

INCOME FROM SALARIES

Basic concepts that one must know

1. This income is chargeable under section 15,16 and 17 of the income tax act.

Salary means any payment made at regular intervals for services rendered. The same need not be of a permanent nature. Even an employment of a temporary nature would still qualify for chargeability under the income of salaries.

To charge any income under this head, the basic requirement is that there should be employer and employee relationship between the 2 parties.

Are as follows: -

1] **The employer-employee relationship is essential.** This is the most important condition for the income to be taxed under salary. If the income is received without this relation then the same cannot be put to tax under the head salaries. If your boss gives you a gift on the occasion of your marriage then the same is not taxed as salaries.

2] **The relationship must be real and not illusionary.** It means there should be two different persons involved in giving salary and receiving it. In one famous school case the owner of the school paid salary to himself in various capacities like peon, teacher, principal, and accountant because he was the person who did all the jobs. This is not allowed in salary. It means that the employer and the employee are two different persons and should not be one and the same person.

Salary may be received for past and for future services also.

Salary is taxable on receipt or accrual basis, whichever occurs first.

However, salary once taxed on receipt basis (Advance salary) will not be taxed again on due basis. If it is taxed again on due basis then it will lead to double taxation.

Unlike accounts conceptually salary and wages are same for the purpose of income tax.

Accounts treats that wages are paid to the factory workers debited to trading account and salaries are paid to the office employees, which is debited to the profit and loss account. But income tax makes no such difference.

Salary donated is taxable as salary

Strange but true but even if the employee has not received the same in his hands it would be taxable.

Similarly salary foregone is also taxable.

Salary paid tax-free is also taxable

Salary surrendered is also taxable, except one

It is still taxable. But if the same were surrendered under the section 2 of the voluntary surrender of salaries exemption from taxation act 1961 then the same would be exempt from tax.

Like all cases of direct taxes there are 2 authorities in salaries. The tax collecting authority i.e. the govt. of India and the tax paying body which is the assessee.

Full salary is not taxable.

If you are earning a salary of Rs 5000 per month then the full amount is not taxable. Some expenses that must have been incurred for earning the salary are allowed as deduction. Thus the concept is as follows

TAXABLE SALARY= GROSS SALARY –EXPENSES INCURRED FOR EARNING THE SALARY.

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The income side of salary consists of 4 heads

1. **SALARY**: these are contractual payments that are agreed upon between the employer and the employee under the terms of employment. These are statutory in nature and would include the following items.
 Salary, wages, advance salary, commission, advance of salary, arrears of salary, leave salary, annuity, gratuity, pension, bonus, ex-gratia payments etc.
2. **ALLOWANCE**: these are the amounts given by the employer to the employee for carrying out the job responsibilities in an efficient manner. E.g. an airhostess is given a kit allowance and a wardrobe allowance so that she can carry out her duties properly and stay beautiful which is a requirement of her job. Similarly sales man is given a traveling allowance because it is the requirement of the job that he should travel extensively for procuring business.
3. **PERQUISITES**: There are the non-cash benefits, which an employee receives from his employer during the course of employment. The main important difference between the allowance and the perquisites is that the allowance are received by the employee in his hands and then they are spent, where as in the case of perquisites the money is not received, it is only the advantage that is received. E.g. free car given to the employee for his personal as well as official use by the employer is an example of perquisite because the employee does not receive any money but he gets a non-monetary benefit of using the car.
4. **PROFITS IN LIEU OF SALARY**: These are the payments that are made by the employer to the employee on account of distribution of the profit, which he shares, with the employee. These may include the direct and the indirect benefits of profits that may accrue to the employee from the employment. E.g. ESOP or employee stock option schemes are the best example of profits in lieu of salary. It also includes any 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. The amount of any compensation due to or received by an assessee from his employer or former employer in connection with the modification of terms and conditions of the employment.

Gross total salary: the total of all the items of the income part of the salary is known as the gross total salary.

GROSS TOTAL SALARY= SALARY + ALLOWANCE + PERQUISITES + PROFITS IN LIEU OF SALARY.

