

# **Department of Commerce (CA)**

## **CORE PAPER-X-DIRECT TAX**

**SEMESTER:V  
M.COM(CA)**

**SUB CODE:18BCA41C**

**UNIT 2: computation of income from salaries and income from house property.**

### **REFERENCE BOOK:**

- INCOME TAX LAW AND PRACTICE- GAUR AND NARANG
- DIRECT TAXES-B.B.LAL
- INCOME TAX LAW AND PRACTICE-DINKAR PAGARE
- INCOME TAX LAW AND PRACTICE -MALHOTRA

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# Meaning

Salary includes [section 17(1)] :-

- ii. Wages
- iii. Any annuity on pension
- iv. Any gratuity
- v. Any fees, commission, bonus, perquisite on profits in lieu of or in addition to any salary on wages
- vi. Any advance of salary
- vii. Any earned leave
- viii. Employers contribution (taxable) towards recognized provident fund.

## BASIS OF CHARGE

Income is taxable under head "Salaries", only if there exists *Employer - Employee Relationship* between the payer and the payee. The following **incomes** shall be chargeable to income-tax under the head "Salaries":-

2. Salary Due
3. Advance Salary [u/s 17(1)(v)]
4. Arrears of Salary

Note:

- (i) Salary is chargeable on due basis or receipt basis, whichever is earlier.
- (ii) Advance salary and Arrears of salary are chargeable to tax on receipt basis only.

# Allowances

Allowance is generally defined as a fixed quantity of money or other substance given regularly in addition to salary for the purpose of meeting some particular requirement connected with the services rendered by the employee or as compensation for unusual conditions of that service.

- Dearness Allowance - It is Always **Taxable**.
- City Compensatory Allowance - It is Always **Taxable**.

## Contd...

### 1. House Rent Allowance

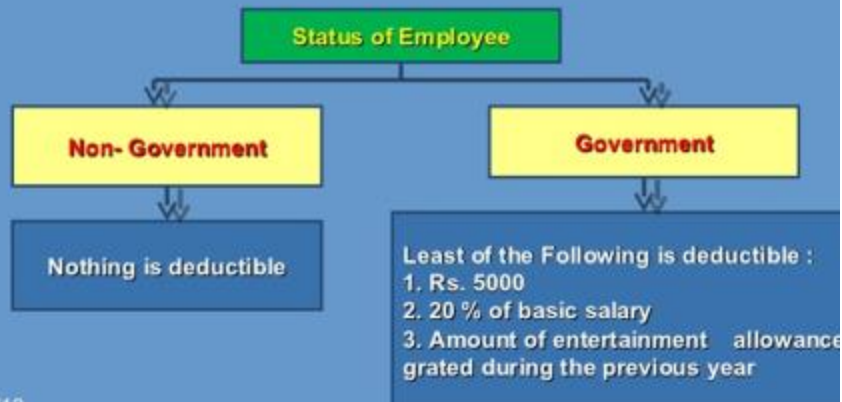
Exemption In Respect Of House Rent allowance is regulated by rule 2A. The least of the three given below is Exempt from Tax.

1	An Amount Equal to 50 % of Salary. Where Residential House is situated at Bombay, Calcutta, Delhi or Madras and An Amount Equal to 40 % of Salary where Residential House is situated at any Other Place.
2	House Rent Allowance Received by The Employee in Respect of The Period during which Rental Accommodation is Occupied by the Employee during the Previous Year.
3	The Excess of Rent Paid over 10 % of Salary.

## Contd...

- **Entertainment allowance [sec.169(ii)]-**

Entertainment allowance is first included in salary in come under the head "salaries" and thereafter a deduction is given on the basis enumerated below:



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## Contd...

Exemption is available on the aforesaid basis in the case of following allowances :-

NAME OF ALLOWANCE	NATURE OF ALLOWANCE
Travelling Allowance/ Transfer Allowance	Any allowance granted to meet the cost of travel on tour or on transfer (including sum paid in connection with transfer, packing and transportation of personal effects on such transfer).
Conveyance Allowance	Conveyance allowance granted to meet the expenditure on conveyance in performance of duties of an office (expenditure for covering the journey between office and residence is not to be included).
Daily Allowance	Any allowance whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from this normal place of duty.

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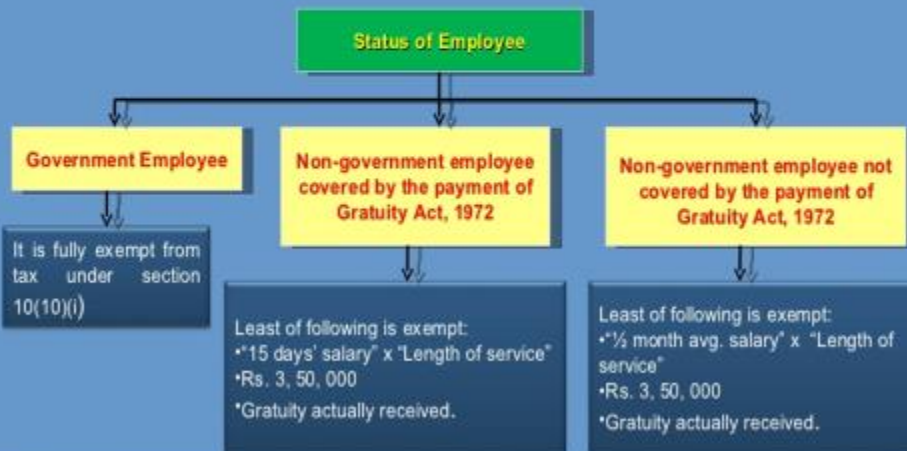
## Contd...

Name of allowance	Exemption as specified in rule 2BB
Special Compensatory (Hill Areas) Allowance	Amount exempt from tax varies from Rs. 300 per month to Rs. 7,000 per month
Border area allowance	The amount of exemption varies from Rs. 200 Per month to Rs. 1,300 per month
Tribal areas/ scheduled areas allowance	Rs. 200 Per Month
Allowance for transport employees	The amount of exemption is- b.70 per cent of such allowance; or c.Rs. 6,000 per month, whichever is lower.
Children education allowance	The amount exempt is limited to Rs. 100 per month per child up to a maximum of two children.
Hostel expenditure allowance	It is exempt from tax to the extent of Rs. 300 per month per child up to a maximum of two children.
Compensatory field area allowance	Exemption is limited to Rs. 2,600 per month in some cases.

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- **Gratuity [Sec.10(10)]** – Gratuity is a retirement benefit. It is generally payable at the time of cessation of employment and on the basis of duration of service. Tax treatment of gratuity is given below:



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### **Computation of salary income**

Salary income = Gross salary – Deductions U/s 16

Gross salary = Basic salary U/s 17(1) + Allowances U/s 17(3)(b) + Perquisites U/s 17(2) + Profit in lieu of salary U/s 17(3)

**Less**

Deductions u/s 16 = Entertainment allowance u/s 16(ii) + Employment tax u/s 16(iii)  
= **Income from the head salary**

### **Provident fund.**

Provident fund scheme is a scheme intended to give substantial benefits to an employee at the time of his retirement. Under this, a specified sum is deducted from his salary as contribution and employer also contributes certain sum to this scheme. The contribution of the employer and employee are invested in approved securities. Interest earned from this is also credited to this provident fund account. Thus the balance of the provident fund account consists of the following:

- i) Employee's contribution
- ii) Employer's contribution
- iii) Interest on employee's contribution
- iv) Interest on employer's contribution

The accumulated balance is paid to the employee at the time of retirement or resignation. In the case of death of the employee, the same is paid to the legal heirs.

