

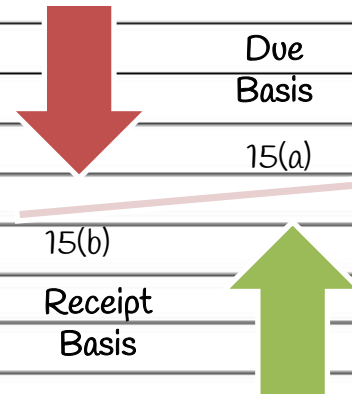
SALARIES

Section 15. The following income shall be chargeable to income-tax under the head "Salaries"—

(a) any salary **due** from an **employer** or a former employer to an assessee in the previous year, whether paid or not;

(b) 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 became due to him;

(c) 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.



Remember

1. Once salary paid in advance is included in the total income on receipt basis, it shall **not** be included again in the total income of the person when it becomes due.
2. Any salary, bonus, commission or remuneration due to, or received by, a partner of a firm from the firm shall **not** be regarded as "salary" for the limited purposes of this section. Ref – 28(v)

Salient features of Salary

1. **Employer and Employee Relationship:** An employee works under the direct supervision, control and instruction of his employer. The capacity in which payments are received would determine the taxability under this head.
2. **Past, Present and Future:** Any remuneration received from a former employer, present employer or prospective employer during the PY, is nothing but salary.
3. **Multiple Employers:** Remuneration received from part-time employment or from different employers during a PY is all taxable as salary.
4. **Forgoing of Salary:** Voluntary foregoing of salary is merely application of income and is chargeable to tax. Salary is taxable on due basis even if it is not received.
5. **Surrender of Salary and Allowances:** Section 2 of Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961 – Salary and allowances surrendered in favor of Central Government shall not be included in his total income for the purposes of any law relating to taxation on income.

WHAT IS SALARY?

Section 17. For the purposes of sections 15 and 16 and of this section,—

(1) "salary" includes—

- (i) wages;
- (ii) any annuity or pension;
- (iii) any gratuity;
- (iv) any fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages;
- (v) any advance of salary;
- (va) any payment for any period of leave not availed by an employee;
- (vi) the annual accretion to the RPF, to the extent to which it is chargeable to tax under rule 6 of Part A of the Fourth Schedule;
- (vii) the aggregate of all sums transferred from URPF into a PF recognized for the first time, to the extent of employer's contribution and interest thereon; and
- (viii) the employer's contribution to the account of an employee under a pension scheme referred to in section 80CCD.

(3) "profits in lieu of salary" includes—

- (i) Any **compensation** due or received by an assessee
 - ↳ from his employer or former employer*
 - ↳ for termination or modification of the terms of employment;
- (ii) any **payment** due to or received by an assessee
 - ↳ from an employer or a former employer or
 - ↳ from a provident or other fund (other than his own contribution) or
 - ↳ interest on such contributions or
 - ↳ any sum under a Keyman insurance policy [as defined in 10(10D)]

Other than the payments referred in certain clauses of Section 10

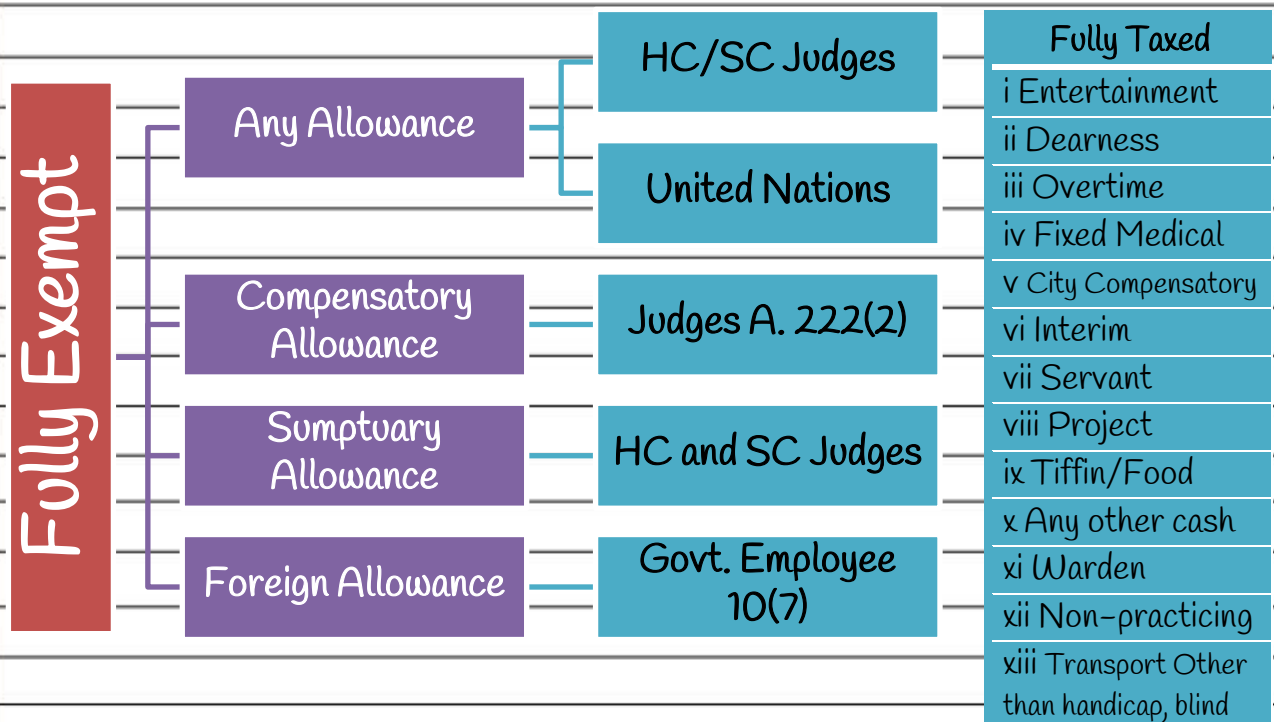
Clause (10)	Gratuity
Clause (10A)	Commutated Pension
Clause (10B)	Retrenchment Compensation
Clause (11)	Payment from Statutory PF
Clause (12)	Payment from RPF
Clause (13)	Approved Superannuation Fund
Clause (13A)	House Rent Allowance

*Compensation from **prospective employer** for non-commencement of employment is not PILS. It is capital receipt. However, now it is specifically covered by **S. 56(2)(vi)**.

- (iii) any amount due to or received, whether in lump sum or otherwise, by any assessee from any person—
 - (A) before his joining any employment with that person; or
 - (B) after cessation of his employment with that person.

ALLOWANCES

- (i) To meet some particular requirements of employees.
- (ii) Fixed and Pre-determined
- (iii) Paid in addition to or in lieu of Salary.
- (iv) The thumb-rule is all allowances are taxable unless specifically exempted.