From the Gross total salary **THREE DEDUCTIONS ARE ALLOWED** which are as follows

1. **STANDARD DEDUCTION**: This is the generalized deduction that is given to each employee for incurring various types of expenses during the course of employment like the cost of traveling, or cost of food and other such expenses. The deduction is allowed on the basis of the following classification

Slab of gross salary. [This is calculated after deducting the profession tax and the deduction for entertainment allowance.]	Amount of deduction
For salary upto Rs 5,00,000	40% of gross total salary or Rs 30000 which ever is less
Above Rs. 500000	Nil

2. **ENTERTAINMENT ALLOWANCE**. This is a special deduction that is given to any person who receives this allowance. This deduction depends on the fact whether the employee is a govt. employee or a non-govt. employee.

If the **employee is a govt. employee the deduction is the least** of the following

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- a. Actual entertainment allowance
- b. 20% of basic salary
- c. Rs. 5000

With effect from assessment year 2002-03 the deduction of entertainment allowance is not given to the non government employee

PROFESSION TAX

This is a state govt. tax and is to be paid by the employee if he is an employee of the state of Maharashtra. This is allowed only on paid basis and the employer deducts the same from the salary of the employee and pays it to the govt.

Place of accrual is important for determining the taxability

It should be noted that **salary paid for services rendered in India would be taxable even if it is paid outside India because the place of accrual is important.**

Pension paid out of India for services rendered in India is deemed to accrue in India and hence taxable

But any salary paid to an Indian national who is a diplomat of the govt of India like a **consulate general or a foreign secretary who is posted out of India** to any other country **then his salary is taxable only but his allowance are not taxable.** The reason for this is he is on deputation to the country outside India but his employer still is the govt of India and so income is assumed to accrue in India. It should be also noted that the allowances and the perquisites that are given to such employees are exempt under section 10(7).

Leave salary:

According to the labour laws in India every employee is entitled for a minimum period of leave . generally this leave period is a minimum period 30 days per year and the maximum period may vary from organization to organization.

If leave salary is received during the course of employment then entire amount is taxable as salary. This is true for both the govt. as well as the non-govt. employees

If leave salary is received on retirement, death or superannuation then the provisions are different for Govt. employee or a Non Govt. employee.

In case of a govt. employee the entire leave salary is exempt from tax.

In case of non- govt. employees the minimum of the following is exempt from tax.

1. An amount equal to 30 days salary calculated for every completed year of service It means if an employee retires after 24 years and 9 months then the salary would be calculated for only 24 years and not for the 9 months. It means that part year or incomplete year is to be ignored.
2. Actual leave salary received at the time of retirement.
3. Rs 240000[amt specified by the govt.]
4. 10 months average salary.

The following points are very Important for consideration in case of leave salary.

1. Retirement by way of voluntary retirement or by resignation also qualify for exemption
2. If a relative of a deceased employee dies in harness the amount received by the relatives is not taxable as salary.

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3. According to the circular no F35/I/65 I T-B dated 5th November 1965 any salary received by the relatives of the deceased employee of a private sector employee is exempt from tax.
4. Salary for the above purpose means **Basic +D.A. + commission received by the employee on the turnover achieved by him.**
5. Please note that the amount, which is specified by the govt., is for a full lifetime and if the employee has claimed such exemption in the previous employment then the said amount would stand reduced to that extent. E.g. if A was working with X ltd and when he retired from that company he claimed the exemption of Rs 100000 for leave salary. Now he then joins Y ltd and then when he retires from Y ltd the amount that is specified by the govt. stands reduced by the amount that he has actually claimed in his previous employment.

BONUS: Is taxable only on receipt basis. It also means that if, bonus is received by the employee it is taxable. If bonus is declared and the same is not received then it is not taxable.

SALARY IN LIEU OF NOTICE PERIOD: Is taxable only on receipt basis.