There are four types of provident funds:

- i) Statutory Provident Fund (SPF) :** The SPF is governed by Provident Fund Act, 1925. It applies to employees of government, semi-government, local bodies etc
- ii) Recognised Provident Fund (RPF) :** RPF means a provident fund recognized by the Commissioner of income tax for the purpose of tax. It is governed by the Provident fund act 1952.
- iii) Unrecognised Provident Fund (URPF) :** it is a provident fund not recognized by the Commissioner of income tax
- iv) Public Provident Fund (PPF) :** PPF is operated under the Public Provident Fund Act 1968. It is open to general public. Salaried employees may also contribute to PPF in addition to the fund operated by the employer.

**Problem: 1**

Resident of Rampur Sri Vimal gets 72,000 as salary, 6,000 as dearness pay, 6,000 as dearness allowance and 10,000 per annum as fixed commission during the previous year. During previous year he received 30,000 as house rent allowance though he paid 36,000 as rent. Compute house rent allowance exempt from tax.

**Solution: 1****Computation of Exempted Amount of H. R. A.**

Salary 72,000 + D.P. 6,000 = 78,000

Amount exempt least of the following:

- i. H. R. A. received 30,000
- ii. Rent paid - 10% of salary ( 36,000 - 7,800) 28,200
- iii. 40% of salary 31,200

**H. R. A. exempt 28,200**

**Other allowances and their exemption limits:-**

S.I No	Allowance	Extend of exemption.
1	Any special compensatory allowance/hill compensatory allowance/high altitude allowance	800 per month or 7,000 per month or 300 per month depending upon the locations
2	Any Special Compensatory Allowance in the Nature of Border Area Allowance, Remote Locality Allowance or Difficult Area Allowance / Disturbed Area Allowance	1,300 per month or Rs1,100 per month or Rs1,050 per month or 750 per month or 200 per month depending upon the specified locations
3	Tribal area allowance	200 per month
4	Any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place, provided that such employee is not in receipt of daily allowance	70 per cent of such allowance up-to a maximum of 10,000 per month
5	Children education allowance	100 per month per child up to a maximum of two children

6	Children hostel allowance	300 per month per child up to a maximum of two children
7	Compensatory field area allowance	2,600 per month
8	Compensatory modified field area allowance	1,000 per month
9	Any special allowance in the nature of counter insurgency allowance granted to the member of armed forces operating in areas away from their permanent locations for a period of more than 30 days.	3,900 per month
10	Transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty	1600 per month
11	Transport allowance granted to an employee, who is ` blind or orthopedically handicapped with disability of lower extremities, to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty	3200 p.m.
12	Underground allowance	800 p.m.

### **Tax Treatment of the Provident Fund:- ALLOWANCES**

An allowance is defined as a fixed amount of money given periodically in addition to the salary for the purpose of meeting some specific requirements connected with the service rendered by the employee or by way of compensation for some unusual conditions

of employment. It is taxable on due/accrued basis whether it is paid in addition to the salary. These allowances are generally taxable and are to be included in the gross salary unless a specific exemption has been provided in respect of them.

#### **Fully Exempted Allowances.**

- (1) Foreign allowance given by Government 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 Allowances given to Judges of High Court and Supreme Court is fully exempted.
- (4) Allowances from U.N.O.



(5) Allowances to Teacher/Professor from SAARC member states

(6) Allowances to member of Union Public Service Commission.

Particulars	SPF	RPF	URPF	PPF
Employees contribution	Eligible for deduction U/S 80C	Eligible for deduction U/S 80C	Not eligible for deduction U/S 80C	Eligible for deduction U/S 80C
Employer's contribution	Fully exempt	amount in excess of 12% of salary is taxable	Not taxable yearly	N.A( there is only one contribution)
Interest credited	Fully exempt	Amount in excess of 9.5% p.a is taxable	Not taxable yearly	Fully exempt
Lump sum amount received at retirement	Fully exempt	Fully exempt(at least five year service)	a)employer's contribution and interest taxable under the head salary b)interest of employee contribution taxable under the head 'other sources' c)employees contribution is exempted	Fully exempt

### Problem: 2

Sri Vinay is a government employee. He draws a monthly salary of 20,000 besides a dearness allowance @ 5,000 p. m. He gets 500 p. m. as entertainment allowance. He spent during the previous year, 2,000 out of entertainment allowance. Find out the amount of deduction regarding entertainment allowance.

### Solution: 2

#### Computation of Deduction Regarding Entertainment Allowance

The amount of deduction allowable will be the least of the following:

- i. 1/5 of basic salary 48,000
- ii. 5,000 5,000
- iii. Amount received 6,000

**Exempted Amount 5,000.**

### PERQUISITES

The term "perquisites" includes all benefits and amenities provided by the employer to the employee in addition to salary and wages either in cash or in kind which are convertible into money. These benefits or amenities may be provided either voluntarily or under service contract. For income-tax purposes, the perquisites are of three types:

- (A) Tax-free perquisites
- (B) Taxable perquisites
- (C) Perquisites taxable under specified cases.

**(A) Tax-free perquisites (in all cases)**

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

**i. Medical Facilities:**

- (a) The value of any Medical facility provided to an employee or his family member in any hospitals, clinics, etc. maintained by the employer.
- (b) Reimbursement of expenditure actually incurred by the employee on medical treatment for self or for his family members in any hospitals, dispensaries etc. maintained by the Government or local authority or in a hospital approved by the chief commissioner.
- (c) Group medical insurance obtained by the employer for his employees (including family members of the employees) or all medical insurance payments made directly or reimbursement of insurance premium to such employees who take such insurance.
- (d) Reimbursement of medical expenses actually incurred by the employee up-to a maximum of 15,000 in the aggregate in a year, in a private hospital for his and his family.
- (e) Any expenditure incurred or paid by the employer on the medical treatment of the employee or any family member of the employee outside India, the travel and stay abroad of such employee or any family member of such employee or any travel or stay abroad.

**Valuation of Perquisites.**

The valuation of various perquisites is done as follows:-

**1) Valuation of Residential Accommodation.**

S.I No	Circumstance	Unfurnished (A)	Furnished (B)
1	Accommodation is provided by union or state government.	License fee determined by the government as reduced by the rent paid by the employee	Add 10% of the cost of furnishing to the value determined under (A)
2	a)Where accommodation is provided by the employer and owned by the employer. or	i) 15% of salary in cities having population of 25 lakh or more ii)10 % of salary in cities having population in between 10 to 25 lakhs. iii) 7.5% of salary in cities	Add 10% of the cost of furnishing to the value determined under (A)

	b) where accommodation is taken on lease or rental by the employer	having population less than 10 lakh. or Actual amount of lease rental paid or payable by the employer or 15% of salary whichever is lower as reduced by the rent paid by the employee.	
3	Accommodation is provided by the employer in hotel	Not applicable	24% of the salary or actual amount paid in hotel whichever is lower.

Here “salary” includes the pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called.

### Problem:3

Mr. Nishanth is employed in a town (population 13 lakh). His particulars of income for the A. Y.:

Basic salary 8,000 p.m. DA 2,000 p. m. (40% enters into retirement benefits),  
 Bonus 8,000 p. a., Commission 4,500 p.a., EA 500 p.m. Fair rental value of rent-free house provided by the employer 40,000 p.a., Value of furniture provided 20,000. Compute income from salary.