Partially Exempt Allowance

1. House Rent Allowance – Section 10(13A)

- Special allowance to meet expenditure **actually incurred** towards **rent**
- For residential accommodation occupied by the employee
- to such extent as may be prescribed (Go to R.2A)

Least of the 3 criteria

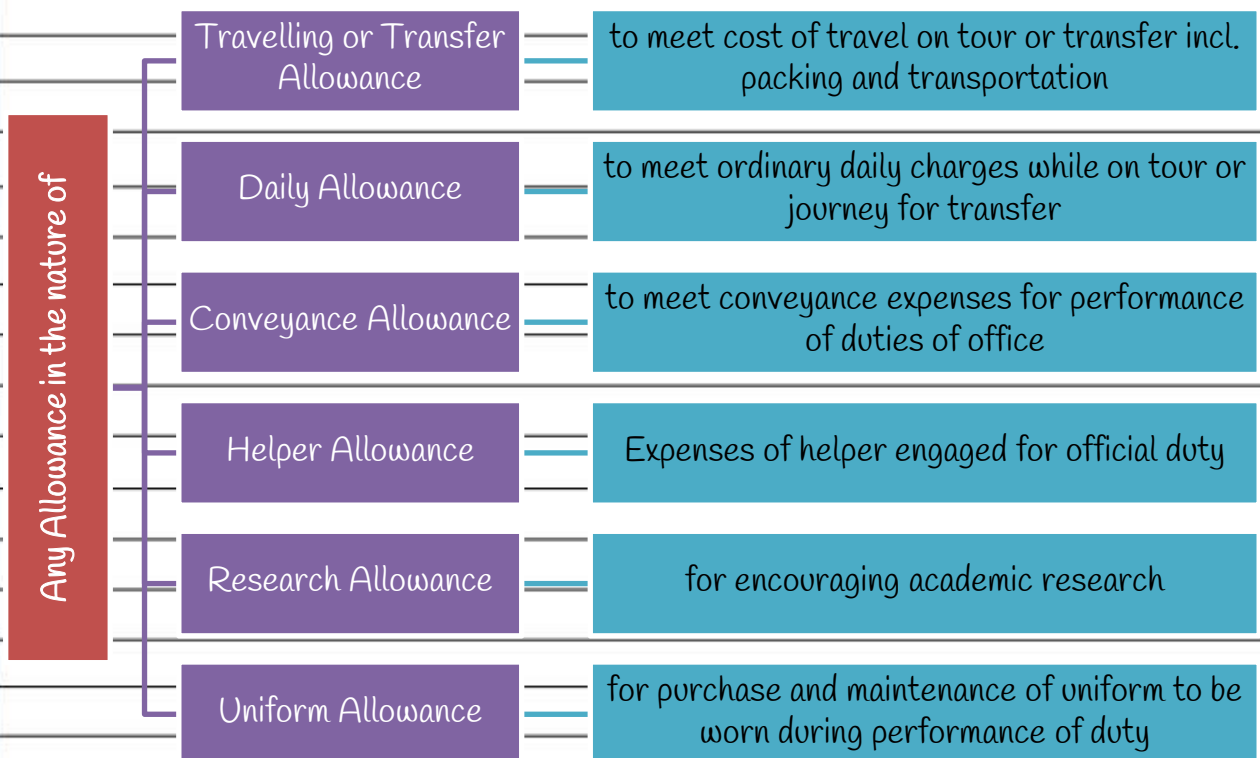
- (a) Actual amount of allowance or
- (b) Actual Rent in excess of 1/10th of Salary **due** for the **relevant period** or
- (c) (i) 50% of salary **due**—if house in 4 Metros
(ii) 40% of salary **due**—if any other place

Remember:

- a) **Relevant period** means the period during which the accommodation is occupied by the employee during the previous year.
- b) **Salary Due** = Fourth Schedule > Part A > Rule 2(h) =
 - a. Salary **includes** DA, if provided in terms of employment, but **excludes** all other allowances and perquisites.
 - b. As per Gestetner Duplicators 1979 SC 117 ITR 1 – Salary **also includes** commission based on a fixed percentage of turnover as per terms of employment.
- c) **No exemption**
 - a. if accommodation is owned by the employee **or**
 - b. if he doesn't incur any expenditure **or**
 - c. if the expenditure incurred does not exceed 10% of his salary.
- d) DA has to be considered only if it is part of salary for computing all retirement benefits. – Senior Accounts Officer, Pay & Accounts, DHBVNL (Delhi) ITAT

2. Special Allowance – Section 10(14)

- (i) → granted to meet **prescribed expenses** [R. 2BB(1)]
- exclusively incurred in the performance of the **duties of an office**,
- **to the extent** such expenses are **actually incurred** for that purpose



Special Allowance - 10(14)

- (ii) → granted for **personal expenses** at the duty place or place of residence or
 → to compensate him for the increased **cost of living**
 → to the extent such allowance are **prescribed** in R. 2BB(2), exempt.

Allowances given below are exempt regardless of the amount of expenditure incurred by the employee.

Sl. No.	Name of allowance	Place at which allowance is exempt	Extent to which allowance is exempt
1	Any Special Compensatory Allowance in the nature of Hilly Areas or High Altitude or Uncongenial Climate or Snow Bound Area or Avalanche Allowance	At 1000 ft & above	Rs. 300 per month
		At 9000 ft. & above [Sikkim, Arunachal, Manipur etc.]	Rs. 800 per month
		At Siachen area of Jammu and Kashmir	Rs. 7000 per month
2	Any Special Compensatory Allowance in the nature of Border Area, or Remote Locality or Difficult Area or Disturbed Area Allowance	Andamans, Himachal, Lakshadweep etc.	Rs. 1300 per month
		Continental Shelf or the EEZ of India	Rs. 1100 per month
		Nagland, Jammu etc. Mizoram, Tripura etc.	Rs. 1050 per month
		Jog falls in Karnataka	Rs. 750 per month
		State of Himachal, Assam & Meghalaya	Rs. 200 per month
3	Special Compensatory Tribal/Schedule/Agency Areas Allowance	MP, TN, UP, Kar, Tripura, Assam, WB, Bihar, Orrisa	Rs. 200 per month
4	Employee of a transport system to meet his personal expenditure during his duty performed of transportation	All India, provided that such employee is not in receipt of daily allowance	70 % of allowance Max. Rs. 10,000 per month
5	Children Education Allowance	Whole of India	Rs. 100 per month per child up to a maximum of two children.
6	Children Hostel Expenditure Allowance	Whole of India	Rs. 300 per month per child up to a maximum of two children.
7	Compensatory Field Area Allowance	Areas of Arunachal and UP	Rs. 2,600 per month

8	Compensatory Modified Field Area Allowance	Areas of Punjab, Raj., HP, WB, UP, J&K etc.	Rs. 1,000 per month
9	Counter-insurgency allowance to armed forces	In India, provided they are operating away from their locations	Rs. 3,900 per month
11	Transport allowance to blind or deaf and dumb or handicapped with disability of lower extremities	In India, to meet his expense for commuting bet ⁿ residence and duty	Rs. 3,200 per month (Even available for 115BAC)
12	Underground Allowance	In India, in uncongenial, unnatural climate in underground mines	Rs. 800 per month
13	High altitude (uncongenial climate) allowance granted to the member of the armed forces	9,000 to 15,000 feet	Rs. 1060 per month
		Above 15000 feet	Rs. 1600 per month
14	Special compensatory highly active field area allowance to armed forces	Whole of India	Rs. 4,200 per month
15	Island (duty) allowance to the member of the armed forces	Andaman & Nicobar and Lakshadweep	Rs. 3,250 per month

If allowance at 7, 8, 9 are claimed; allowance at 2 is not available for exemption. Sr. 10 is not jumped, it is deleted. Except for exemption in point 11; nothing is available if 115BAC is opted.

Whether allowances given as reimbursement of expenses are PILS, if they are not covered by 10(14)(i)?

→ Section 2(24)(iiiia) - any special allowance or benefit, specifically granted to the assessee to **meet expenses** wholly, necessarily and exclusively for the **performance of the duties** of an office or employment of profit.