SALARY PAID TO THE PARTNER OF THE PARTNER SHIP FIRM. Is not taxable as salary but is taxable as income from business or other sources because there is no employer and employee relation between the partner and the partnership firm.

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Gratuity

Any amount received by the employee on account of gratuity on retirement or superannuation or otherwise is treated to tax as follows.

Gratuity received by the govt. employee: Any death cum retirement gratuity received by the employees of the central govt. or the state govt. or the local authority is **fully exempt from tax**

In case Gratuity is recd by a non- govt. employee

Case 1: If the **employee is covered under the payment of gratuity act 1972** then the minimum of the following

1. Actual Gratuity Received
2. 15 days salary calculated for every completed year of service or part thereof in excess of six months
3. Rs 350000 [amount specified by the government from time to time]

In this case please note the following:

15 days salary is taken as 15/26 days.

Salary means basic salary +D.A. only.

In case of seasonal employment the same is taken at 7 days salary. If the year is incomplete then the no of years to be taken are the nearest complete number of years. E.g. if the employee retires after 16 years and 8 months then in this case it will be taken at 17 years. But if it is 16 years and 3 months then the same is taken as 16 years.

If the employee is not covered under the payment of gratuity act

Then the minimum of the following is exempt from tax.

1. Actual Gratuity received
2. 15 days salary calculated for every completed year of service
3. Rs. 350000

15 days salary is taken as 15/30 days.

Salary means basic salary +D.A.+ commission if the same is calculated for retirement benefits.

In case of seasonal employment the same is taken at 7 days salary. If the year is incomplete then the no of years to be taken are the complete years only. E.g. if the employee retires after 16 years and 8 months then in this case it will be taken at 16 years.

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Annuitiy: If received from the present employer it is taxable as salary and if it is received from the past employer then the same is taxable as profits in lieu of salary.

Retrenchment compensation: If taxable as salary but is exempt to the extent of the minimum of the following.

1. Actual amount received
2. Rs 500000

Amount as per the provisions of the industrial dispute act 1947[given in the problem

Pension:

Pension is a periodical payment made to the employee for the past services. In the case of un commuted pension the same is taxable. In case the pension is commuted the following is the tax treatment.

1. In case of government employee: The entire commuted pension is exempt from tax.
2. In case of non-government employees the following steps are be followed.

Find the amount of pension that is commuted and the percentage of pension commuted
Calculate the full value of the commuted pension as follows:

$$\frac{\text{Amount commuted} * 100}{\% \text{ Of pension commuted}}$$

Find out if the employee has received gratuity or not. If the employee has received the gratuity then taxable pension is as follows

Taxable commuted pension = total amount received – **1/3** of the full value of commuted pension is taxable.

If the employee has not received the gratuity then

Taxable commuted pension = total amount received – **1/2** of the full value of commuted pension is taxable.

Salary from the United Nations Organization received in India **is not taxable.**

Voluntary payment made by the employer to the employee is taxable only if they arise from the employer and employee relation. If they are received for other reasons then the same are not taxable as salary.

[Lewitt v/s Bridges]

Lump sum payments made to the widow of the husband who died in service are not taxable as salary. Circular 573, dated 21st of August 1999

Allowances are of 4 types

1. **Allowances that are fully exempt from tax:** these are the allowances that are not taxable under the act. The following allowances are not taxable
 - Allowance of the Judges of the High court and the Supreme Court
 - Sumptuary allowances that are given to the judges of the high court and the Supreme Court.
 - Daily allowance received by the members of the parliament and the legislature etc.
 - Allowance received by Indian ambassadors out of India
 - Allowance received for the United Nations organizations
 - Allowances that are received by the people bestowed upon the Padmabhushan and Bharat Ratna awards

2. **Allowance that are fully taxable.** These are the allowance which are fully taxable irrespective of the fact how much of them are spent.
- City compensatory allowance
 - Dearness allowance
 - Fixed medical allowance

3. **Allowances that are exempt to the extent they are spent.**
90% of the allowances come under this category. Other than the one, which are mentioned here, all other allowance would come under this category.

