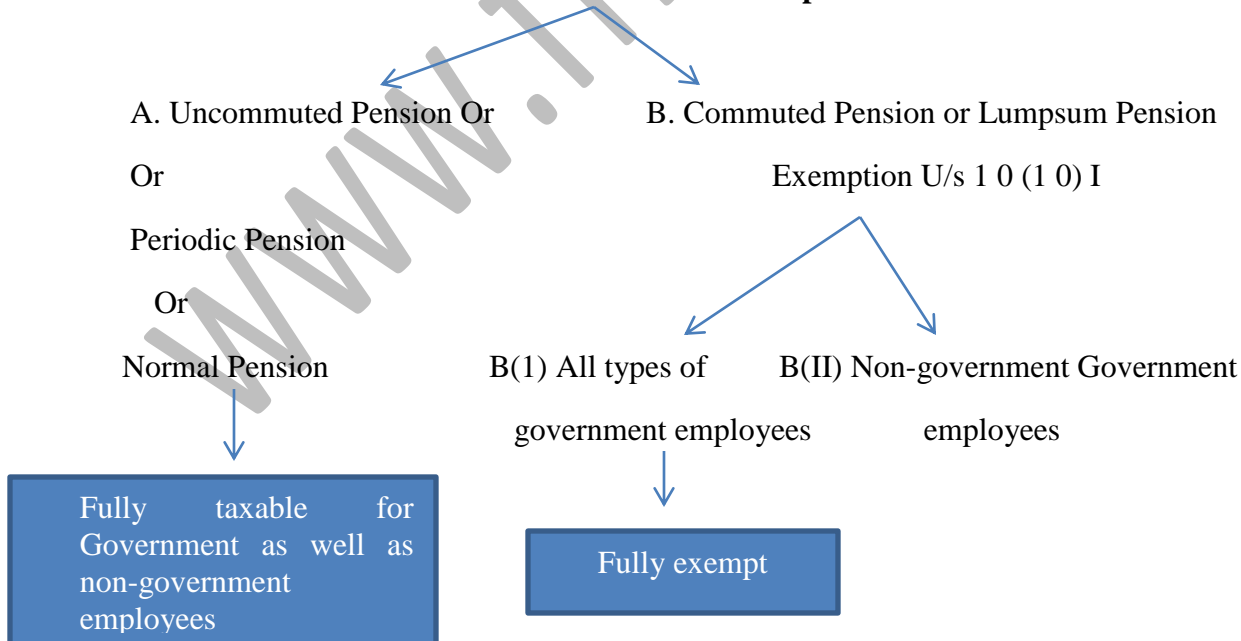
- 1/2 month salary for every completed year of service on the basis of average salary drawn during 10 months immediately preceding the month of retirement.
- Maximum notified limit, Rs. 10,00,000.
- Gratuity actually received by the employee and balance shall be taxable.

IMPORTANT NOTES

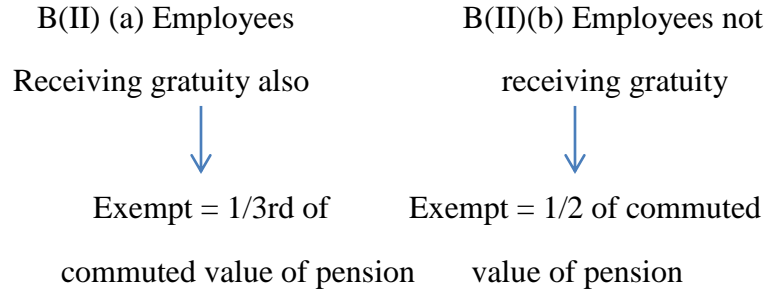
- Calculation of length of service/service period.** While calculating length of service, only completed years are to be counted. Thus, any fraction or part of the year is to be ignored. For example (i) if service period --- 25 year 9 months, it is to be taken as 25 years. (ii) if service period 25 years 4 months, it is also to be taken as 25 years.
- Meaning of salary. Salary** — Basic Salary + D.A (Enters) Commission payable at a fixed percentage of turnover achieved by employee.