However, reimbursement of expenses which do not result in personal profit **cannot** be called as profit in addition to salary. Profits cannot be worked out without considering expense required to earn such income.

[SECTION 17(1)(iii) and 10(10)] GRATUITY

(i) Any death-cum-retirement gratuity

- received by employee of Central or State Government or a local authority
- 100% exemption

*An employee of a university or an undertaking established under an Act of a parliament or state legislature would be treated as a government employee. Ram Kanwar Rama 2016 Delhi.

(ii) any gratuity received

→ under the Payment of Gratuity Act, 1972

→ Exempt to the extent of amount calculated as Section 4(2) and 4(3) of
POGA, 1972

→ How many years have you worked? (Rounded)

→ If you work for more years you get more gratuity

→ Pay 15 days wages* for each year worked (based on last drawn wages & 26 working days a month)

→ Section 2(s) wages means all emoluments payable in cash incl. DA but excluding bonus, commission, overtime wages, allowances.

→ Wef. 29.03.18 max gratuity is 20 Lakhs

(iii) any other gratuity

→ received on retirement or termination or incapacitation or death

→ to the extent it does not exceed

→ Completed years of Service (Not rounded)

→ Pay ½ month's salary* for each completed year (based on Average Salary of last 10 months)

→ *Standard Salary = Basic + DA (in terms of employment) + Fixed % of Commission.

→ N/N 08.03.19 max gratuity is 20 Lakhs wef 29.03.18

Remember

1. If gratuity is received under Section 10(10)(iii) only then the **aggregate amount** of exemption for gratuity received from all employers, shall not exceed Rs. 20 Lakhs.
2. Gratuity received while **continuation** of service is not exempt.
3. Completed year of service would include the year of service under **previous employers**, if no gratuity is received from them – P.M.Mehra 1993 Bom.
4. As per POGA – for **seasonal establishment** 15 days is replaced by 7 days
– for **piece rated employee** 15 days wages are based on average of wages of immediately 3 preceding months and not last drawn wages.

[Section 17(1)(ii) and 10(10A)] PENSION

Uncommuted pension and Annuity are periodical payments taxable in case of both government and non-governmental employees.

National Pension Scheme

1. Section 17(1)(viii) the employer contribution to NPS is treated as Salaries in the hands of the employee.
2. The employee can claim deduction under section 80CCD(2) of the employers contribution to the extent of 10% of Salary. (CG employees 14%)
3. Pension / Annuity received from NPS is taxable.

Commuted Pension: Lumpsum payment received by surrendering regular pension. It is subject to exemption u/s. 10(10A)

- (i) any payment in commutation of pension
 - received by employee of Central or State Government or a local authority
 - 100% exemption
- (ii) any payment in commutation of pension, not exceeding—
 - a. in a case employee receives **any gratuity**, commuted value of $1/3^{\text{rd}}$ of the pension, **and**
 - b. in any other case, the commuted value of $1/2$ of such pension.
- (iii) any payment in commutation of pension received from a fund under clause (23AAB)

Remember

1. The commuted value is determined having regards to the age of the recipient, the state of his health, the rate of interest and based on tables of mortality.
2. Judges of the Supreme Court and High Court will be entitled to exemption of the commuted portion.

[Section 17(3)(i) and 10(10B)] RETRENCHMENT COMPENSATION

- any compensation received by a workman at the time of his retrenchment under:
 - The Industrial Disputes Act, 1947 or any other extant law
 - any standing orders or under any award
 - contract of service or otherwise
- The amount exempt under this clause shall not exceed—
 - (i) an amount calculated as per section 25F(b) of IDA, 1947;
15 days of average pay for every completed year of service (Rounded off)
 - (ii) **or** Rs. 500,000 (being amount notified by CG)

Remember

1. Average Pay in case of monthly paid workman is 3 month's salary or wages.

2. Wages as per 2(rr) of IDA, 1947 means all remuneration capable of being expressed in terms of money and includes DA, RFA, LTC or Commission but excludes Bonus, PF, Gratuity.

[Section 17(3)(i) and 10(10C)] COMPENSATION ON VOLUNTARY RETIREMENT

- any amount received or receivable by an employee of
- employer not being individual, firm, AOP, BOI
- on his **voluntary retirement** or termination of his service
- in **accordance with scheme** of voluntary retirement or separation
- to the extent such amount does not exceed **Rs. 5 Lakhs**
- **Rule 2BA**
 - i. Employee with minimum **10 years** of service or **40 years** of age.
 - ii. Applies to **all employees** except directors.
 - iii. It should result in **overall reduction** of workforce.
 - iv. **No recruitments** for vacancy due to VRS.
 - v. VRS employee should not be **re-employed** in another company or concern of the same management.
 - vi. The **amount receivable** under VRS by an employee, should not exceed
 - 3 months' salary for each completed year of service or
 - Equivalent salary at the time of retirement, for the balance months of service left before retirement on superannuation.

Remember

1. Once in lifetime exemption. Cannot be claimed again. [Proviso 1]
2. Either claim 89(1) or 10(10C). [Proviso 2]
3. Salary means standard salary as per R.2(h) of Part A of 4th Sch. [Ex to 2BA]

[Section 17(3)(ii) and 10(13)] – APPROVED SUPERANNUATION FUND

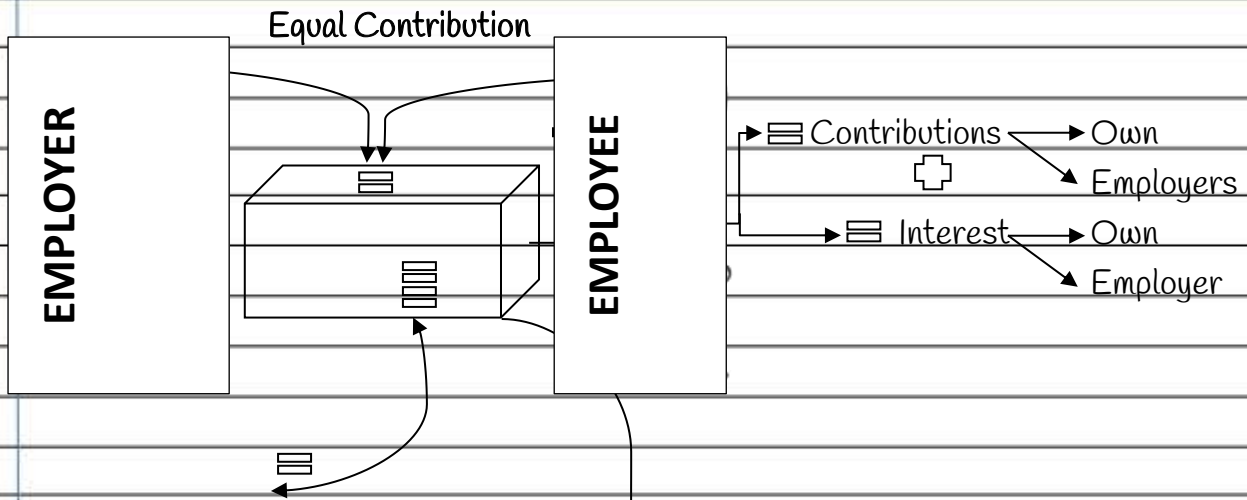
any payment from an approved superannuation fund made –