- Uniform allowance
- Laundry allowance
- Traveling allowance
- Daily allowance
- Research allowance

4. **Allowances that are exempt to the extent of the limit specified under the act.**
These are the allowances, which are exempt from tax for a fixed amount mentioned under the act.
House rent allowance
Hill allowance
Transport allowance
Tribal area allowance
Notified disturbed area allowance
Education allowance.

ALLOWANCES AND THEIR TAXABILITY

Dearness allowance: It is fully taxable
City compensatory allowance is fully taxable

House rent allowance is taxable but it is allowed as deduction as follows. Deduction depends whether the employee is staying in the major cities or in other places in India.
If the employee stays in the following cities of Mumbai, Delhi, Calcutta, and Chennai the minimum of the following is exempt from tax

1. Actual House Rent Allowance received in the previous year.
2. 50 % of salary [salary meaning Basic+ DA +Commission]
3. Rent paid – 10% of salary

If the employee stays in the any other city then the minimum of the following is exempt from tax

1. Actual House Rent Allowance received in the previous year.
2. 40 % of salary [salary meaning Basic+ DA +Commission]
3. Rent paid – 10% of salary

Allowance for transport employees

In the case of transport allowance the employees are given this allowance for incurring expenses to travel from the place where they work to their residence. In this allowance **the exemption is Rs 6000 or 70% of the allowance, which ever is lower is exempt from tax.**

Education allowance for children of the employee:

In the case of this allowance the maximum allowance that is exempt is Rs, 100 per child per month subject to the maximum of 2 children.

Hostel Expenditure allowance for children of the employee

In the case of this allowance the maximum allowance that is exempt is Rs 300 per child per month subject to a maximum of 2 children.

Curfew allowance and counter insurgency allowance

The maximum allowed as exemption is Rs. 3900 per month.

Underground allowance:

This is the allowance given for coal miners and people who have to work under unnatural conditions. The amount is exempt to the extent of Rs. 800 per month

Transport allowance:

This is the allowance given for the employees for commuting from office to the place of residence. The amount exempted is Rs. 800 per month. In case the employee is handicapped the same is exempt to Rs. 1600 per month

PERQUISITES

Perquisites are defined as non-monetary benefits, which the employer bestows on the employee for the services that are rendered during the employment. They are casual emoluments or benefits that go in the pocket of the employee. It is not the reimbursement of expenses and they are taxable only if they satisfy the following conditions

1. They are directly dependent on service
2. Resulting to a personal advantage to the employee
3. They are derived in the continuance of employment
4. Derived by virtue of the employee's authority

Perquisites are also derived into 3 types. They are

1. Perquisites that are fully exempt from tax
2. Perquisites that are fully taxable
3. Perquisites that are taxable only in the hands of specified employees

Perquisites exempt from tax

1. Provision for medical facilities
2. Refreshments given to the employees during office
3. Subsidized lunch and dinner given to the employees
4. Free lunch given to the employees through the non transferable vouchers where the amount per meal does not exceed Rs. 50 per meal
5. Free meals provided to off shore employees where there are no lunch facilities
6. Recreational facilities provided to employees
7. Amount contributed by the employees towards the deferred annuity schemes
8. Free telephones including mobile phones
9. Amount spent on the training of employees and their refresher courses.
10. Goods sold to the employees at the concessional rate
11. Privilege passes given to the employees for railway and best undertaking
12. Free holidays trips for non-specified employees
13. Perquisites to the employees out of India for rendering services out of India
14. Leave travel concession given to the employee to the extent that it is taken twice in the block of 4 years
15. Employer's contribution to group insurance schemes
16. Rent free accommodation given to the judges of the Supreme Court and High court and the members of parliament and the prime minister and the President of India.
17. Conveyance facilities given to the judges of the Supreme Court, High court, members of parliament and the prime minister and the President of India.
18. Employer's contribution to the deferred pension and annuity schemes

