

Income Tax

***Income from
Salary***

Heads of Income :Chargeability

Income Head	Chapter under Income Tax Act	Sections	Charging Section
Income from Salary	IV-A	15-17	15
Income from House Property	IV-C	22-27	22
Profit & Gains from Business & Profession	IV-D	28-44D	28
Capital Gain	IV-E	45-55A	45 & 46(2)
Income from Other Sources	IV-F	56-59	56

INCOME FROM SALARY

Basis of Charge

[Section 15]

- *As per Section 15, Salary consists of the following :*
 - a) any salary due from an employer or former employer to an assessee in the previous year, whether actually paid or not; (Normal salary)*
 - b) any salary paid to him in the previous year by an employer or a former employer though not due or before it became due to him. (Advance Salary)*
 - c) any arrears of salary paid to him by employer or former employer, if not charged to income tax for any earlier previous year. (Arrears of Salary)*

Key Points : Salary Income

- ❖ *Salary and wages, conceptually not different.*
- ❖ *Salary from more than one Source.*
- ❖ *Salary from former, present or prospective employer.*
- ❖ *Salary income must be real and not fictitious.*
- ❖ *Foregoing of salary. Taxable.*
- ❖ *Surrender of Salary [under Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961.]*
- ❖ *Relationship between Payer and Payee.*
- ❖ *Tax free Salary*
- ❖ *Voluntary payments by Employer.*

Key Points : Salary Income contd..

- ❖ *Once salary is taxed on receipt/due basis, it will not be charged again on falling due or receipt basis, as the case may be.*
- ❖ *The assessee can claim relief u/s 89(1) for arrears or advance salary.*
- ❖ *Loan from employer is not salary & not taxable, as it is advance against salary & not advance salary.*
- ❖ *Partner is not an employee of Firm, hence any salary, bonus commission or remuneration received by him, is not taxable as Salary, but taxable as Business Income.*
- ❖ *System of Accounting followed by an employee is irrelevant.*

Definition : Salary [Sec17 (1)]

As per Sec 17(1), Salary includes the following :

- a) Wages,*
- b) Any Annuity or Pension,*
- c) Any Gratuity,*
- d) Any Fees, commission, perquisites or profits in lieu of or in addition to salary/wages,*
- e) Any Advance Salary,*
- f) Leave Salary,*
- g) Annual accretion to the Provident Fund to the extent it is taxable,*
- h) Contribution made by the Central Govt or any other employer to the account of employee under a pension scheme referred to in Sec.80CCD.*

Computation of Income From Salary

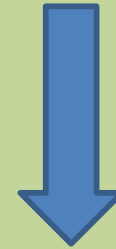
Particulars	Amount (₹)	Amount (₹)
Basic Salary	
Allowances	
Profit in lieu of Salary	
Perquisites	
Gross Salary	
Less : Deduction u/s 16		
a. Entertainment Allowance [u/s 16(ii)]	
b. Professional Tax [u/s 16 (i)]
INCOME FROM SALARY	

Deduction from Salary [Sec 16

1) Entertainment Allowance [Sec 16 (ii)] :

Only Govt employees can claim following deduction :-

- a) *Actual Entertainment Allowance.*
 - b) *1/5TH of Salary.....[Here, Salary = Basic Pay]*
 - c) *Rs.5000/-*
- Whichever is lower.*



2) Professional Tax [Sec 16 (iii)] :

- *Deduction is available in the year in which professional tax is actually paid.*
- *If employee have paid professional tax of more than one year then entire P.Tax so paid is allowed as deduction.*
- *If P.Tax is reimbursed by the employer then it will first added as perquisite (in case of all employees, whether specified or not & then allowed as deduction)*