- (i) on the **death** of a beneficiary; or
- (ii) on **commutation** of an annuity on his retirement or on **incapacitation**; or
- (iii) by way of refund of contributions on the death of a beneficiary; or
- (v) by way of transfer to the account of the employee under a pension scheme referred to in section 80CCD and notified by the Central Government;]

Remember

1. Employees own contribution to all funds is exempt at the time of receipt
2. Employers contribution > 7.5 Lakhs to RPF, NPS, ASF is taxable. [S. 17(2)(vii)]

ALL ABOUT EMPLOYEE PROVIDENT FUNDS – SECTION 10(11)/(12)



TYPE OF FUND	STATUTORY	RECOGNIZED	UNRECOGNIZED
Condition	PF Act 1925	CIT & CPF Recognized Trust	EPF Misc Prov Act, 1952 NA
Employers Contribution	Not Income	Not Income upto 12% of Std. Salary	Not Income
Deduction under 80C for Employees Contribution	Available	Available	Not Available
Interest Credited to PF	Not Income	Not Income upto 9.5% on Fund Bal	Not Income
Lumpsum Payment at retirement or termination	Exempt from tax u/s. 10(11)	Conditional Exemption else as good as URPF*	Employers - Bal and Int. - Salaries Employee int. - IFOS

*Payment from RPF is exempt from tax u/s. 10(12) if

- (i) employee served a continuous period of **5 years or more**; or
- (ii) is required to retire before rendering 5 years of service because of reason **beyond the control** of the employee, incl. his ill health.
- (iii) Balance of one RPF is **transferred** to his another RPF or NPS Account notified under 80CCD.

[Section 17(1)(va) and 10(10AA)] LEAVE ENCASHMENT

- (i) **Central/State Government Employee:** any cash equivalent of leave salary received in respect of credit balance of earned leave at the time of his retirement;
- (ii) **Other Employee:** Exempt from tax to the extent of the least of the following:
 - Cash equivalent of credit balance of **earned leave** at the time of retirement (based on maximum entitlement of **30 days** of "**average salary**" for every completed year of service) [Ex 1 of 10(10AA)]; or
 - **10 months** "average salary"; or
 - Amount specified by the Government i.e. **Rs. 3,00,000** or
 - Leave encashment **actually received** at the time of retirement.

Remember

1. Salary means is **standard salary** as per R.2(h) of Part A of 4th Schedule and **Average Salary** is computed with regards to 10 months' salary of months **immediately** preceding his retirement
2. Maximum limit from all employers during lifetime of the employee is Rs. 300000 [Proviso 1 and 2]

PERQUISITES

VALUATION OF PERQUISITES – RULE 3

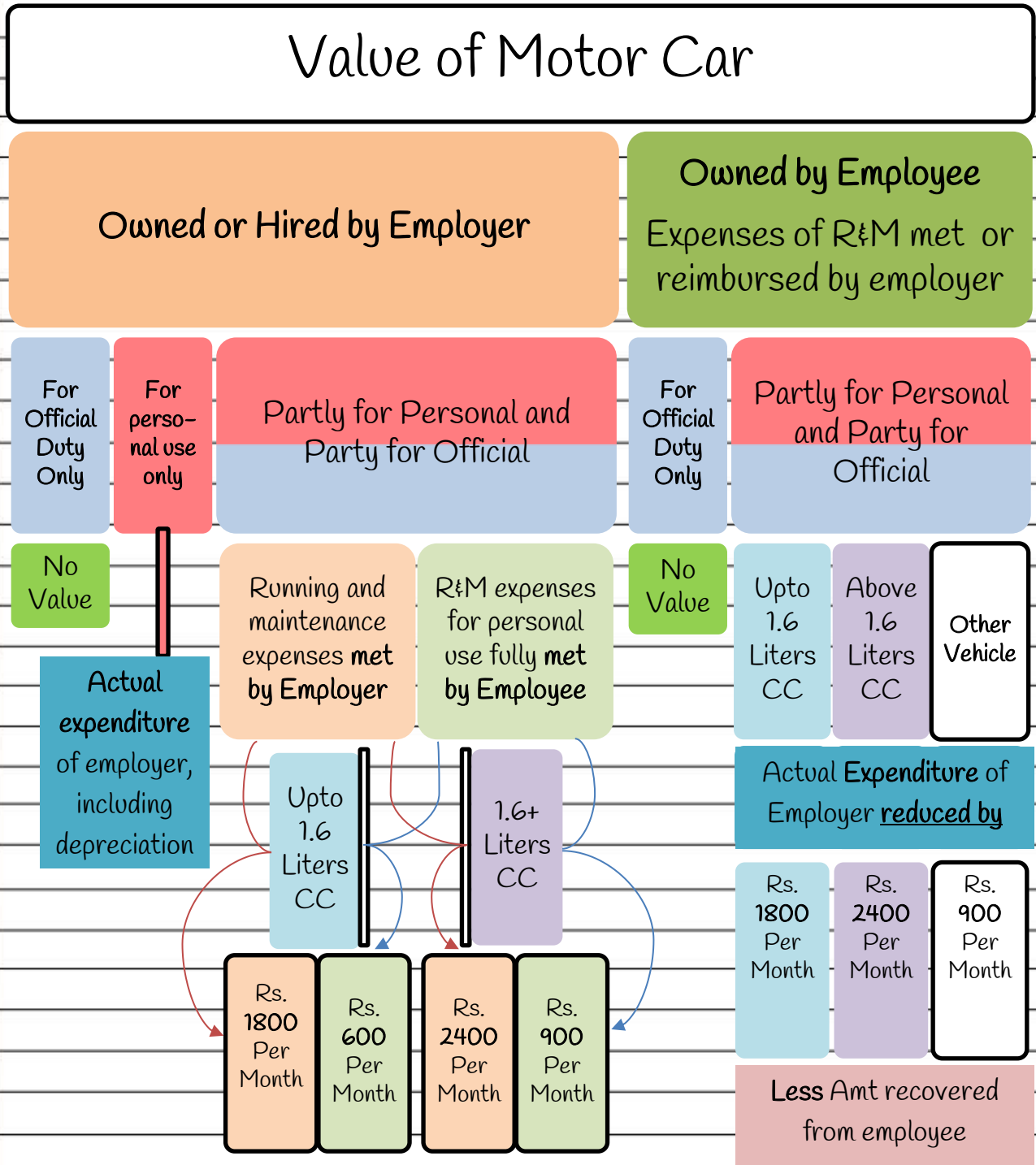
Rule 3(1) The value of **residential accommodation** provided by employer to employee

Nature	Unfurnished	Furnished
Central and State Government Employee	License fee Less Rent actually paid by the employee	License fee Add 10% p.a. of the cost of f&f Add actual hire charges
Other Employer Owned Accommodation	25L+ Pop ⁿ - 15% of Salary 10L+-25L - 10% of Salary 0+-10L - 7.5% of Salary	Value of UFRFA Add 10% p.a. of the cost of f&f Add actual hire charges of f&f
Other Employer Leased Accommodation	<u>Lower of</u> Lease Rental Payable or 15% of Salary	Value of UFRFA Add 10% p.a. of the cost of f&f Add actual hire charges
Other Employer Hotel Accommodation		<u>Lower of</u> Hotel Charges Payable or 24% of Salary
Exception Employee working at a Remote Area	a mining site or an oil exploration site or a project execution site, or a dam site or a power generation site or an off-shore site	Accommodation of temporary nature - Less than 800 Sq Ft and - Located at a distance of 8kms or more of municipal limits or It is Located in remote area.
Exception Employee on Transfer	Two accommodation one at place of new posting and one at old posting.	Perquisite is added only for one accommodation with lower value, upto 90 days. Post 90 Days – Tax Both.
Exception Government Employee working on deputation	In another body or undertaking controlled by the government	Perquisite as if the accommodation is owned by another body or undertaking

Remember

The value of perquisite in all cases shall be **reduced** by the amount of rent and/or charges for furniture and equipment **actually payable** by the employee to the employer.