PENSION (MON AND COMMUTED)

Tax Treatment of pension

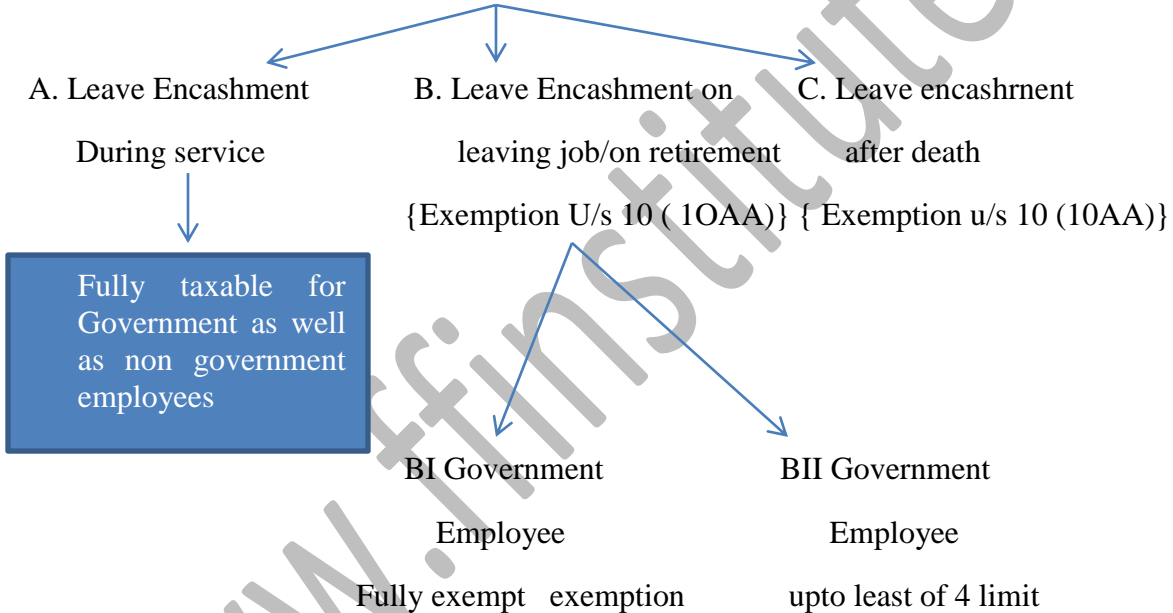


INCOME FROM SALARIES



3. Leave Encashment {Section 10(10AA)}

Tax Treatment of Leave Encashment



BII For Non-Government Employees.

Salary = Basic Salary + D.A (enters) D.P + Commission on Turnover

Leave Encashment after death. In case the amount of leave encashment is given to leg al heirs of deceased employee, it will be fully exempt.

BII For Non-Government employees. Any payment. received as leave encashment at the time of retirement or upto the least of following amounts Any payment. received as leave on leaving job otherwise shall be exempt 10(10AA)(ii)

1. Maximum 10 months salary on the basis of average salary drawn during 10 months immediately preceeding his retirement/leaving job otherwise.
2. Salary for approved period of leave standing to his credit at the time of retirement/leaving job otherwise.

INCOME FROM SALARIES

3. Maximum notified Rs. 3,00,000 AS specified by the central government)
4. Actual amount received as leave encashment.
And balanced shall be taxable
{Taxable amount of leave encashment}={Amount of leave encashment received -
{Exempt amount, i.e., least of 4 limits

A-1.Free medical facilities or reimbursement of medical expenditure. Exemption under this section shall be allowed for treatment of self, wife, dependent children, dependent parents and dependent brothers and sisters.