Specific Exemptions from Salary

1. GRATUITY [Sec

Sr	Particulars	Exemption
1	Gratuity Received by Govt & Local Authority employees.	Fully Exempt
2	Gratuity in case of employees covered by Payment of Gratuity Act,1972. <i>(Here, Salary means, = Basic + DA entire)</i>	Lower of following, a. Actual Gratuity b. ₹ 10,00,000/- c. Salary last drawn x [15/26] x completed years of service or part thereof in excess of 6 months.
3	Gratuity in respect of other employees. <i>(Here, Salary means, = Basic + DA, if terms of employment so provide + Commission, if based on fixed % of turnover.)</i>	Lower of following, a. Actual Gratuity b. ₹ 10,00,000/- c. Salary last drawn x [15/30] x completed years of service. <i>{ ignore fraction. Only completed <u>years</u> to be taken, even more than 6 months not to be considered.}</i>

Specific Exemptions..

GRATUITY [Sec 10 (10)

] key points

- ❑ *Gratuity received during continuation of service is Fully Taxable.*
- ❑ *Maximum exemption available under this section during life time of the assessee cannot exceed ₹ 10,00,000/-*
- ❑ *Completed year of service include period of service under current employer as well as previous employer (if no gratuity has been received from former employer at that time.)*

Specific Exemptions from Salary

2. Pension [Sec 10(10)]

Sr	Particulars	Exemption
1	Commuted Pension received by Govt employees	Fully Exempt
2	Commuted Pension received by Non-Govt employees : ▪If Such employees receives Gratuity ▪If Such employees does not receives Gratuity	➤ 1/3rd of Commuted Value of Pension is exempt. ➤ ½ of Commuted Value of Pension is exempt.
3	Uncommuted Pension received by ALL employees	Fully taxable as Salary.

Specific Exemptions from Salary

3. Leave Encashment [Sec 10 (10

Particulars

Exemption

Leave Encashment received by Govt employees (State + Central Govt)at the time of retirement.

Fully Exempt

Leave Encashment received at the time of retirement by Other employees.

Lower of following is Exempt :

- a. Actual Leave Encashment.
- b. Maximum ₹ 3,00,000/-
- c. Avg. Monthly Salary x 10
- d. Avg. Monthly Salary x earned leave months.

(Here, Salary means, = Basic + DA, if terms of employment so provide + Commission, if based on fixed % of turnover.)

Leave Encashment received during continuous of Service.

Fully taxable as salary.

Specific Exemptions..

Leave Encashment key points

Calculation of earned Leave :

a. *No. of Years in Actual Service*

b. *No. of leave entitlement for each completed year of service as per rules of employer (subject to 30 days)*

c. *Gross total leave (in days) (a x b)*

d. *Less Leave encashed & availed (in days)*

e. *Period of earned leave (in days)*

f. *Period of leave in month (e/30 days)*

Last 10 months average salary shall be considered from the date of immediately before the date of retirement.

(for e.g. if employee retired on 15th Sept 2013, then last 10 months will be considered from 15th Nov 2012)

Maximum leave of Rs.3,00,000/- will be reduced by amount of leave encashment exempted under section 10(10AA) from previous employer.

Leave Encashment received by legal heirs of deceased employee also covered for exemption on compassionate grounds. (CBDT Circular)

Specific Exemptions from Salary

4. House Rent Allowance [Sec 10 (13A)]

Sr	Particulars	Exemption
1	<p data-bbox="241 511 884 572">In case of all employees</p> <p data-bbox="241 592 291 639">□</p> <p data-bbox="241 743 817 1258"><i>(Here, Salary means, Basic + DA, if terms of employment so provide + Commission, if based on fixed % of turnover.)</i></p>	<p data-bbox="904 511 1746 572">Lower of following is Exempt :</p> <ul data-bbox="904 665 1802 1328" style="list-style-type: none"><li data-bbox="904 665 1611 718">a. Actual HRA Received.<li data-bbox="904 818 1802 951">b. Rent paid in excess of 10% of Salary<li data-bbox="904 1046 1731 1328">c. 40% of Salary [50% if house situated at Delhi ,Mumbai, Kolkata & Chennai)