Rule 3(2)(A) Value of perquisite by way of use of motor car

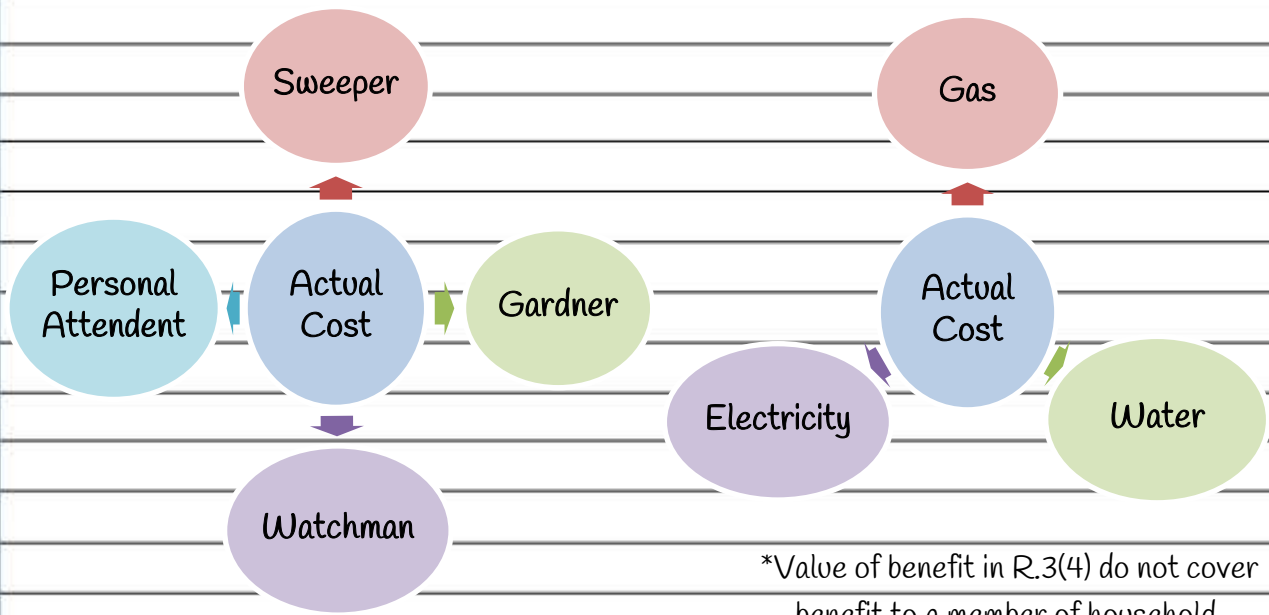


Remember

1. If more than one car is provided to the employee or his family one such car could be for official purposes or partly official and partly personal purposes. Rest would be valued as used for personal purposes.

R. 3(2)(A) If claimed to be used for official duty only then maintain details of journey (log book) and employer to give certificate that it is used for official purposes.

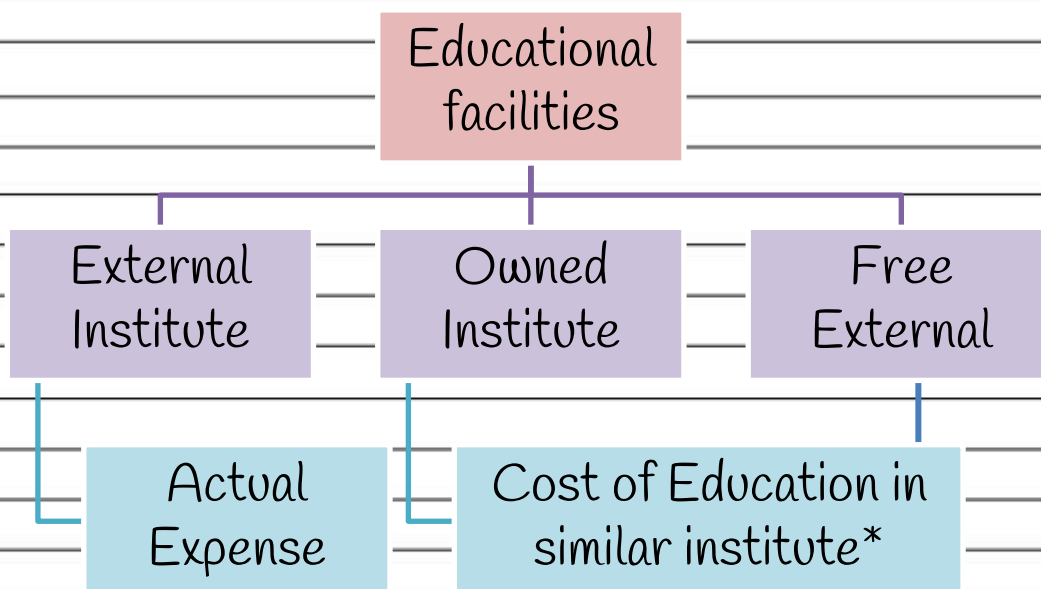
Rule 3(3) Provision of Services and Rule 3(4) Supply for Household Consumption



Remember:

1. Reduce the amount actually paid by the employee for any of the above services or supply.
2. In case of supply of utilities under R. 3(4) if supply is made from resources owned by the employer, the value of perk shall be the manufacturing cost of the utility.

Rule 3(5) Provision of free or concessional education facility:



Remember -

1. Not includible if the value per **child** does not exceed Rs. 1000 pm/child.
2. Deduct the amount recoverable from the employee before taxing perquisite.

Rule 3(6) Employer with Transport Business

1. Value of benefit for transport of passengers or goods for personal purposes of the employee or any member of his household shall be the FMV of such service being offered to public.
2. It shall be reduced by the amount recovered from the employee.
3. Employees of Railways and Airlines are exempted.

Rule 3(7) Notified fringe benefits as per Section 17(2)(viii)

(i) Interest-free or concessional loan

- Loan by the employer or any person on his behalf
- Sum equal to the interest computed at the rate charged by SBI
 - Purpose-wise rate as on 01st April of every PY notified
 - Interest on maximum outstanding monthly balance*
- Interest recovered from employee shall reduce the value of perquisite.
- Exceptions
 - Loans for medical treatment of specified diseases, if the same is not covered under medical insurance scheme (R.3A)
 - Small loans in aggregate upto Rs. 20,000