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19. Value of any benefit provided free of cost or at a concessional rate by the company to its employees by assessment year of allotment of shares debentures or warrants directly or indirectly under the employees stock option scheme in accordance with the guidelines issued by the central government
20. Rent free house provided to the Member of Parliament or the opposition member or the union minister is exempt from tax.
21. Computer or laptop given to the employees for official or personal use.
22. Gift in kind for a value less than Rs. 5000
23. transfer without consideration to an employee of a moveable asset by the employer after using it for more than 10 years
24. Interest free loan given to the employee by the employer for an amount less than Rs. 20000

Perquisites taxable in all cases

1. Value of rent-free accommodation given for assessee by the employer
2. Value of any concession given in the rent to the assessee
3. Any value of cost incurred by the employer on behalf of the employee which otherwise if the obligation of the employee
4. Any insurance premium paid by the employer for maintaining the policy of the employee
5. Value of any prescribed fringe benefits from the employer like use of credit card , travelling or club membership or interest free loan or free meals or gifts beyond Rs. 5000 etc.

Perquisites that are taxable in the case of specified employees

Except for the allowance mentioned in the above 2 paragraphs the remaining perquisites are taxable only in the hands of specified employees.

Who is a specified employee?

Any employee who satisfies either or all of the following condition is considered as a specified employee.
Any employee who is **a director employee of the company** or

Any employee who has **substantial interest in the company** in the form of share holdings of 20% and above or

Any employee who draws salary over Rs 50000 [but this amount is calculated after deduction the standard deduction and all non monetary benefits and also monetary benefits to the extent exempt under the act]

Valuation of rent- free accommodation

The perquisite is valued on the basis whether he is a govt. or non govt or private sector employee.

If the rent-free accommodation is given to the govt. employee

Then the same is calculated on the **basis of the licence fees** that the govt may fix for the said property as per the rules laid down by the govt from time to time for granting such residential accommodation to its employees

If the rent-free accommodation is given to the private sector employee then the perquisite value is calculated as follows

It depends on various factors like the city in which he is staying and the population of the city and also whether the employer owns the property or he has taken it on rent. The following table would make the concept more clear.

City	Where the accommodation is owned by the employer	Where the accommodation is not owned by the employer and the same is taken on lease
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		by him
Having population more than 4 lakhs as per the censuses of 1991	10% percent of salary in respect of the period during which the accommodation is occupied by the employee	Amount of lease rent paid by the employer or 10% of salary which ever is less
Any other city	7.5% of salary in respect of the period during which the accommodation is occupied by the employee	As above

Salary for the above purpose means the following

Basic +DA if the same is calculated for retirement benefits + bonus+ commission +fees + allowance to the extent taxable or monetary payment by whatever name called. Salary does not include the allowances that are exempt from tax or any perquisites

The above rule is not applicable to people who work in remote areas for mining or oil extraction or any other similar project and are given such residential accommodations. In other words the same is not taxable in the hands of such employees

Value of furnished accommodation

If furnished accommodation is given to the employee then the value of the same is calculated as follows

Step no 1: Calculate the value of the unfurnished accommodation as discussed above and

Step no 2: if the employer owns the furniture then the depreciation @10% is to be taken as the taxable value of the perquisite

Step no 3: if the employer does not own any of the asset and he has purchased the same on lease rent then the lease rent added to the salary of the employee

Perquisite for concession in rent:

If the employer is giving a concession in the rent to the employee then the perquisite value is calculated as follows

Total value of the accommodation –rent recovered from the employee. For e.g. if the perquisite value of the house provided is Rs. 10000 but the employer only charges about Rs. 3000 from the employee then the value of the perk is the amt of difference between the perk value and the rent recd and that is 7000.