### Solution: 3

Computation of income from salary

Salary 96,000

D. A. 24,000

Bonus 8,000

Commission 4,500

Entertainment Allowance 6,000

Value of furnished house 14,410

1,52,910.

Less: Deduction Nil

**Income from salary 1,52,910.**

**Note:** Computation of value of rent- free house:

Salary 96,000 + 40% D.A.9,600 + 8,000 + 4,500 + 6,000 = 1,24,100

10% of salary 12,410

Add: 10% cost of furniture 2,000

**Value of rent - free house = 14,410**

## 2).Valuation of Motor Car.

Owner	Expenses met by	Purpose	Value of car
1(a) Employer	Employer	Only official	Not a perquisite
1(b) Employer	Employer	Only Private	Total of: i. Actual expenditure on car ii. Remuneration to chauffeur. iii. 10% of the above cost of car Less: amount charged by the employee
1(c)(i) Employer	employer	Partly official and partly personal	Cubic capacity of engine upto 1.6 ltr: 1,800 p.m + 900 p.m (chauffeur) Cubic capacity of engine above 1.6 ltr: 2,400 p.m + 900 p.m (chauffeur)
1(c)(ii) Employer	employee	Partly official and partly personal	Cubic capacity of engine upto 1.6 ltr: 600 p.m + 900 p.m (chauffeur) Cubic capacity of engine above 1.6 ltr: 900 p.m + 900 p.m (chauffeur)
2(i) Employee	Employer	Only official use	Not a perquisite
2(ii) Employee	Employer	Partly personal and partly official	Actual expenditure incurred Less: Value of Car cubic capacity upto 1.6 litres or Value of Car cubic capacity above 1.6 litres

Sri.Chowdhry is Purchase Officer in a Company in Kota. He furnished the following particulars regarding his income for previous year 2014-15:

- i. Net basic salary 1,49,000 which is after deducting 7,400 for income tax, 20,000 as contribution to recognized provident fund and rent for bungalow 3,600.
- ii. Bonus 60,000
- iii. Travelling Allowance for Tour 25,000.
- iv. Reimbursement of medical bills 7,500.
- v. He lives in a bungalow belonging to the company in a town (population 15 lakh), its fair rent is 6,000 per month. The company has provided on this bungalow the facility of a gardener and a cook each of whom is being paid a salary of 250 per month and 900 p. m. respectively. The company paid in respect of this bungalow 6,000 for electric bill and 1,200 for water bill.
- vi. He has been provided with a large car for official and personal use. The maintenance and running expenses of the car including car driver are borne by the company.

vii. The following amounts were deposited in his provident fund account:

- (1) Own contribution 20,000
- (2) Company's contribution 20,000 and
- (3) Interest 9.5% p. a. 23,000

viii. Deposit in P. P. F. 16,000

Compute his taxable income from salary for the A.Y. 2016 – 17

**Solution: 4**

**Computation of taxable salary**

(For the Assessment Year)

1. Salary	1,49,000	
Income – tax deducted	7,400	
Contribution to P.F.	20,000	
Rent deducted	3,600	1,80,000
2. Bonus 60,000		
3. Employer's contribution to R. P. F. in excess of 12% salary		Nil
4. Perquisites:		
Gardener		3,000
Cook		10,800
Concession in rent		20,400
Electric bill paid by the employer		6,000
Water bill paid by the employer		1,200
Car – ( 2,400 + 900) × 12		39,600
<b>Gross salary</b>		<b>3,21,000</b>

**Notes:** 1. Concession in rent has been determined as under:

$$\text{Salary} = 1,80,000 + 60,000 = 2,40,000$$

$$10\% \text{ of } 2,40,000 \text{ } 24,000$$

$$\text{Less: Rent paid } 3,600$$

$$\text{Concession in rent } 20,400$$

2. Reimbursement of medical bills is exempt upto 15,000.

3. Travelling allowance for tour is exempt u/s 10(14) (i)

**Problem: 5**

Mr. A has retired from a private company on 30<sup>th</sup> November, 2014. He was working since 1<sup>st</sup> March, 1988. He received 2,00,000 as gratuity. His salary grade was 5,000-110-8,000-200-15,000, since 1<sup>st</sup> March, 2003. He was also getting D. A. @ 25% Basic Salary. Calculate his exempted gratuity

- (A) if he comes under Gratuity Act,  
(B) if he doesn't come under Gratuity Act.

**Solution: 5**

Computation of Exempted Gratuity

**A. Under Gratuity Act**

Salary  $6,100 + 1,525 = 7,625 \times 15 \div 26 = 4,399$

Least of the following is exempt

i.  $4,399 \times 27 \text{ yrs} = 1,18,773$

ii. 10,00,000

iii. Amount Received 2,00,000

**Exempted Gratuity 1,18,773**

**B. Not covered under Gratuity Act**

Salary 1 month 6,000

Salary 9 months 54,900

60,900

Average salary 6,090

Half month salary 3,045

Least of the following is exempt:

i.  $3,045 \times 26 \text{ yrs} = 79,170$

ii. 10,00,000

iii. Amount received 2,00,000

**Exempted Gratuity 79,170**

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**1.3:INCOME FROM HOUSE PROPERTY.**

According to Section 22 of the income tax act, "The annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner,

other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him, the profits of which are chargeable to incometax, shall be chargeable to income tax under the head Income from House Property".

## **ANNUAL VALUE.**

The measure of charging income-tax under this head is the annual value of the property, i.e., the inherent capacity of a building to yield income. The expression 'annual value' has been defined in Section 23(1) of the Income-tax Act as:

- a) the sum for which the property might reasonably be expected to let from year to year; or
- b) where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause (a), the amount so received or receivable; or
- c) where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred

### **Computation of Annual Value/Net Annual Value(NAV)**

Net annual value shall be computed in the following manner:

Step1. Determine the Gross Annual Value(GAV)

Step2. Deduct municipal tax actually paid by the owner during the previous year from the Gross Annual Value.

For the purpose of computation of net annual value, properties can be classified into three categories:

- A. Properties let out throughout the year.
- B. Properties occupied by the owner for residential purposes or properties not selfoccupied owing to employment at any other place.
- C. Partly let out and partly self-occupied property

#### **(a) Tax is charged on income from the buildings or lands appurtenant thereto:**

The buildings include residential buildings, buildings let out for business or profession or auditoriums for entertainment programmes. The location of the building is

immaterial. It may be situated in India or abroad.

**(b) Tax is charged on income from lands appurtenant to buildings:**

Where the land is not appurtenant to a building the income from land can be charged as business income or “income from other sources”, as the case may be. The lands

appurtenant to buildings include approach roads to and from public streets, courtyards, motor garage, compound, play-ground and kitchen garden. In case of non-residential buildings, car-parking spaces, drying grounds or play-grounds shall be the lands appurtenant to buildings.

**(c) Tax is charged from the owner of the buildings and land appurtenant thereto:**

Where the recipient of the income from house property is not the owner of the building, the income is not chargeable under this head but under the head ‘Income from Business or Other Sources’. For example, the income to a lessee from sub-letting a house is

not chargeable under the head ‘Income from House Property’. The owners may be of several types like:

- a) Real owner
- b) Legal owner
- c) Mortgagor in case of mortgaged property
- d) Lessee in case of leasehold property

**Deemed owners:** Sometimes there will be deemed owners as per the rule of income tax, like:

- i) Property transferred to spouse without adequate consideration- transferor will be the deemed owner
- ii) Self-acquired property converted into common pool of HUF- transferor will be the deemed owner
- iii) Impartible estate of HUF, the holder is its deemed owner.
- iv) Property acquired under power of attorney, its holder is the deemed owner.