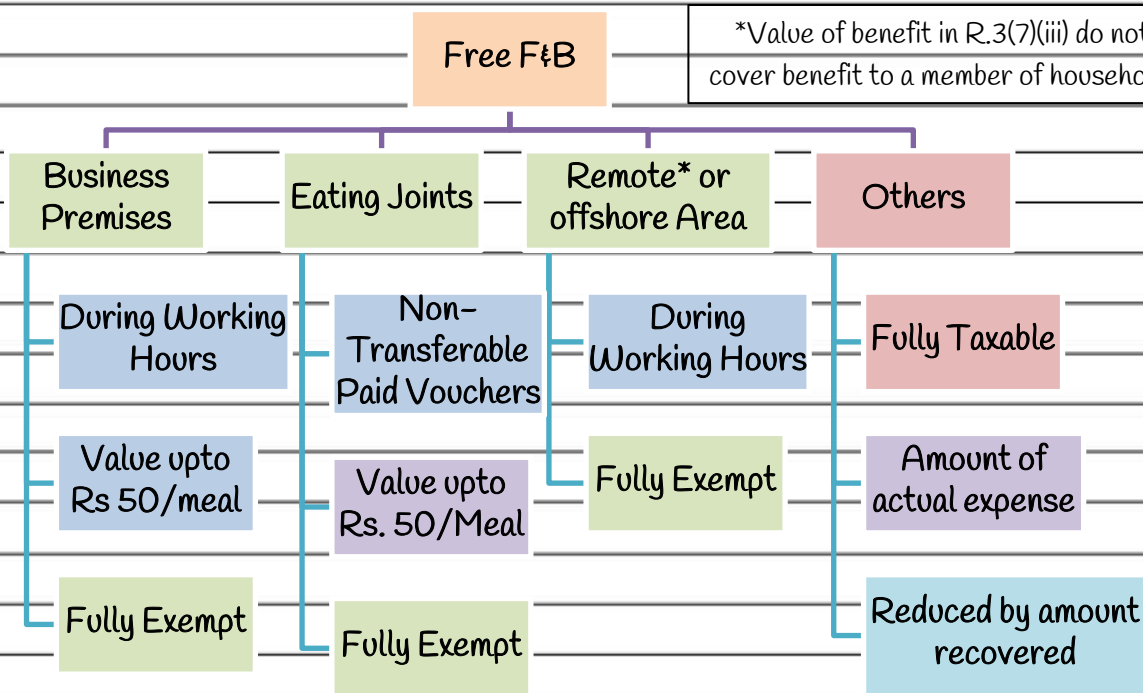
Additional Gyan

1. Ex (vii) to R. 3 MOMb means the aggregate outstanding balance for each loan as on the last day of each month.
2. Visit SBI Website- <https://www.sbi.co.in>
3. Rates as on 01.04.2020: Home Loan – 7.15% to 7.45%; Education Loan – 10.55% to 10.80%; Car Loan – 9.30 to 9.80% etc.

(ii) Holiday Expenses

- **Personal Tour** the value of travelling, accommodation & any other expenses
 - paid for or borne or reimbursed by the employer
 - for the employee or any member of his household
 - External Facility: Amount of actual **expenditure** incurred
 - Owned facility: Value of such facilities for public. (FMV)
- **Official Tour** with member of household
 - Actual **expenditure** incurred for such member of household
- **Extended official tour:** into Holiday
 - Value limited to the **expenses** incurred for such extended stay
- **Reduced** by the amount recovered from the employee.

(iii) Value of free food and non-alcoholic beverages by employer to employee



*Expl v to R. 3 "remote area", means an area that is located at least 40 kms away from a town with a population not exceeding 20,000 based on latest published all-India census;

(iv) Value of any gift, or voucher or token in lieu:

- to the employee or to member of his household
- on ceremonial occasions or otherwise
- sum equal to the amount of such gift
- Value below Rs. 5000 in aggregate during the year is taken as NIL

(v) Expenses for Credit Card including Add-on Card

- Amount paid for or reimbursed by such employer
- Including membership fees and annual fees but excluding recovery
- Exception: Expenses wholly and exclusively for official purposes
 - a. Details of such official expenses maintained with employer
 - b. Employer gives a certificate confirming expenses for official purposes.

(vi) Expenses in a club

- A. Actual amount of expenditure including annual or periodical fee other than fees for corporate membership.
- B. Exception: Expenses wholly and exclusively for official purposes
- C. Exception: Health, sports club and similar facilities provided uniformly to all employees by the employer

(vii) Use of any movable asset belonging to or hired by employer

- other than F&F and Car already covered by R.3(1) and (2)
- other than laptop and computers (specifically excluded)
- value of benefit shall be 10% p.a. of the actual cost or actual hire charges
- **Reduced** by the amount recovered from the employee.

(viii) Transfer of any movable asset belonging to the employer

- cost of such assets
- **reduced** by wear and tear allowance:
 - Motor Cars - 20% of **WDV** for each **completed year**
 - Computer & Electronics - 50% of **WDV** for each completed year
 - Other Assets - 10% of **cost** for each completed yearduring which the asset was put to use.
- **Further reduced** by the amount recovered from the employee.

(ix) Other benefit or amenity, service, right or privilege provided by the employer

- Cost to employer under Arm Length Transaction
- **Reduced** by the amount recovered from the employee.
- Exception: Mobile and Telephone Expenses. Value is taken as NIL.

Rule 3(8) and 17(2)(vi): Value of ESOP's or Specified Securities

(i) Security in the nature of **Equity** of Company

(ii) **Listed** on a recognized stock exchange (RSE) as on the date of exercise:

- **FMV**=Average of Opening and Closing price **on the date of exercise**
- Issue: **Multiple RSE** –Op and Cl price of RSE with highest volume
- Issue: **No trading** in RSE on the date of exercising option
 - a. Cl price of the closest date preceding the exercise on a RSE
 - b. Cl price of the closest date preceding the exercise, if available on multiple RSE, choose the one with **highest volume**.

(iii) **Unlisted** equity shares and R. 3(9) - securities other than equity shares

FMV = Value as determined by **Merchant Banker** on Specified Date.

Remember

1. Opening Price is the **sell price** of first settlement for the day and closing price is the sell price of the last settlement on the date of exercise of the option.
2. The price determined by merchant banker shall not be preceding 180 days the date of exercising of the option.

3. Deferring Tax Payment for ESOP's of employees of eligible start-ups

Tax has to be paid by employees of startups covered by 80IAC

- a. After 4 Years from the end of the AY in which ESOP was allotted or
- b. Date of Actual Sale or
- c. Date of ceasing to be an employee of startup

Whichever is earlier. However, tax at rates applicable to the PY in which shares were allotted.

Ex. (iv) of R. 3 "member of household" shall include— spouse(s), children and their spouses, parents, and servants and dependents.

Relevance: The value of perquisites provided by the employer directly or indirectly to the employee or to **any member of his household** by reason of his employment have to be valued and included in the Salaries as per R. 3(1).