Valuation of car perquisites

In case an employee is given a car perquisite then the valuation of the same is done as follows

Car owned by the employer and expenses incurred by the employer

Particulars	Car less than 16 hp	Car more than 16 HP
If the car is owned by the employer and the maintenance expenses are also incurred by the employer and the car is used for partly official and partly personal purpose	Rs. 1200 per month is the value of the perquisite.	Rs. 1600 per month is the value of the perquisite
If the car is owned by the employer and the maintenance expenses are also incurred by the employer and the car is fully used for official purposes	Not a perquisite and hence not taxable	Not a perquisite and hence not taxable
If the car is owned by the employer and the maintenance expenses are also incurred by the employer and the car is used for fully personal	Entire depreciation or hire charges and the running cost incurred by the employer is the value of the perquisite	Entire depreciation or hire charges and the running cost incurred by the employer is the value of the perquisite

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Car owned by the employer and expenses incurred by the employee

If the car is owned by the employer and the maintenance expenses are incurred by the employee and the car is used for partly official and partly personal purpose [both]	Rs. 400 per month is the value of the perquisite	Rs. 600 per month is the value of the perquisite
If the car is owned by the employer and the maintenance expenses are also incurred by the employee and the car is fully used for official purposes	Not a perquisite and hence not taxable	Not a perquisite and hence not taxable
If the car is owned by the employer and the maintenance expenses are incurred by the employer and the car is used for fully personal purpose [both]	Entire depreciation or hire charges incurred by the employer is the value of the perquisite	Entire depreciation or hire charges incurred by the employer is the value of the perquisite

Car owned by the employee and expenses incurred by the employer

If the car is owned by the employee and the maintenance expenses are incurred by the employer and the car is used for partly official and partly personal purpose	Actual amount incurred by the employer as reduced by the amount calculated as per the rule IIAC The amount calculated by this rule is Rs. 1200 per month or the actual amount claimed w.e.l	Actual amount incurred by the employer as reduced by the amount calculated as per the rule IIAC The amount calculated by this rule is Rs. 1600 per month or the actual amount claimed w.e.l
If the car is owned by the employer and the maintenance expenses are also incurred by the employee and the car is fully used for official purposes	Not a perquisite and hence not taxable	Not a perquisite and hence not taxable
If the car is owned by the employer and the maintenance expenses are incurred by the employer and the car is used for fully personal purpose	Actual expenditure of the employer is taxable value of the perquisite	Actual expenditure of the employer is taxable value of the perquisite

Vehicle perquisite [other than car]

In some cases the employer may give the employee the vehicle other than a car and so in such cases the valuation is to be done as follows.

The value of the perk would be the actual depreciation and the running expenses that would be incurred by the employer for providing the same and

If the vehicle is owned by the employee and expenses are reimbursed by the employer the perk value of the same is actual expenses – 600 per month.

For all the options given above if a chauffeur is given then additional value to be added as a perquisite is to be taken at Rs 600 per month.

Where the employer provides another mode of automotive than car and the same is used for personal or official use then in such cases the value of the perk is actual expenditure- as reduced by Rs. 600 per month.

Valuation of perquisites in case of the gas water and electricity

If an employer provides the facility of free gas water and electricity please note the following

Where the employer is the owner of the services

In this case the value of the perquisite is the manufacturing costs to the employer. So if MSEB gives a free connection of electricity to its employees then the value of the same is to be taken at the cost of electricity to the employer.

Where the employee is not the owner of the services and he purchases from outside.

In this case the perquisite value to be taken is the actual cost to the employer that he pays from the pocket for the purpose of this perquisite

In case the same is purchased from the outside agency

The perquisite value would be the amount paid by the employer to the outside agency for providing the service

Very important point to be noted in the case of the gas water and electricity is that if the connection is in the name of the employer and then given to the employee then the perquisite is taxable in the case of specified employees only but if the connection is in the name of the employee and the employer is paying the bills of such a gas connection then the same is taxable for all employees, specified as well as non specified employees.

If any amount is charged from the employee then the same is to be reduced from the value of the perquisite of the employee

Where the servant is engaged by the employee and the salary of the same is paid by the employee and then recovered by the employer then the same is only after seeking permission to the dining people set employee the said amount cannot even be.