**(d) Utilised by the assessee for his own business or profession purpose**



The annual value of such property or the portion thereof as is utilised by the assessee for the purposes of his own business, profession or vocation, the profits of which are assessable to tax, is not taxable under Section 22. The assessee is also not allowed to claim any deduction in respect of notional rent while computing income from any such business, profession or vocation.

**Problem: 1**

Mr. Harish owns two houses. The particulars of the two houses for the previous year are given below:

<b>Particulars</b>	<b>House 1</b>	<b>House 2</b>
Date of completion of the house	31 <sup>st</sup> March 2011	31 <sup>st</sup> December 2012
Use of house	Self occupied	Let out
Municipal value	30,000	60,000
Fair rent	35,000	90,000
Rent received -		1,20,000
Standard rent	25,000	65,000
Municipal taxes paid	4,000	8,000
Interest on loan for construction of house	30,000	40,000
Compute income from house property for the assessment year		

**Solution: 1**

**Computation of income from house property**

**a) Self – occupied house:**

Annual value Nil

Less – Interest 30,000

**Loss (a) (-) 30,000**

**b) Let out:**

i. Municipal value 60,000

ii. Fair rent 90,000

iii. Standard rent 65,000(a) Expected rent (i) or (ii), whichever is greater but not more than (iii) 65,000

(b) Actual rent 1,20,000

G. A.V. (a) or (b), whichever is greater 1,20,000

Less: municipal tax paid 8,000

Annual value 1,12,000

Less: 30% of A.V 33,600

Interest 40,000 73,600

**Income from let out (b) 38,400.**

**Income from house property**

Income from let out house = 38,400

Less: Loss from self-occupied house = 30,000

**Income from house property = 8,400.**

**1.1 INTRODUCTION**

According to Sec 14, the income is classified under the following heads

1. Income from Salaries.
2. Income from House Property
3. Income from profits and Gains of Business or Profession.
4. Capital Gains.
5. Income from others sources

**INCOME FROM SALARY  
HEAD SALARY DEFINED**

Under Section 15 , the following incomes are chargeable to Income tax :

1. Any salary due from an employer or former employer to an assessee in the previous year whether paid or not.
2. Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him.

NOTE: The term “though not due” denotes the value of amenities and benefits allowed to an employee.

3. Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer if not charged to income tax for any earlier previous year.

**Under section 17(i) Salary defined to includes**

- a) **Wages**
- b) **Any annuity or Pension**
- c) **Any Gratuity.**
- d) **Any fees, commission, perquisites or profits in lieu of salary or in addition to salary or wages.**
- e) **Any advance of salary**
- f) **Any Payment received by an employee in respect of leave not availed by him.**
- g) **The proportion of annual accretion in any previous year to the balance at the credit of an employee participating in a recognized provident fund to the extent it is taxable, and**
- h) **Transferred balance in a recognized provident fund to the extent it is taxable.**

**CHARACTERISTICS OF SALARY**

### **1.RELATIONSHIP OF EMPLOYER AND EMPLOYEE**

For a payment to fall under the head salary, the relationship of employer and employee must exist between payee and receiver of salary. The employer

may be a government, local authority, company or public body or association or an individual.

### **2.SALARY RECEIVED AS MEMBER OF PARLIAMENT**

Salary received by a member of parliament is not taxable under head salary but taxable under Income from other sources.

### **3.RECEIPTS FROM PERSONS OTHER THAN EMPLOYER**

Perquisites or any other remuneration received from person other than employer would be taxable not under the head salary but under Income from other sources. Example: Amount received by a professor of a college for acting as an examiner in an University.

### **4.PLACE OF ACCRUAL OF SALARY INCOME**

If services are rendered in India, salary accrues in India and if the services are rendered outside India, the salary accrues outside India. Thus if a person is employed in India goes on leave to England and gets his leave salary there, the salary is said to accrue in India and not in England, because it is paid for the services rendered in India and not in England. Pension paid in a foreign country for services rendered in India, will be Indian income, as it is paid for the services rendered in India although in the past. On the other hand, if any person is employed in India and transferred to its branch in England, the salary received by him in England is not Indian income, but it is income arising in England as the service is rendered in England.

### **5.DEDUCTIONS MADE BY THE EMPLOYER**

If an employer makes certain deductions out of salary, amount so deducted is deemed to be received by the employee and the amount deducted is taken as application of Income. Example: employees contribution to Provident Fund, Income Tax, Professional tax, deduction made to pay the premium on life insurance policy of the employee and any other deduction for which the employee has authorized the employer etc.

### **6.SALARY/PENSION RECEIVED BY UNO EMPLOYEES**

It is fully exempt from tax.

## **7.SALARY OF ANY PARTNER**

Any salary received by a working partner from a firm assessed shall not be taxed under the head salary but under the head profit and gains of business.

## **8.PAYMENTS RECEIVED BY LEGAL HEIRS OF A DECEASED EMPLOYEE**

Any ex-gratia given to widow or legal heir of an employee who dies during the service is not taxable under the head salary but under the head income from other sources.

## **9.VOLUNTARY FOREGOING OF SALARY**

Voluntary foregoing of salary is simply an application of Income by him and so it is taxable when it is due.

## **10. PREVIOUS YEAR FOR SALARIES**

The previous year for the Income under the head salaries shall be financial year of the Government of India. (i.e. April to March)

## **11. PAYMENT MADE AFTER CESSATION OF EMPLOYMENT**

Payment made by employer after cessation of his employment is taxable under the head salaries.

## **12. 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.

## **13. ARREARS OF SALARY RECEIVED**

Any amount of salary received from present or past employer during the relevant previous year, which relates to some earlier previous years, it is taxable in the year in which it is received and not the year to which it belongs.

## **14. SALARY WHEN DUE?**

Salary becomes due on the first date of every month. In almost all the offices of State Government this rule is in force. In central government offices the salary is paid on the last date of the month but salary for the month of March is paid only on 1<sup>st</sup> April. In these cases, in a particular assessment year, the salary drawn by the employee for the month of March paid in April to February paid in March shall be included. In banks and certain other bodies, the salary is credited on the last date of the month. Hence, the salary from April to March next shall be taxable.

Items to be included under the head 'salaries' (Section – 15) Income from salary

**SALARY = BASIC PAY + ALLOWANCES+ PROVIDENT FUND + PERQUISITIES + PROFIT IN LIEU OF SALARY – STANDARD DEDUCTIONS – ENTERTAINMENT ALLOWANCE – TAX ON EMPLOYMENT.**

### **1. BASIC SALARY ETC.,**

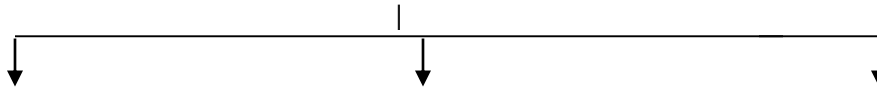
The following items are taxable in full without any exemptions and deductions. Therefore, these items are to be added in full with the income.

1. Basic Salary, advance Salary and arrears Salary
2. Fees, Commission and bonus.
3. Earned leave encashed while in service.
4. Remuneration received for extra duties.
5. Voluntary payments to employees.

### **2. ALLOWANCES**

It is a cash payment to reimburse specified expenses of employees.