Ex. (vi) of R. 3 "salary" includes the pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called from one or more employers, as the case may be, but **does not include** the following, namely:—

- (a) **dearness allowance** unless it enters into the computation of **retirement benefits**;
- (b) employer's contribution to the **provident fund** account of the employee;
- (c) allowances which are **exempted** from payment of tax;
- (d) the value of **perquisites** under Section 17(2)
- (e) any payment or expenditure specifically excluded under proviso to sub-clause (iii) of clause (2)* or proviso to clause (2) of section 17;
- (f) **lump-sum payments** received at the time of termination of service or superannuation or voluntary retirement, like gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and similar payments;

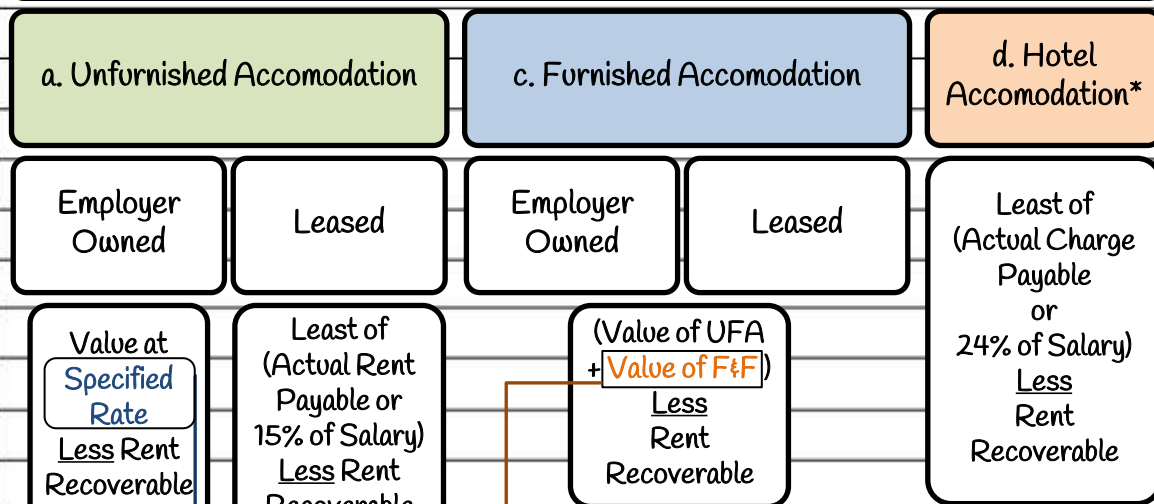
Section 17(2) "perquisite" includes—

- (i) the **value** of **rent-free** accommodation provided to the assessee;
- (ii) the value of **any concession** in rent of any accommodation;

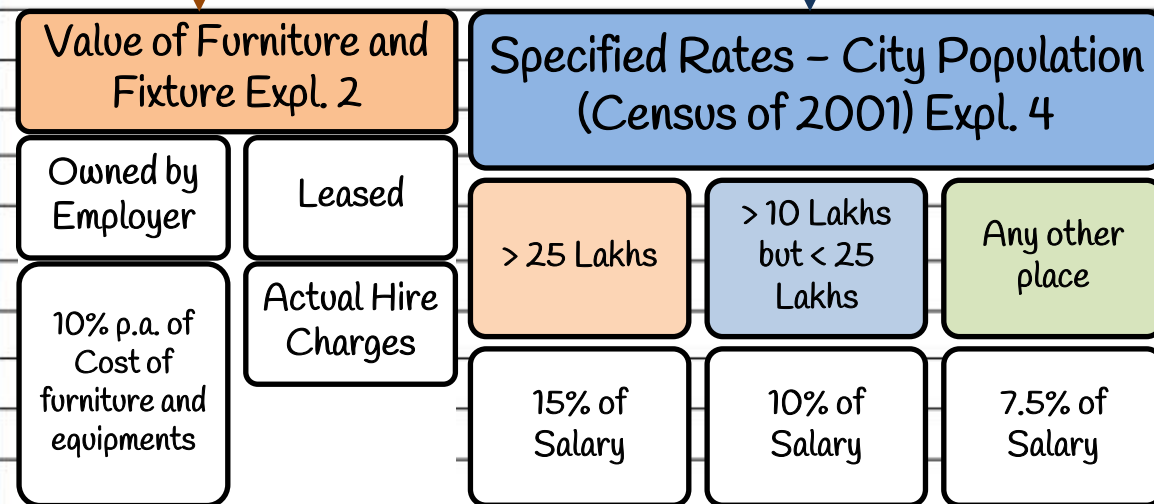
Expl 1 (b) In case of **furnished accommodation** is provided by the Central or any State Government

- License fee as determined by Govt
- **Add:** Value of Furniture and Fixtures
- **Less:** Rent and Charges recoverable

Concession deemed to be provided based on Type of Accommodation other than Govt (Expl 1)



*Upto 15 days in aggregate not to be treated as perk, if provided on transfer.



Explanation 3: For the purposes of RFA, "salary" includes the **pay, taxable allowances, bonus or commission payable** or any other **monetary payment**, but does not include:—

- (b) DA unless it enters into the computation of retirement benefits;
- (c) Employer's contribution to the provident fund account of the employee;
- (d) Allowances which are exempted from the payment of tax;
- (e) value of the perquisites specified in this clause i.e. 17(2);

- (iii) the value of any **benefit or amenity** granted or provided **free** or at concessional rate
- (a) by a company to its **director** employee;
 - (b) by a company to an employee with **substantial interest**;
 - (c) by any employer to an employee whose income under the head "Salaries", exclusive of the value of all benefits or amenities not provided for by way of monetary payment, exceeds Rs. 50,000.

Remember

1. **Examples:** Services of sweeper, gardener, watchman, Supply of Gas, Electricity, Education facility, Car, Leave travel concession, medical facility which are not specifically exempted.
2. **Vehicle** provided by employer for commutation of employee from residence to office or other workplace is **not** regarded as benefit or amenity. Expl. to (iii)

- (iv) any sum paid by the employer in respect of **any obligation** which, but for such payment, would have been payable by the assessee;
- Examples:** Tax paid except on non-monetary perquisite.

- (v) any sum payable by the employer, towards **life insurance of employee** or for contract of annuity except where such payment is made through RPF or an approved superannuation fund.

- (vi) the value of any specified **security** or **sweat equity shares** (ESOPs) allotted or transferred by the employer, or former employer, free of cost or at concessional rate.

Remember

- (a) "**specified security**" means the securities as defined in Section 2(h) of the SC(R)A, 1956;
- (b) "**sweat equity shares**" means equity shares issued by a company to its employees or directors at a discount or for a non-cash consideration for providing intellectual property rights (IPR);
- (c) The **value** of security is the FMV as on the date on which the option is exercised by the employee as reduced by the amount actually recovered;
- (d) "fair market value" means the value determined in accordance with the method as may be prescribed;

(vii) the aggregate amounts of any contribution made to the account of the assessee **by the employer**—

(a) in a recognised provident fund;

(b) in the scheme referred to in sub-section (1) of section 80CCD; and

(c) in an approved superannuation fund,

to the extent it exceeds Rs. 7,50,000 in a previous year;

(viiia) the annual accretion by way of interest, dividend etc.

-> to the balance at the credit of the fund referred to in sub-clause (vii)

-> to the extent it exceeds 7,50,000

which is included in total income under the said sub-clause in any previous year computed in such manner as may be prescribed; and

(viii) the value of any **other fringe benefit** or amenity as may be prescribed.

Example: Interest free/concessional loan, use or transfer of movable asset, free food and beverage, gift or gift voucher, telephone or mobile.