Valuation of perquisites in case of the servants provided

The new act of 2001 has inserted the provision that any cost incurred by the employer to maintain the servant is the value of the perquisite. If the employee has hired the servant the employer is paying the salary to the employee then the same is taxable in hands of specified and non-specified employee, but if the same is hired is by the employer and the salary is also paid by the employer then the perquisite is not taxable at the hands of the non specified employee and will be taxable in the hands of specified employee only.

Valuation of medical perquisites

The following perquisites are **not taxable in the case of medical facilities** given to the employee.

1. If the employer has maintained a hospital and the employee is given treatment in the hospital then the same is not taxable as perquisite
2. If the employer reimburses any expenses incurred by the employee on medical treatment in a private nursing home then the amount paid up to Rs 15000 is exempt from tax.
3. If the employer pays the bills of the notified government hospital then the same are not taxable as perquisites.
4. Mediclaim insurance paid by the employer on the insurance of the employees is not taxable as perquisites.
5. Expenditure incurred by the employer in the government hospital is totally exempt from tax.
6. Medical expenses incurred by the employer on an employee outside India is exempt from tax provided the same is approved by the RBI of India

Perquisite of right shares to an employee

If the employer gives the shares to the employee free of cost or at reduced price then the same is not taxable as a perquisite in the hands of the employee.

Some education perquisites

Training given to the employee for the development in their work is not taxable

Fixed education allowance given for the children is already discussed before. In other words education allowance is exempt to the extent of Rs. 100 per month per child subject to 2 children and in the case of hostel expenditure allowance the same is exempt to the extent of Rs. 300 pm per child subject to a maximum of two children

If the children of the employee are learning in the school, maintained by the employer then the same is not considered as a taxable perquisite in the hands of the non specified employees but is taxable as a perquisite in the hands of specified employees

If the relatives of the employees are learning and the cost of the same is paid by the employer then this perquisite is taxable to the extent of the amount of cost that would have been incurred if the same were taken elsewhere.

Reimbursement of school fees by the employer is taxable perquisite in all types of employees.
 Payment of school fees of the employee directly by the employer is a taxable perquisite in all case.

If education is taken in the institution maintained by the employer then the value of the same is to be taken as to the cost that would have been incurred in case the same kind of education is taken from some other institution. In similar cases if the value of such a benefit is less than 1000 then the same is not taxable.

If the employer has sponsored some scholarships and the same is received by the children of the employee then the same is not taxable in the hands of the employee and this is not taxable

Free transport facility

In case there is a free transport facility given by the employer to the employee then the same is to be considered as a taxable value to the extent at what cost the employer is giving the service to the general public.

Perquisites for travelling and leave concessions

If any employer pays for the traveling of the employee and his family to his hometown then the same is not taxable as a perquisite.

Similarly if the employer pays for the traveling expenses of employee and his family to any other place in India then the same is not taxable under section 10(5) of the income tax act 1961

If the employer pays for the traveling expenses of employee when the employee retires and goes to his hometown then the same is not taxable as perquisite in the hands of the employees.

Travel related perquisites

The following table gives the rules for exemption for travelling expenditure for various types of journeys.

Type of journey	Amount of exemption
Where the journey is made by air and the two places are connected only by air	Then the cost of ticket for economy class is the amount of exemption
Where the journey is made by rail	Then the cost of ticket for first class air conditioned fare is the amount of exemption
Where the destination are connected by rail but the travel is made other than rail	Then the cost of ticket for first class air conditioned fare is the amount of exemption
Where the destination are not connected by rail	Then the cost of first class ticket for the shortest distance is considered as the amount of exemption if there exists a recognized public transport. If there does not exist any such public transport then the cost of the travel of

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	first class for the same distance by rail is the amount of exemption that is considered.
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Please note the following important points for the case of exemption of travelling

1. The exemption is allowed for the travelling expenses only and not for lodging and boarding
2. The travel expenses are allowed only for two children
3. The exemption in all cases is allowed for the shortest route only.
4. In case the travel is made from one place to another in a circuitous manner then the travel cost is to be considered between the starting point and the farthest point that is travelled
5. if the expenses are not incurred then the same is not allowed.