Specific Exemptions from

5. Retrenchment Salary Compensation [Sec 10 (10 B)]

Sr	Particulars	Exemption
1	<p>Compensation received at time of retrenchment is exempt from tax to the extent <input type="checkbox"/></p> <p><i>(Here, Salary means, Basic + DA, if terms of employment so provide + Commission, if based on fixed % of turnover.)</i></p>	<p>Lower of following is Exempt :</p> <ul style="list-style-type: none">a. Actual Amount Received.b. Maximum Amount ₹ 5,00,000/-c. 15 days average pay for <u>every</u> completed years of continuous service or any part in excess of six months.

Specific Exemptions from 6. Compensation under V.R.S. [Sec 10

Sr	Particulars	Exemption
1	Compensation received at time of Voluntary Retirement Scheme (VRS) is exempt from tax to the extent →	Lower of following is Exempt : a. Actual Compensation Received. b. Maximum Amount ₹ 5,00,000/-

Specific Exemptions from Salary Review Questions

Question 1 :

Abhishek, a Chartered Accountant is employed with Synergy Info Ltd, as an internal auditor, and request the employer to call the remuneration as internal audit fees. Abhishek, is chargeable to tax for such fees under the head :

a)Income from Salary.

b)Income from Business & Profession

c)Income from Other Sources.

Specific Exemptions from Salary Review

Question 2 :

Questions

Popular Publication Pvt Ltd pays a salary of Rs.2,30,000/- to his employee Chetan and undertakes to pay the Income Tax amounting to Rs.3,090/- during the previous year 2013-14 on his behalf. The Gross salary of Chetan will be,

- a) Rs.2,30,000**
- b) Rs.2,33,090**
- c) Rs.2,26,910**

Specific Exemptions from Salary Review

Question 3 : Questions

Vivek, who is entitled to Salary of Rs.50,000/- pm took advance salary from his employer for the months of Apr'14 & May'14 alongwith Salary of Mar'14, on 31.03.2014. The gross salary of Vivek for AY 2014-15 shall be,

- a) Rs.6,00,000**
- b) Rs.7,00,000**
- c) Rs.5,00,000**

Specific Exemptions from Salary Review

Question 4 : Questions

Sunil was employed with Sales Tax Dept on 01.07.2007, on the scale of

Rs.15000-400-17000-500-22000. His gross salary for AY 2014-15 shall be,

- a) Rs.1,99,200**
- b) Rs.2,04,000**
- c) Rs. 2,08,500**
- d) Rs.2,10,000**

Specific Exemptions from Salary Review

Question 5:

Questions

During FY 2013-14, Sameer is entitled to a basic Salary of Rs.50,000/-

p.m. and D.A of Rs.10,000/- p.m. 40% of which forms part of retirement benefits. He is also entitled to HRA of Rs.20,000/- p.m. He actually pays Rs.20,000/- per month as rent for a house in Delhi.

Compute the taxable HRA for AY 2014-15.

ALLOWANCES

:-

Allowance is generally defined as a fixed quantity of money 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 for that service. It is fixed, pre-determined and given irrespective of actual expenditure. Under the Act, it is taxable under Sec 15 on due or receipt basis, whichever is earlier irrespective of the fact that it is paid in addition to or in lieu of salary.

Tax treatment of different allowances is given below

-: ALLOWANCES :-
-: FULLY TAXABLE IN ALL

- *City compensatory Allowance*
- *Fixed Medical Allowance*
- *Tiffin/Lunch/Dinner/Refreshment Allowance.*
- *Servant Allowance*
- *Dearness Allowance*
- *Project Allowance*
- *Overtime Allowance.*
- *Interim Allowance*
- *Any other Cash Allowance.*