Provided that nothing in this clause shall apply to—

(i) the **value** of any **medical treatment** provided to an employee or any member of his family in any hospital **maintained** by the employer;

(ii) any **sum paid** by the employer in respect of any expenditure **actually incurred** by the employee on his **medical treatment** or treatment of any member of his family—

(a) in any hospital maintained by the **Government** or any local authority or any other hospital **approved** by the Government for the purposes of medical treatment of its employees;

(b) in respect of the **prescribed diseases** or ailments, in any hospital **approved** by the Principal Chief Commissioner or Chief Commissioner having regard to the prescribed guidelines:

(iii) any portion of the **premium paid** by an employer in relation to an employee, to effect or to keep in force an **insurance on the health** of such employee under any **scheme approved** by the Central Government or the IRDA for the purposes of section 36(1)(b);

(iv) any sum paid by the employer in respect of any **premium paid** by the employee to effect or to keep in force an **insurance on his health** or the health of any member of his family under any **scheme approved** by the Central Government or the IRDA for the purposes of section 80D;

(vi) **any expenditure** incurred by the employer on—

(1) **medical treatment** of the employee, or any member of the family of such employee, **outside India**;

(2) **travel and stay** abroad of the employee or any member of the family of such employee for medical treatment;

(3) travel and stay abroad of **one attendant** who accompanies the patient in connection with such treatment,

subject to the condition that—

(A) the expenditure on medical treatment and **stay abroad** shall be excluded from perquisite only to the extent **permitted** by the RBI; and

(B) the **expenditure on travel** shall be excluded from perquisite only in the case of an employee whose GTI, as computed before including therein the said expenditure, does not exceed **two lakh rupees**;

(vii) **any sum** paid by the employer in respect of any expenditure **actually incurred** by the employee for any of the purposes specified in clause (vi) subject to the conditions specified in or under that clause :

Provided further that nothing contained in this clause shall apply to any employee whose income under the head "Salaries" exclusive of the value of all perquisites not provided for by way of monetary payment, does not exceed one lakh rupees.

Remember

Family", in relation to an individual, means section 10(5) family for entire Section 17(2)

- Spouse, and children of the individual **and**
- Parents, brothers and sisters of individual or any of them, wholly or mainly dependent on the individual.

Perquisite 17(2)

i/ii.
RFA

iii.
Benefit /
Amenity
to SE

iv.
Obligation
of
Employee

v.
LIP of
employee
or
Contract
of Annuity

vi.
ESOP

vii.
Approved
Funds

viii.
Other
prescribed
Fringe
Benefits

Not Perquisite 17(2)

iii. Conveyance betⁿ home and office

viii. EPF, NFS, ASF upto 7.5 L

Pi. Medical Treatment in own hospital of employee or family

Pii. Reimbursement of Medical Expenses incurred by employee

Piii. Health Insurance Premium of employee covered by 36(1)(ib)

Piv. Health Insurance of employee and family covered by 80D

Pvi. Overseas Expenditure incurred or Reimbursed

Treatment and Stay excluded only to the extent permitted by RBI

Government Hospital or Approved hospital for Govt Employees

Approved by CIT for prescribed diseases.

1. Medical Treatment of employee or family

2/3. Travel and Stay abroad of patient and 1 attendant

Travel is excluded only if GTI before inclusion is upto Rs. 2 Lakhs.

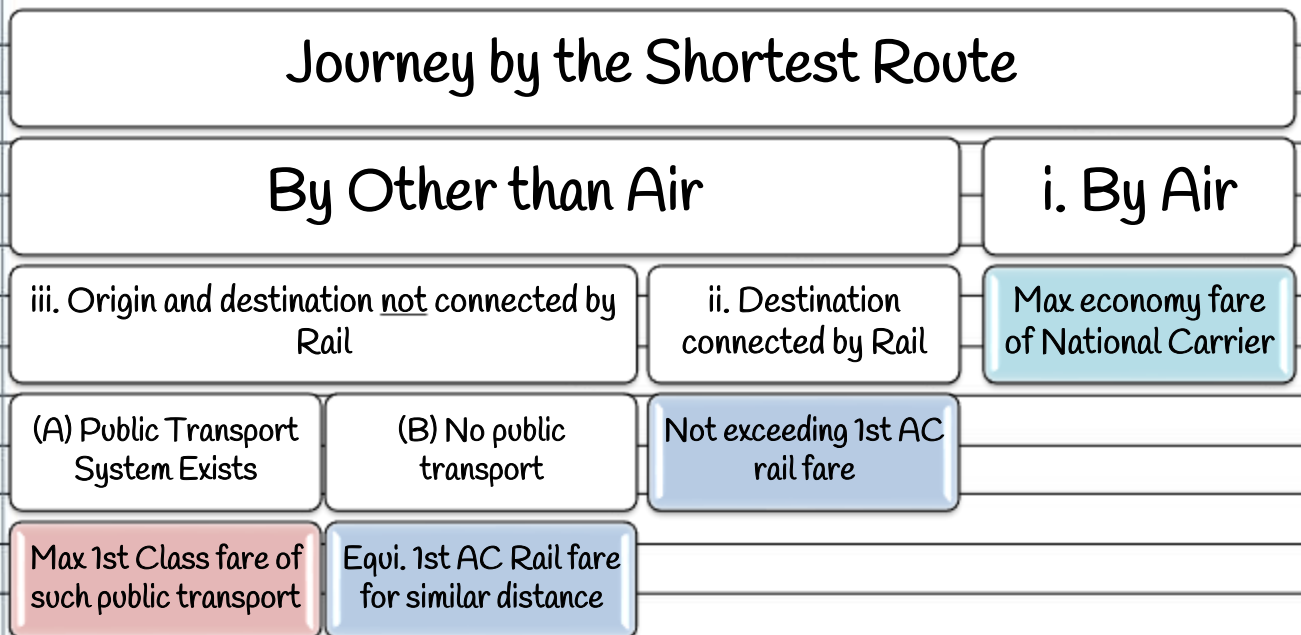
Section 10(5) Leave Travel Concession or Assistance

The value of any travel concession or assistance received or due to an employee, for himself and his family –

- (a) from his employer in connection with his proceeding on leave to any place in India;
- (b) from his employer or former employer, in connection with his proceeding to any place in India after retirement or termination of his service.

Rule 2B Conditions to claim exemption

- (1) The amount exempted under Section 10(5) shall be the amount actually incurred on the performance of such travel subject to the following conditions, namely :–



- (2) **Number of Journey:** 2 journeys in a block of 4 calendar years from 1986

- (3) **Un-availed Journey in a block:** An amount in respect of the value of the travel concession first availed during 1st calendar year of the immediately succeeding block shall be eligible for exemption.

- (4) **Disqualified Children:** Exemption not available for more than 2 children, except for children born before 01.10.1998 or multiple birth after one child.

Remember

1. Rolled over journey shall not be considered as journey for that block – Expn to Rule 2B(3)
2. Exemption shall not exceed the amount of expenses actually incurred for the purpose of such travel.
3. Family means– spouse, children and dependent parents, brothers and sisters

DEDUCTIONS FROM SALARY

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

(1) Standard deduction [Section 16(ia)]

a deduction of ₹ 50,000 or the amount of the salary, whichever is less

(2) Entertainment allowance [Section 16(ii)]

-> Allowance in the nature of an entertainment allowance

-> specifically granted by an employer to the assessee

-> who is in receipt of a salary from the Government,

-> a sum equal to $\frac{1}{5}$ th of Basic salary or

-> five thousand rupees, whichever is less

(3) Professional tax [Section 16(iii)]

-> a deduction of any **sum paid** by the assessee

-> on account of a tax on employment

-> within the meaning of Article 276(2) of the Constitution,

-> leviable by or under any law.

Section 89(1): Relief when salary, etc., is paid in arrears or in advance.

Where an assessee is in receipt of a sum in the nature of salary,

- ↳ being paid in **arrears** or in **advance** or
- ↳ for **more than twelve months** in one financial year or
- ↳ being payment which is a **profit in lieu of salary** u/s. 17(3), or
- ↳ being arrears **family pension** u/s 57(iia)

due to which his total income is assessed at a **rate higher** than that at which it would otherwise have been assessed, the AO shall grant relief as prescribed.