**Allowances**



**A) Fully exempted Allowances B) Partly exempted Allowances C) Fully taxable**

**Allowances**

**A) FULLY EXEMPTED ALLOWANCES**

- i) Allowances paid by the Government , to Indian Citizens working abroad, called ‘Foreign Allowance’.
- i) All Allowances to High Court Judges and Sumptuary Allowance given to supreme Court Judges.
- ii) Allowances paid by the united Nations Organisation
- iii) Daily Allowance to M.P and M.L.As and other allowances to M.Ps.
- iv) Other allowances upto Rs. 25,00/- p.m to M.L.As.

**PARTLY EXEMPTED ALLOWANCES**

**B) Partly exempted allowances**



- i) Special allowances    ii) House Rent allowance    iii) Entertainment allowance

**SPECIAL ALLOWANCE SECTION 10(14)**

Nature of Allowances	Exemption
1. Conveyance or traveling allowance (Expenses on transfer is also to be treated as official purpose)	Amount spent for the performance of official duties.
2. Helper allowance	-do-
3. Uniform allowance	-do-
4. Academic allowance	Amount spent for academic and research purposes.
5. Transport Allowance	Actual allowance 800 pm, handicapped 1600pm.
6. Children education allowance	Actual allowance or Rs.100/- per month per child whichever is less (Subject to a maximum of two own children).

7. Children hostel allowance.	Actual allowance or Rs. 300/- per month per child whichever is less (Subject to a maximum of two own children).
8. Composite hill compensatory allowance or High altitude allowance or uncongenial climate allowance or snow bound area allowed.	Actual of Rs. 300/- per month to an extent of Rs. 7000 pm
9. Border or remove or difficult or disturbed area allowance	Actual or Maximum limit per month whichever is less maximum limit = Rs.200/- Rs. 1,300
10. Tribal area allowance allowed in Madhya Pradesh, Tamil Nadu, Uttar Pradesh, Karnataka, Tripura, Assam, West Bengal, Bihar and Orissa.	Rs. 200/- p.m.
11. Any special allowance in the nature of counter insurgency allowance	Rs. 3,900 per month
12. Conveyance allowance for the journey between office and residence.	Rs. 800 per month
13. Conveyance allowance to a blind or handicapped employee for the journey between office and residence.	Rs. 1,600 per month.
14. Under ground allowance.	Rs.800 per month.
15. Compensatory field area allowance in notified areas	Rs. 2,600 per month
16. Compensatory modified field area allowance in notified areas	Rs. 1,000 p.m

## II) HOUSE RENT ALLOWANCE SECTION – 10(13A)

If the house rent allowance is received by the judges of High court or Supreme court the amount is fully exempted. If the allowance is received by an employee who is living in own house or in a house for which no rent is paid , the entire amount is fully taxable.

In case of other employees.

The allowance in excess of the lowest of the following will be included in the taxable income of an employee.

- I) 50% of the salary (if metropolitan cities like Madras, Bombay, Delhi, and Calcutta)
- ii)40% of the salary (in case of other cities)
- b) Actual allowance
- c) Excess of rent paid over 10% of salary.

**Exempted HRA = (Lowest of the above)**

**Taxable HRA = Actual HRA – exempted HRA**

**SALARY = Pay + D. P. + DA (which enters into pay) + Commission on turnover achieved by him.**

### **III) ENTERTAINMENT ALLOWANCE :SECTION –16(II)**

**It is first included in the gross salary income. Then, the least is lowest of the following will be deducted from the gross salary**

- a) **For Government Employees: (i) 1/5<sup>th</sup> of salary (ii) Actual Allowance (iii) Rs. 5,000/- Whichever is less.**
- b) **For Non – Government Employees: Deduction of entertainment allowance under sec. 16 (ii) is not available for the non government employees. In short, no deduction is allowable for the entertainment allowance received by the non government employees and the entire amount received by them as entertainment allowance is taxable.**

#### **B) FULLY TAXABLE ALLOWANCES**

**All the allowance, which are not discussed above like dearness allowance, city compensatory allowance, medical allowance etc., are taxable in full.**

### **1. HOUSE RENT ALLOWANCE**

**Salary = Basic Salary + DA (forming part of the Salary) + Fixed percentage of commission of Turnover.**

**Note:- Dearness allowance may be taken if it is given as dearness pay.**

**2. ENTERTAINMENT ALLOWANCE     Salary = Basic Salary only.**

### **3. PROVIDENT FUNDS**

**A provident Fund is a periodical investment by an employee. It will be refunded to him along with interest when he leaves the service. An employer may also contribute to this fund on behalf of his employee. The provident funds may be of four types. They are as follows**

#### **1. Statutory Provident Fund**

**It is a fund established under the Provident Funds Act, 1925. It is adopted in Government Departments, Universities, and Local Bodies etc.,**

#### **2. Recognized Provident Fund**

**It is a fund recognized by the Commissioner of Income Tax in accordance with the Income Tax Act and Employees Provident Fund Act.**

#### **3. Unrecognized Provident Fund**

**It is a fund not recognized by the Commissioner of Income Tax..**

#### **4. Public Provident Fund**

**It is a Public Fund instituted by the Central Government. Any member of the Public may subscribe to this fund subject to a minimum of Rs. 100/- and a maximum of Rs. 60,000/- per year. The subscriptions are accepted by the State Bank of India and its branches.**

#### **5. Approved Super Annuation fund**

It is a fund approved by the Commissioner of Income Tax in accordance with the rules contained in Part \_ of the fourth schedule of the Act. It is created to give pension benefit to the employees.

**COMPUTATION OF TAXABLE INCOME AS REGARDS PROVIDENT FUNDS**

<b>PROVIDENT FUND</b>	<b>EMPLOYERS CONTRIBUTION</b>	<b>INTERST</b>	<b>REFUND</b>
<b>1. Statutory provident fund</b>	<b>Fully exempted . Therefore, not to be added with the income.</b>	<b>Fully exempted. Therefore, not to be added with the income</b>	<b>Not taxable and not to be added with the income.</b>
<b>2. Public Provident Fund</b>	<b>Same as above</b>	<b>Same as above</b>	<b>Same as above</b>
<b>3. Super Annuation fund</b>	<b>Same as above</b>	<b>Same as above</b>	<b>Same as above</b>
<b>4. Recognized Provident Fund</b>	<b>Exempted up to 12% of salary. Therefore, the balance is to be added with the income</b>	<b>Exempted up to 9.5% in rate. If exceeds the excess rate is to be added with income</b>	<b>Same as above</b>
<b>5. Unrecognized Provident fund.</b>	<b>At the time of contribution, it is not taxable. Therefore not to b added with the income.</b>	<b>Not taxable every year. Therefore, not to be added with the income.</b>	<b>At the time of refund, the employers total contribution and interest there on is to be added in full with the salary income. But the interest on employees contribution is to be added with the income from other sources.</b>

**Note:- Employees contribution to the above funds is not an income. It is merely a payment or savings. Therefore, it is not to be added with the income. But employees contribution to RPF and Statutory provident fund are qualifies for rebate under sec.88 and the unrecognized provident does not qualifies for rebate under sec.88.**

**Salary for the purpose of PF. =Basic pay and Dearness allowance (forming a part of salary ) + Commission if it is given as a percentage on sales turnover.**

**IV. PERQUISITES SECTION – 17(2)**

**It is given by an employer to his employee in addition to his regular remuneration. It may be in goods or services or enmities or indirect cash payment etc., like allowance, it will not be paid periodically in fixed amount. The employees will get this benefit only when they enjoy it.**



Under the new rules, the perquisites provided not only to the employee but also to any member of his household shall also be considered for tax purposes. Member of household means Spouse, Children and their spouses, Parents, Servants and dependants.