-: OTHER ALLOWANCES WITH EXEMPTION LIMIT :-

SR	Allowances	Exemption Limit
1	Children Education Allowance	Rs.100/- pm per child. Max 2 Children.
2	Children Hostel Exp Allowance	Rs.300/- pm per child. Max 2 Children.
3	Tribal Area Allowance	Rs.200/- pm
4	Transport Allowance (between residence & office)	Rs.800/- pm ; Rs.1600 pm for blind/handicapped.
5	Transport Allowance for transport employee (During the course of transport)	Least of 70% of Allowance or Rs.10000/- pm
6	Underground Allowance	Rs.800 pm
7	Compensatory Field Area Allowance	Max Rs.2600 pm
8	Compensatory modified Hill Area Allowance	Max Rs.1000 pm

-: OTHER ALLOWANCES WITH EXEMPTION LIMIT... :-

SR	Allowances	Exemption Limit
9	Special Compensatory hill area or high altitude	Rs.300 to Rs.700 pm allowance etc.
10	Border Area, Remote Area, Disturbed Area allowance	Rs.200 to Rs. 1300 pm
11	High Altitude allowance (Non- Congenial climate)	Rs.1,060 pm (Altitude for 9000 to 15000 ft); Rs.1600 pm (above 15000 ft)
12	Special Compensatory for highly active filed area allowance to member of armed force	Max Rs.4,200 pm
13	Island allowance to member of armed force	Max Rs.3250 pm
14	Counter Insurgency allowance	Max Rs.3900 pm

PERQUISITES



- *Perquisites may be defined as benefits attached to an office or position in addition to Salary or Wages.*
- *Perquisites may be provided in cash or in kind.*
- *Perquisites are included in salary only if they are received by an employee from his employer (may be former, present or prospective.) Perquisites received from a person other than employer, are taxable under the head “PGBP” or “IOS”.*
- *A benefit or advantage would be taxable as perquisites only if it has legal origin. As unauthorised advantage taken by an employee, without employer’s authority would create a legal obligation to restore such advantage, it would not amount to perquisite taxable under the Act.*

-: Specified Employees :- [u/s 17(2)(iii)]

- **Specified employees mean,**
 - a) *Director employee, or*
 - b) *Employees having 20% or more voting rights in employer company, or*
 - c) *Employee having salary more than Rs.50,000/- p.a.*

(Here, salary means all taxable benefit after deduction u/s 16)