Medical Facilities in India:

1. If treatment was taken from a hospital maintained by employer: Fully exempted
2. If treatment is taken from a hospital maintained by Central, State Govt., local authority or a hospital is approved by the government for the purpose of medical treatment of its employees: Fully Exempted
3. If treatment is taken in respect of prescribed diseases or ailments specified in Rule 3A, in any hospital approved by the CCIT: Fully exempted
4. In case treatment is taken from a private or unrecognized hospital, the benefit is exempted up to Rs. 15,000 p.a.
5. In case employer, under a scheme approved by the Central Govt. pays medical insurance premium of employees: Fully exempted
6. In case any health insurance premium is paid by employer to General Insurance Corporation under notified scheme (Mediclaime u/s 80D) to insure the health of its employees and members if their families: Fully Exempted

TAXABILITY OF PERQUISITIES

A. Exempted for all employees	B. Taxable for all employees	C. Taxable for specified employees only
<ol style="list-style-type: none"> 1. Free medical facilities as given u/s 17(2) (proviso) (see details on next pages). 2. Free medical facilities as given u/s 17(2) (proviso) (see details on next pages). 3. Free recreational facilities. 4. Provision of telephone whether basic or cellular exclusively for official use. 5. Free meals provided in remote area or at offshore installation are fully exempted. 6. Free education, training or refresher course for 	<ol style="list-style-type: none"> 1. Rent free house. 2. Concessional Rent House. 3. Obligation of employee met by employer. 4. Any amount of life insurance premium paid by employer during the previous year. 5. Value of specified security or sweat equity shares allotted or transferred. 6. Contribution to approved superannuation fund of the employee of Rs. 1,50,000. 7. Other fringe benefits: <ol style="list-style-type: none"> a. Interest free or concessional loan. 	<ol style="list-style-type: none"> 1. Car, or any other automotive conveyance. 2. Services of domestic servants including sweeper, watch-man, gardner, personal attendant provided by employer. 3. Gas, water and electricity facility. 4. Education facility for children. 5. Free transport allowed by employer engaged in transport business. 6. Medical facility.

INCOME FROM SALARIES

<p>employees.</p> <p>7. Leave Travel Concession if given twice in a block of 4 years.</p> <p>8. Free ration received by members of armed forces.</p> <p>9. Perquisites allowed by Government to its employees posted abroad.</p> <p>10. Rent free house given to an officer of Parliament, a Union Minister, and leader of Opposition in Parliament.</p> <p>11. Free residence and Conveyance facilities to judges of Supreme Court and High Court.</p> <p>12. Free conveyance provided by employer to employee for going to or coming from place of employment.</p> <p>13. Any amount contributed by employer towards pension or deferred annuity scheme.</p> <p>14. Employer's contribution to staff group insurance scheme.</p> <p>15. Computers, laptops given to (not transferred) an employee for official/personal use.</p> <p>16. Transfer of a moveable asset (computer, car or electronic items) more than 10 years old without consideration.</p> <p>17. Accident insurance premium paid by employer for his own benefit.</p> <p>18. Interest free loan or loan at concessional rate of interest taken by employee from employer if amount of loan does not exceed Rs. 20,000 or loan is taken for medical treatment.</p> <p>19. Value of any shares or debentures given free of cost or at</p>	<p>b. Travelling, Touring, Accommodation.</p> <p>c. Food or beverages facility.</p> <p>d. Gift or Voucher or Token facility.</p> <p>e. Credit card facility.</p> <p>f. Club facility.</p> <p>g. Use of movable assets.</p> <p>h. Transfer of movable assets.</p> <p>i. Any other benefit or amenity.</p>	
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INCOME FROM SALARIES

concessional rate of employees under stock option scheme approved by the Central Govt. 20. Income Tax on perks paid by employer. 21. Rent free accommodation given in remote or offshore areas.		
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Medical facilities outside India:

1. If the employee or nay member of his family goes outside India for treatment, medical expenses paid or reimbursed by employer: {Fully exempted but to the extent it permitted by the Reserve Bank of India. }
2. expenses on the stay of the patient and one attendant paid or reimbursed by employer: {Fully exempted but again up to the amount permitted by RBI. }
3. Expenses incurred by employer on the travelling to the foreign country of the patient and one attendant without including therein the said expenditure: {Fully exempted provided gross total income of the employee does not exceed Rs. 2,00,000 p.a. without including therein the said expenditure. }

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