Perquisites

Perquisite taxable	b) Fully exempted Perquisites	c) Perquisite taxable in specified cases only	In all cases
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**A) PERQUISITES TAXABLE IN ALL CASES**

The following perquisites are to be valued and included in the taxable income of all assessees.

**(I) VALUE OF RENT FREE HOUSE**

a) Value of unfurnished Accomodation:-  
**CASE I HOUSE IS OWNED BY EMPLOYER**

- i) Government employees. As per government rules, fixed (license fee) by the govt..
- ii) Other Employees:-
  1. In cities whose population is more than 25 lakhs value is 15% of employees salary.
  2. In cities whose population is 10- 25 lakhs value is 10% of employees salary.
  3. In cities whose population is less than 10 lakhs value is 7.5% of employees salary.
  4. Hotel accommodation (for more than 15 days on transfer from one place to another value is 24% of salary or actual bill whichever is less is taxable. This benefit shall be taxable for full period of stay if stay exceeds 15 days. If the stay is up to 15 days, then the value is nil.

**CASE II HOUSE IS HIRED BY THE EMPLOYER**

Value is 15% of salary or Actual rent paid whichever is less is taxable in all cities if the accommodation is taken on lease or rent by the employer and provided to the employee. In short it means the house provided by the employer to the employee is not owned by the employer.

b) Value of furnished accommodation

In case of government employees, non – government employees and semi – government employees,

Value = Value of unfurnished house + 10% of the cost of furniture (or)actual hire charges paid if obtained on hire.

**SALARY FOR THIS PURPOSE**

Salary + Basic salary + Bonus + Commission + Fees + dearness allowance (if it forms part of salary) and other taxable allowances, gas water and electric bill reimbursed professional tax paid by the employees.

**IF RESIDENTIAL ACCOMMODATION IS PROVIDED AT CONCESSIONAL RATE (CONCESSIONAL ACCOMMODATION)**

**Taxable Concession = Value of accommodation as per the above rule – rent paid**

**By the employee.**

**(II) OTHER TAXABLE PERQUISITES IN ALL CASES. Sec 17 (2) (iv)**

**For all the following perquisites, the value will be actual amount spent by the employer.**

- a. **Gas and EB issued in name of employee but paid by employer- actual exp met by employer is taxable.**
- b. **Education of children bills issued in name of employee but paid by employer- actual exp met by employer is taxable. Reimbursement of tuition fees is fully taxable.**
- c. **Income tax and professional tax of employee but paid by employer- actual exp met by employer is taxable.**
- d. **Salary of domestic servants employed by employee but paid by employer- actual exp met by employer is taxable.**
- e. **Any payment made by the employer on behalf of an employee like life insurance premium or annuity contributions or other bills in the name of an employee paid by the employer.**

**However, payments made to a scheme under which the benefits may or may not arise in future are not perquisites. Example: Group Insurance Schemes. Similarly, employer's contribution to the Provident Fund account of an employee is not a perquisite.**

f. **Any of the following fringe benefits/amenity**

i. **Interest free or concessional loan exceeding Rs. 20,000:**

**\*Housing loan :**

**Upto 30 lak 10.75%: above 30- 75 lak 11.00%: above 75 lak -5 cr 11.25%: above 5 cr 11.25%**

**\*Car loan :**

**Term loan 11.25%    overdraft 11.75%**

**\*Loan for two wheeler : 18.25%**

**\*Education loan :**

**Loan upto 4 lak 13.5%    above 4- 7.5 lak 13.25%    above 7.5 lak 12%**

**(Loan is availed by a girl student , a concession of 0.5 % shall be allowed.)**

**\*Personal loan 18.50%**

**ii Travelling, touring, accommodation**

- a. **If owned by the employer, the value of perquisite is the charges levied by other similar agencies.**
- b. **If not owned by the employer, the value of perquisite is the actual expenses incurred or reimbursed by the employer.**

**iii Free Meals under situations other than those mentioned in tax free perquisites.**

**Value is the actual expenses incurred by the employer.**

**iv Gift, voucher or token on ceremonial occasions or otherwise not less than Rs.5,000 or more**

**Value is the amount of such gift.**

#### **v Credit Card Facility**

- a. For official purposes then the value of perquisite is NIL.
- b. For personal purposes the value of perquisite is the actual amount incurred by the employer.

#### **vi Club Facility**

- a. For official purposes, the value of perquisite is NIL.
- b. For personal purposes the value of perquisite is the actual amount incurred by the employer.
- c. For initial fee paid for acquiring corporate membership of the club, the value of perquisite is NIL.
- d. Health, sports club and similar facilities provided uniformly to all employees, the value of perquisite is NIL.

#### **vii. Use of employer's movable assets other than those taxable in specified cases and computer/ laptop**

- a. If owned by the employer, the value of perquisite is 10% of the cost.
- b. If hired by the employer, the value of perquisite is the actual hire charges.

#### **viii. Movable assets sold by an employer to his employee at a concessional price.**

Value of perquisite is Actual Cost Minus depreciation at the following rates for each completed year of use by the employer.

#### **RATES OF DEPRECIATION**

1. For electronic and computer items, the rate is 50% of WDV.
2. For Motor Car the rate is 20% of WDV.
3. For Any other assets the rate is 10% of WDV.

#### **B) FULLY EXEMPTED (OR) TAX –FREE PERQUISITES**

##### **1. Medical facility**

- a. Group Medical Insurance (for employees and their families) premium paid or reimbursed by the employer.
- b. Any reasonable expenses incurred by the employer for the medical treatment to the employee or his family in his own hospital or in a recognized public hospital in India.
- c. In any other hospitals in India: actual or 15,000 p.a. whichever is less.
- d. Medical treatment outside India for the employee or any member of the family:
  - i. The cost of treatment outside India with one attendant, it is exempted to the extent permitted by the RBI.
  - ii. Cost of travel with one attendant: It is fully exempted if the gross total income of the employee before including this perquisite does not exceed Rs.2,00,000.

##### **2. Free meals refreshment provided during working hours is exempted in the following cases:**

- a. Tea or snacks.
- b. Free meals provided in remote area or offshore installation.