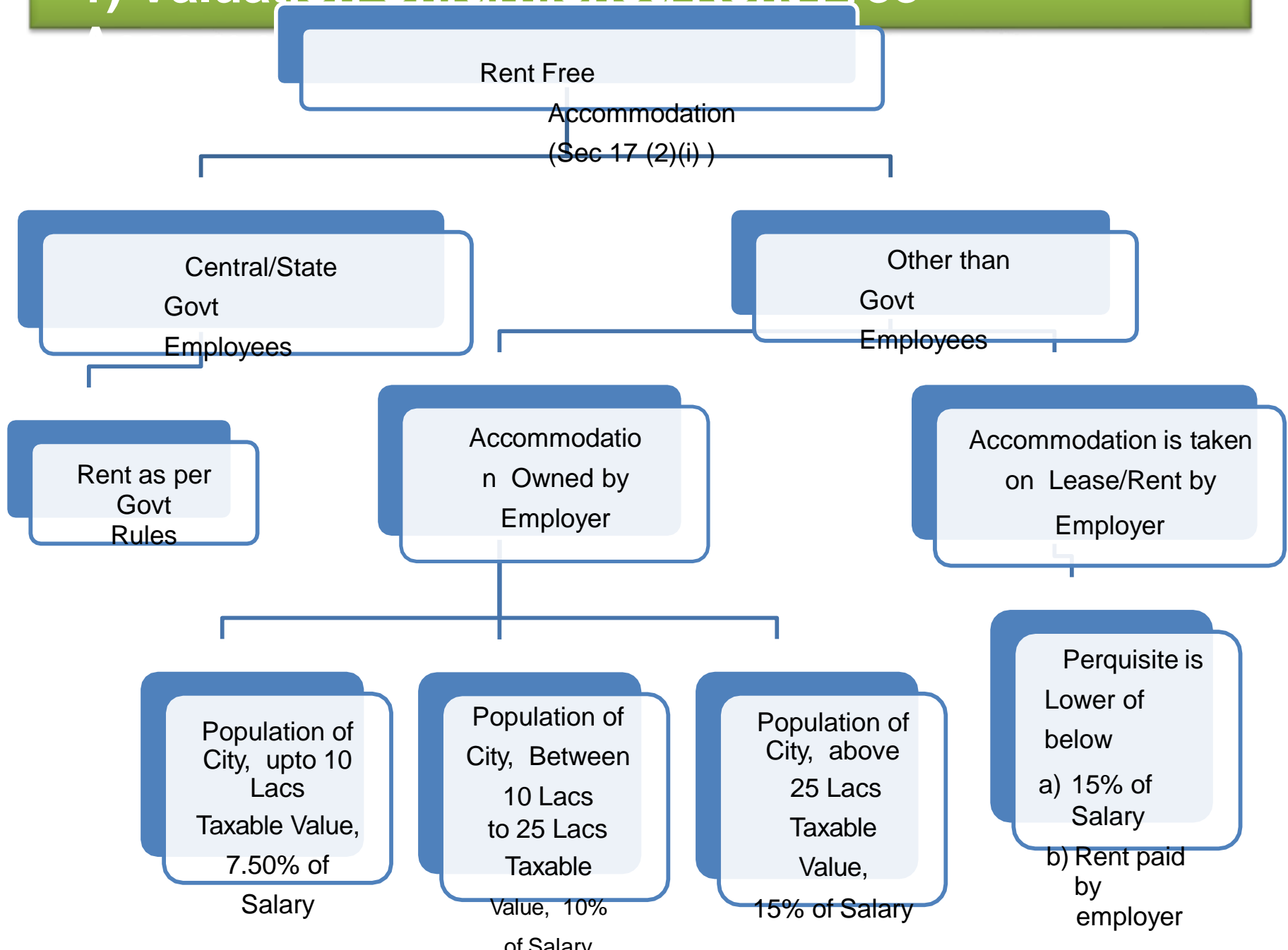
Notes :

- 1) *Certain Perquisites are taxable in the hands of ALL employees*
- 2) *Certain Perquisites are taxable in the hands of Specified employees only.*
- 3) *Any employee, other than a specified employee, is a “non-specified employee”.*
- 4) *However, now-a-days, this classification does not have much practical utility, because of Salary norms of Rs.50000/- p.a.*

-: LIST OF PERQUISITES

- 1. Rent Free Accommodation or Concessional Accommodation.*
- 2. Domestic Servants*
- 3. Supply of Gas, Electricity & Water*
- 4. Free or Concessional Education Facilities*
- 5. Leave Travel Concession*
- 6. Interest Free Loans*
- 7. Use of Movable Assets*
- 8. Sale of Movable Assets*
- 9. Medical Facilities*
- 10. Perquisite of Motor Car*
- 11. Employee Stock Option Plan (ESOP)*

1) Valuation Unfurnished Rent Free



-: (a) Valuation Furnished House

- *If the furniture is provided then 10% p.a. Cost of furniture or actual hire charges if taken on rent shall be added with unfurnished*

house
Salary = Basic

- *Here, Salary means*
 - + DA, (if terms of employment so provide)
 - + Bonus (Current year)
 - + Commission
 - + taxable portion of all allowances
 - + Any monetary payments which is chargeable [but not to include

- *Rent Actually paid by employee will be reduced from the perquisites u/s 17(2)]*

-: (b) Valuation of Hotel Accommodation...