Valuation of lunch and food allowance and perquisites

Lunch allowance and dinner allowance is fully taxable

Free lunch given by the employer to the employee is taxable as a perquisite in the hands of the specified employees

Subsidized lunch and dinner is not taxable in the hand of the employees

Any reimbursement of expenditure on food and beverages up to Rs 35 per day is not taxable as a perquisite and any amount paid beyond this amount then the extra amount is considered as taxable value of perquisite.

Valuation of perquisite in case of asset transferred or sold to the employee by the employer.

The value of the benefit to the employee arising from the transfer of an asset belonging to the employer either at the reduced cost or free of cost is computed as follows

Find the cost of the asset on the date of sale

WDV on the date of sale is:

Cost of the asset to the employer- depreciation on the asset at the rates prescribed

Value of the perquisite:

The WDV of the asset on the date of sale – the cost recovered from the employee

The rates prescribed by the act for the various assets are as follows

Name of the asset	Rate of dep
Computer	50%
Motor car	20%
Any other asset	10%

If any moveable asset is transferred after a period of ten years from the date of purchase by the employer to the employee then the same is not taxable as a perquisite

The said rates are for the purpose of one full year basis and not for part years.

Perquisite value in the case of moveable assets used by the employee but which is not sold by the employer

In this case an employee is using one of the moveable assets of the employer free of cost to him then the same is taxable as a perquisite in the hands of the employee and the same is computed as follows

10% depreciation on the cost of the asset or the hire charges paid by the employer for the same if the same is hired by the employer for the purpose of the employee.

Club expenditure

If the employer is paying or reimbursing the fees of the club then the same is a taxable perquisite in the hands of the employee provided the conditions of the same are properly followed. Similarly if the same is not used for personal purpose but used for official purpose the same is not taxable perquisite at all.

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Credit card payment

If any employee avails a credit card facility and the same is paid by the employer then the entire annual fees and the other fees for add on cards for the employee are all taxable perquisites of the employee. The same would not be taxable if the credit card is used for the official purposes, provided the same is proved by the employee that the expenses are incurred for office purpose.

Treatment of provident fund and the interest credited to the provident fund.

Under the Income tax Act 1961 act the government gives some benefits to the employee who have invested in the provident funds. The following table would make the entire picture clear about the taxable nature of the provident fund contribution.

In the provident fund the employee and the employer both contribute their amount and the same is credited to the account of the employee. The same then also attracts interest and the same is taxable beyond a certain extent. There is no amount limited for the employee and the employer to contribute to the provident fund account.

Various items	Statutory Provident fund	Recognized provident fund	Unrecognized provident fund	Public provident fund
Employers contribution to the provident fund	Not taxable	Taxable in excess of 12% of salary [salary =Basic +DA]	Exempt from tax	Employer does not contribute
Interest credited to the fund	Not taxable	Taxable beyond 9.5%	Exempt from tax	Exempt from tax
Lump sum recd on maturity	Not taxable	Not taxable	Amount equal to employees share is exempt from tax but employer's share is taxable	Exempt from tax

Valuation of amount received under the voluntary retirement scheme

The said amount is exempt to the extent of the minimum of the following

1. Amount received to the employee
2. Amount decided by the government Rs. 500000
3. The amount that would be in accordance to the rules and regulations that are prescribed from time to time

Valuation of free holiday home facilities

If the same is provided to the employer then the amount of the same is taxable only to the extent of the specified employee. The value of the perquisites in such cases is at the approximate cost of getting the same facilities from outside sources. But if the bills and expenses are in the name of the employee and the same are paid by the employer then in such cases the perquisite value would be taxable to both the types of employee that is specified and non specified.

Important circulars in the case of salaries

Circular no	Context
F-40/29/67/ITA-I dated 22 nd may 1967	That any salary received by the member of parliament or the MLA is not taxable as salary as there is not employer and employee relation
F-35/65/ITB dated 5 th Nov 1965	Any person may be private or public if dies during service the same is not taxable in the hands of the deceased employee's relatives