##### **3. Recreational facilities**

##### **4. Amount spent on training (or) refresh courses of employees.**

##### **5. Telephone provided to an employee at his residence**

##### **6. Goods (manufactured by employer) sold at concessional rate to the employees.**

7. Perquisites allowed by the Indian government to its employees outside India who is a citizen of India.
8. Sum paid by an employer to pension scheme or deferred annuity scheme or staff scheme or staff group insurance scheme or a fund established under the coal mines provident funds act and the employees provident funds act.
9. Payment of annual premium by employer on the personal accident policy of employee.
10. Rent free official residence and conveyance facility provided to a Judge of High Court or Supreme Court.
11. Rent free furnished residence and maintenance there of to an official of parliament or a Union Minister (or) a leader of opposition in parliament.
12. Conveyance facility to cover the journey between office and residence.
13. Allotment of shares, debentures or warrants at free of cost or at a concessional rate by a company to its employees
14. Interest free loan or loan to employees at concessional interest.
15. Free education to the employees children in the institution owned or maintained by the employer provided the cost of the education does not exceed Rs.1,000 p.m. per child without restriction on the number of children.
16. Free transfer of movable asset except computer, electronic items and car to an employee by the employer after using it for 10 years or more.
17. Issue of right shares to an employee shareholder at a price lower than the market price.
18. Leave Travel Concession: This is exempted subject to the following conditions:
  - a. It must be given for the employee and his family proceed on leave to any place in India.
  - b. The exemption should not exceed the actual expenditure for the shortest route.
  - c. The number of journeys should not exceed two in a block of 4 years.
  - d. The exemption is available for all the children born before 1.10.1998. In addition, it is available for only two children born after 1.10.1998.The amount of exemption available under different situations is given below:
  - a. For Air Travel, the amount of exemption is actual or economy fare whichever is less.
  - b. For Rail travel, the amount of exemption is actual or AC I Class fare whichever is less.
  - c. Using different mode though rail is possible, the value of exemption is Actual or AC I Class fare whichever is less.
  - d. Where rail travel is impossible but recognized public transport is available, then the amount of exemption is first class or deluxe class fare or actual whichever is less.
  - e. Where recognized public transport is not available, the exemption is first class fare or deluxe class fare or actual whichever is less.

#### C. PERQUISITES TAXABLE IN SPECIFIED CASES ONLY

All perquisites which are not included under taxable in all cases and exempted perquisites above are taxable only in the case of the following persons who are treated as specified assesses.

##### Specified employee.

- a) Director of a company or
- b) A person holding 20% or more equity shares in a company (i.e) he has substantial interest in the company.
- c) An employee whose salary income exceeds Rs. 50,000/-

**1. FREE MOTOR CAR FACILITY PROVISIONS**

**CAR IS OWNED OR HIRED BY THE EMPLOYER.**

- 1. Used only for employment/ official purposes ---- Taxable value is Nil.
- 2. Used only for personal purposes ---- All running and maintenance expenses including Drivers salary and depreciation of car is fully taxable.

Value of perks = Actual expenses incurred on running and maintenance of car +Salary of chauffer(driver)+depn. (10% of actual cost)- amt charged by employer from employee.

- 3. Used partly for official and personal:

If ratio of use is given or not, or expenses are not given then the taxable value is

- a. If expenses met by employer
  - i. Upto 1.6 Lt cubic capacity engine taxable amount is Rs.1,800 p.m.
  - ii. More than 1.6 Lt. Cubic capacity engine taxable amount is Rs.2,400 p.m.
- b. If expenses met by employee
  - i. Upto 1.6 Lt cubic capacity engine taxable amount is Rs.600 p.m.
  - ii. More than 1.6 Lt. Cubic capacity engine the taxable amount is 900 pm.

If driver or chauffeur is also provided then ADD Rs.900 p.m. in each of the above values. If the car is provided for a part of month, nothing is taxable for that month.

- 4. Car is owned by employee and expenses are met by employer : Actual expenses incurred by employer as reduced by amount given above or an higher amount if prescribed conditions are fulfilled. In case car is used fully for personal purposes and expenses are met by employer these are fully taxable for all employees.

- 5. Free use of any other conveyance:

- a. If used only for employment then the value is Nil
- b. If used only for personal then the expenses met by employer is taxable fully.

If used partly for personal and partly for official the value is as decided by the assessing officer.

Other Perquisites	Value of Perquisites
<p><b>2.Free Gas, Electricity and Water.</b></p> <ul style="list-style-type: none"> <li>a) If produced by the employer</li> <li>b) If not produced by the employer.</li> <li>c) If used for both office and private purposes</li> </ul>	<p>Manufacturing cost per unit incurred by the employer.</p> <p>Amount spent by the employer.</p>

<p><b>2. Free Domestic servants</b></p> <p>a) Sweeper, watchman and Gardeners</p> <p>b) Gardener provided with rent free accommodation owned by the employer.</p>	<p>Actual cost to the employer.</p> <p>Not taxable separately.</p>
<p><b>3. Free education provided by the employer in his own institution to the employees family</b></p> <p>1. To members of the employees house hold</p> <p>2. To the children of the employee</p>	<p>Amount likely to be spent is provided in similar institutions</p> <p>Cost of such education in excess of Rs.1000 per month per child.</p>
<p><b>4.. Any other perquisites</b></p>	<p>Actual cost to the employer.</p>

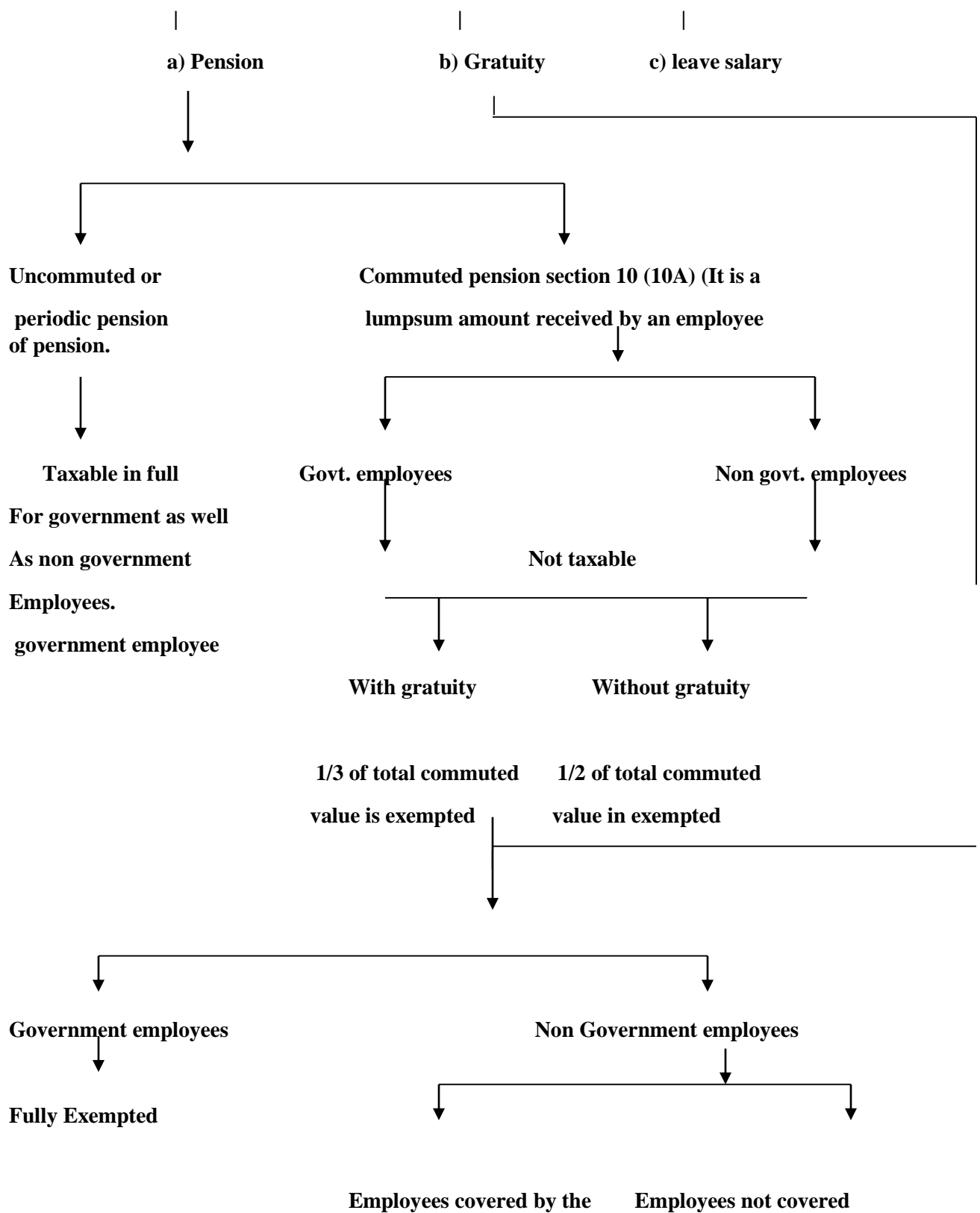
**NOTE**

- In respect of all the perquisites, any amount recovered from the employee for such benefit or amenity shall be reduced in determining the value of perquisite.
- Some times perquisites (taxable in specified cases) may not be provided by the employer at free of cost but enjoyed by the employee on his own. In such cases, if the payment for such benefit or amenity is paid by the employer on behalf of the employee, such payment is taxable in all cases whether specified or non specified.