- *Valuation in respect of Hotel Accommodation :*
Accommodation in a Hotel (other than provided for a period of not exceeding 15 days on transfer)
Least of the following it taxable,
 - a) Actual Rental Charges or,*
 - b) 24% of Salaries.**(if some part is paid by employee, that will be deducted.)*

-: Rent free Accommodation when NOT chargeable.. :- [Rule

- *The value of perquisite shall be NIL in case of*
 - * *Judges of High Courts.*
 - * *Judges of Supreme Courts.*
 - * *Union Ministers.*
 - * *Opposition Leader.*
 - * *Official in Parliaments.*
 - * *Where the temporary accommodation is provided to an employee working in mining site or project execution site or a dam site or power generating site or offshore site.*

**-: (2) Domestic
Servants :- [Sec
17(2)(iii) - Rule 3(2)]**

Servant Appointed By	Servant's Salary Paid By	Value of Perquisite	Taxable in the Hands of
Any one (Employer or Employee)	Employer	Actual Cost on Servant	ALL employees.
Any one	Employee	Nil	--

**-: (3) Supply of Gas, Electricity &
Water :- [Sec 17 (2) (iii) -
Rule 3(4) 1**

Sr	Particulars	Valuation
1	Payment by Employer to the Agency	Actual Cost Incurred
2	Supply out of Own Source	Manufacturing Cost incurred by an employer (based on per unit basis)

-: (4) Valuation of Educational Facilities :-

Facilities Provided to	Value of	Perquisites	Taxable in the Hands of..
	Provided in the School Owned by Employer	Provided in Any other School	
Children	Cost of such education in similar school. (An exemption of Rs.1000/- pm per child is available)	Cost of such education. (An exemption of Rs.1000/- pm per child is available)	Specified Employees
Other Household member	Cost of such education in similar school.	Cost of such education.	Specified Employees

-: (5) Leave Travel Concession :- [

- *Leave Travel Concession received by or due to an employee for himself and his family in connection with his proceeding on leave or on retirement or termination of service to any place in India is exempt. (Subject to condition laid down by CBDT)*
- *Amount of Exemption*

Journey is by Air	Amount of Economy Class Fare of the National carrier by the shortest route.
Journey is by Rail	Amount of Air Conditioned First Class Fare by Shortest route.
Other mode of Transport (Where rail is there)	Amount of Air Conditioned First Class Fare by Shortest route.
Other mode of Transport (Where rail or public transport is not there)	First Class or Deluxe Class Fare by the Shortest route of the Public Transport

-: Leave Travel Concession :-

- *The exemption is available twice in block of four Calendar Years. (Relevant blocks : Jan'2010 to Dec'2013, Jan'2014 to Dec'2017.)*
- *In case such travel concession is not availed by the individual during any such block of four calendar years , he can avail concession in first year of next block. (Carry Forward Facility).*
- *The exemption is available in respect of Fare only.*
- *Family include, Spouse, Children of Individual. The Parents, brothers & sisters of Individuals are also included, provided wholly or mainly dependant on him.*
- *Exemption is available for two children born after 1.10.1998.
(in other words, exemption will be available for ALL children born before 1.10.1998)*
- *Fixed amount of LTC is fully taxable to tax.*

-: (6) Interest Free Loan :-

- *In case employer has granted interest free loan or concessional loan to its employee in such case,*
- *Compute interest on the basis of SBI lending rates.*
- *Compare with actual interest paid by employee.*
- *The difference will be value of perquisite.*
- *Nothing is taxable if,*
 - * *Loan in aggregate do not exceed Rs.20,000/- or*
 - * *Loan is provided for treatment of specified disease.*

Note :

Interest on maximum outstanding monthly balance of advance is considered to determine any concession in interest. Maximum monthly balance means balance of loan on the last day of each month.

-: (7) Use of Movable assets other than car :-

Asset Used	Value of Benefit
a) Use of Laptops & PCs	Nil
b) Movable Assets (except Laptop, PCs & Car)	i) 10% of Actual Cost of Such Assets or ii) Hire Charges/Rent paid by Employer iii) Less : Amount recovered from employee.

8) Sale of movable asset to Employee

Computer &
Electronics

Particulars	Rs.
Original cost (-)	XX
Depn. @ 50% p.a. For each completed year (RBM)	(XX)
WDV (-) ARFEe	(XX)
TVOP	XX

Motor Car

Particulars	Rs.
Original cost (-) Depn. @ 20% p.a. For each completed year (RBM)	XX
WDV (-) ARFEe	(XX)
TVOP	XX

Any other Asset

Particulars	Rs.
Original cost (-) Depn. @ 10% p.a. For each completed year (FIM)	XX
WDV (-) ARFEe	(XX)
TVOP	XX

RBM-Reducing Balance Method
FIM-Fixed Instalment Method

-: (9) Value of Medical

*The Following shall **NOT** be treated as perquisites :-*

- a) Medical treatment of the employee or his family (Spouse, children, dependent parent, brothers & sisters)
 - Provided in any hospital maintained by the Employer.*
 - Any sum paid by the Employer towards expenditure actually incurred by the employer in any hospital :-
 - Maintained by Employer, Govt or Local Authority or any other approved hospital by CG or Chief Commissioner of ITax***
- b) Premium paid by an employer by cheque to GIC for medical insurance policy of its employee.*
- c) Any sum not exceeding Rs.15,000/- paid to any hospital/nursing home/clinic other than a & b above. Here reimbursement is also allowed upto Rs.15,000/- p.a.*
- d) Amount payable for treatment outside India :-
 - Medical Expenses-to the extent permitted by RBI*
 - If Gross Total Income (before including the travel expenditure) of the employee does not exceed Rs.2,00,000/- then travel abroad for patient and attendant- fully deductible.**

-: (10) Value of Perks for Motor Car :-

AI CAR IS OWNED OR HIRED BY EMPLOYER

Exclusively for Official Purpose	Exclusively for Private Purpose	Both Official & Private Purpose						
Nil. If specified documents maintained.	<p style="text-align: center;">Actual Run.& Maint Exp + Remuneration of Driver + Depreciation @10% pa Or Hire Charges, if car is taken hire charges. Less : Amt Recovered.</p>	<p>Running & Maint borne by</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #4F81BD; color: white;">Employer</th> <th style="background-color: #4F81BD; color: white;">Employee</th> </tr> </thead> <tbody> <tr> <td style="background-color: #D9E1F2;"> Car <=1600cc Rs1800 pm + Rs 900 pm for driver </td> <td style="background-color: #D9E1F2;"> Car <=1600cc Rs.600 pm + Rs.900 pm for driver </td> </tr> <tr> <td style="background-color: #D9E1F2;"> Car >1600cc Rs.2400 pm + Rs.900 pm for driver </td> <td style="background-color: #D9E1F2;"> Car >1600cc Rs.900 pm + Rs.900 pm for driver </td> </tr> </tbody> </table>	Employer	Employee	Car <=1600cc Rs1800 pm + Rs 900 pm for driver	Car <=1600cc Rs.600 pm + Rs.900 pm for driver	Car >1600cc Rs.2400 pm + Rs.900 pm for driver	Car >1600cc Rs.900 pm + Rs.900 pm for driver
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-: Value Perks for Motor Car :-