<p><b>Employees covered by the payment of gratuity act</b></p>	<p><b>Employees not covered by the payment of gratuity act.</b></p>
<p><b>Lowest of the following is exempted:</b></p> <p>1. 15 days salary for every completed year of service or part thereof exceeding 6 months</p>	<p><b>Lowest of the following in exempted:</b></p> <p>1. Half of months average salary for each year of completed service.</p>
<p>2. Rs. 1000000</p> <p>3. Actual gratuity</p> <p>Note: salary per day =</p> $\frac{\text{Basic} + \text{D.A last drawn}}{26}$ <p>Salary for this purpose:</p> <p>Basic salary + Dearness allowance. (Salary of 15 days is calculated by dividing salary last drawn by 26 days. (ie) Maximum days in a month.</p>	<p>Rs. 1000000.</p> <p>Actual gratuity</p> <p>Note: average salary is the average of the salary (taken for the computation of allowances) drawn in the 10 months immediately. preceding the month in which the employee retires.</p> <p>Salary for this purpose</p> <p>Basic salary + Dearness allowance (forming part of salary) +Fixed percentage of Commission on T/O.</p>

**6. RETIREMENT BENEFITS**

**Retirement Benefits**



**Payment of gratuity act                      payment of gratuity act.**

**Note:-**

Where the employee has received gratuity in any earlier year from his former employer and receiver gratuity from another employer in a later year, the maximum absolute limit will be reduced by the amount of gratuity which has been exempted earlier.

**c) Earned leave salary encashed at the time of retirement or superannuation:-**

- i) For Government employees: Fully exempted.
- ii) For Non – government employees: the lowest of the following is exempted
  - a) Leave Salary (average) for the utilized entitled leave period.
  - b) Ten months average of the 10month, salaries drawn immediately preceding the retirement)
  - c) Rs. 3,00,000.
  - d) Amount of leave encashment actually received.

**Note:-**

1. Unutilised entitled leave period = Actual leave period for the total service or 30 days for every year of actual service whichever is less minus leave period already utilized.
2. Salary = Basic + Dearness allowance (if forms part of salary + Commission if it is given as a % on sales.

**VI PROFITS IN LIEU OF SALARY (SECTION 17(3))**

1. **COMPENSATION FOR LOSS OF EMPLOYMENT/ VRS:**

Any compensation received by an employee upon termination of his services or upon the modification of the terms and conditions of employment is taxable subject to the following exemptions:

  1. Compensation under any scheme approved by the Central Government if fully exempted.
  2. compensation under the industrial disputes Act then the lowest of the following is exempted:
    - a. Amount of compensation as per the industrial disputes Act (i.e. 15 days average pay for every year of completed service or part thereof in excess of six months or Rs.50,000 whichever is greater)
    - b. Maximum of Rs.5,00,000.
  2. Any payment due or received by an assessee from his employer except the following:
    - a. Exempted gratuity.
    - b. Exempted H.R.A
    - c. Exempted commuted pension.
    - d. Exempted retrenchment compensation.
    - e. Payment from an approved super annuation fund, statutory provident fund or public provident fund.
    - f. Payment from recognized provident fund to the extent it is exempted.
  3. Any payment from unrecognized provident fund or such other fund to the extent, it is not relating to the contributions made by the assessee or interest thereon.
  4. Any sum received under a keyman insurance policy.
  5. Any amount received prior to employment or after cessation of employment.



## **OTHER EXEMPTED INCOMES**

- 1. Payment made to an employees in the nature of personal gift or testimonial.**
- 2. Lumpsum payment made to the widow or other legal heir of an employee who dies while in active services.**
- 3. Ex-gratia payment received from the government, local authority or a public sector undertaking consequent upon injury or death of a person while on duty.**

## **COMPENSATION RECEIVED AT THE TIME OF VOLUNTARY RETIREMENT**

**It is exempted if it is received under a scheme of voluntary retirement, framed in accordance with the guidelines prescribed in rule 28A of the income tax rules. The amount of exemption will be the lowest of the following:**

- 1. Maximum Rs.5,00,000.**
- 2. Actual compensation received.**
- 3. Three month's salary for every year of completed services.**
- 4. Salary for the remaining months of service before the date of his retirement on superannuation.**

**NOTE: Salary means the salary taken for the computation of allowances. But it is the last drawn salary.**

## **DEDUCTIONS FROM SALARY INCOME**

### **1) Entertainment allowance [see 16(ii)]**

**Entertainment allowance is first included in the salary income and thereafter deduction is made only for the government employees and not for any other category of employees.**

### **2) Tax on employment 16(iii) or Professional tax:**

**Any tax on employment like professional tax levied by the State Government and paid by the assessee is to be deducted in full from the gross salary income.**

## **REBATE OF TAX U/S 88**

**This rebate is allowed out of tax liability and not out of salary income or out of gross total income.**

### **Qualifying amount for Rebate in case of an individual:**

- 1. Employee's own contribution to provident fund except unrecognized provident fund.**
- 2. Life insurance premium paid by employee or employer (a) on his own like, b) on the life of wife c) on the life of children d) on joint life with any member of family.**
- 3. Contribution of unit linked Insurance Plan and LIC.**
- 4. Assessee's contribution to post office cumulative time deposit (10 yrs or 15 yrs)**
- 5. An amount deposited in post office to purchase National Savings Certificate VIII issue.**
- 6. Any amount contributed by an employee towards group insurance scheme of central or state government.**
- 7. Any sum paid by an employee in an approved superannuation fund during the previous year.**

- 8. Any amount repaid for loans borrowed by the tax payee from the government , any bank, LIC or such institution which are engaged in providing loans for construction of houses. (eg. HDFC, National Housing Bank etc) shall qualify**
- 9. For rebate upto actual amount paid during the year or Rs. 20,000 whichever is less.**
- 10. Amount paid in any scheme of National Housing Bank.**
- 11. Any amount invested in notified units of UTI or other mutual funds under equity linked deposited scheme.**
- 12. Any amount invested by assessee in Jeevan Dhara or Jeevan Akshay Policy of LIC shall fully quality.**
- 13. Any amount invested in notified deposit scheme of government (i.e) National Saving scheme 1992 shall fully quality for this rebate.**
- 14. Any amount deposited in pension funds set up by mutual funds or UTI.**
- 15. Any amount paid as subscribed under Home deposit Account.**
- 16. Amount paid as subscription to eligible shares debentures units of UTI or mutual funds**