BI CAR IS OWNED BY EMPLOYEE

Exclusively for Official Purpose	Exclusively for Private Purpose	Both Official & Private Purpose				
Nil. If specified documents maintained.	Actual expenditure incurred by employer, Less : amount recovered from employee	Running & Maint borne by <table border="1" style="margin: 10px auto; width: 80%;"> <thead> <tr> <th style="background-color: #4F81BD; color: white;">Employer</th> <th style="background-color: #4F81BD; color: white;">Employee</th> </tr> </thead> <tbody> <tr> <td style="background-color: #D9E1F2;">Actual Exp Less : Rs.900/- pm.</td> <td style="background-color: #D9E1F2;">Nil</td> </tr> </tbody> </table>	Employer	Employee	Actual Exp Less : Rs.900/- pm.	Nil
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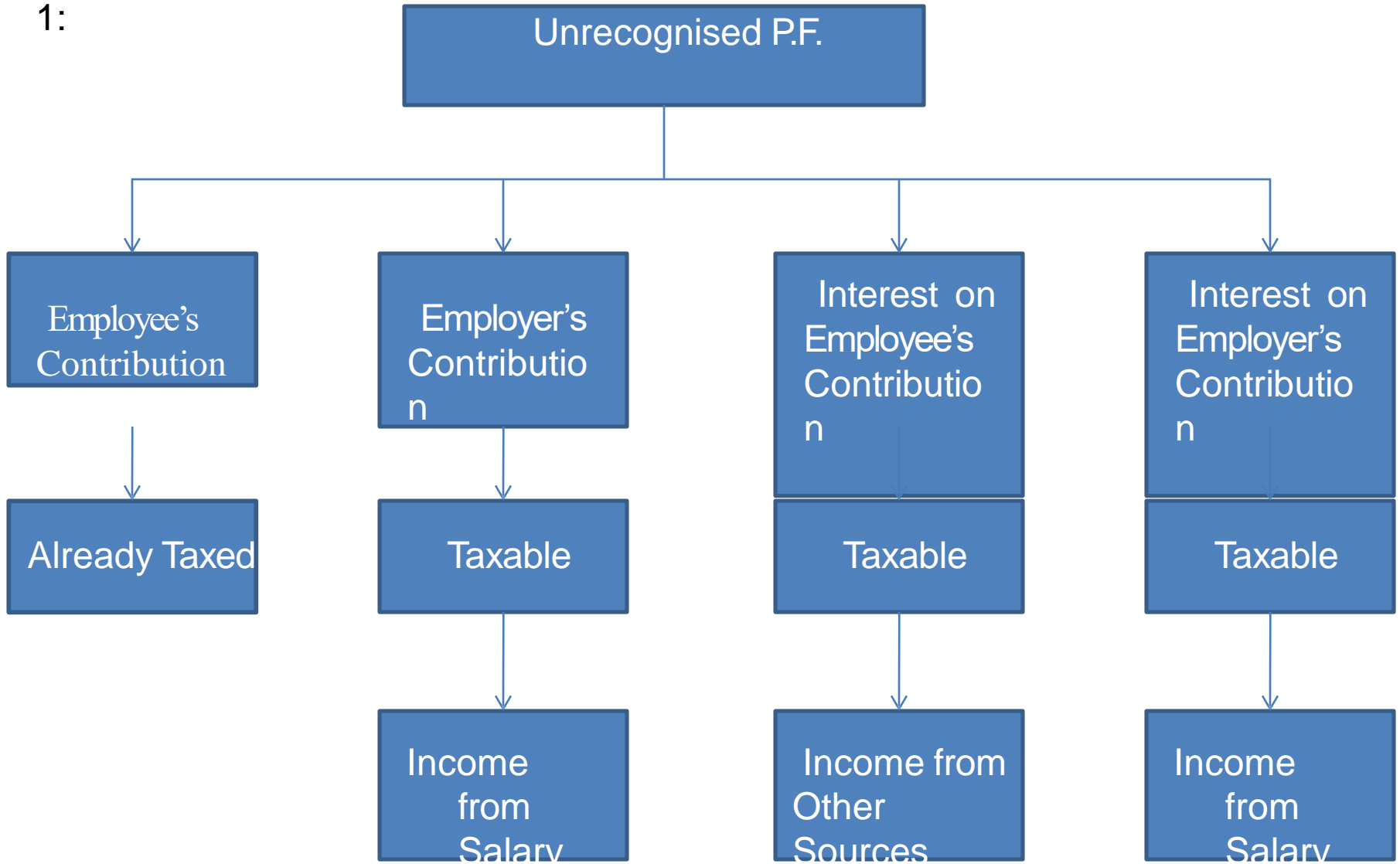
-: 11) Employees Stock Option Plan (ESOP) :-

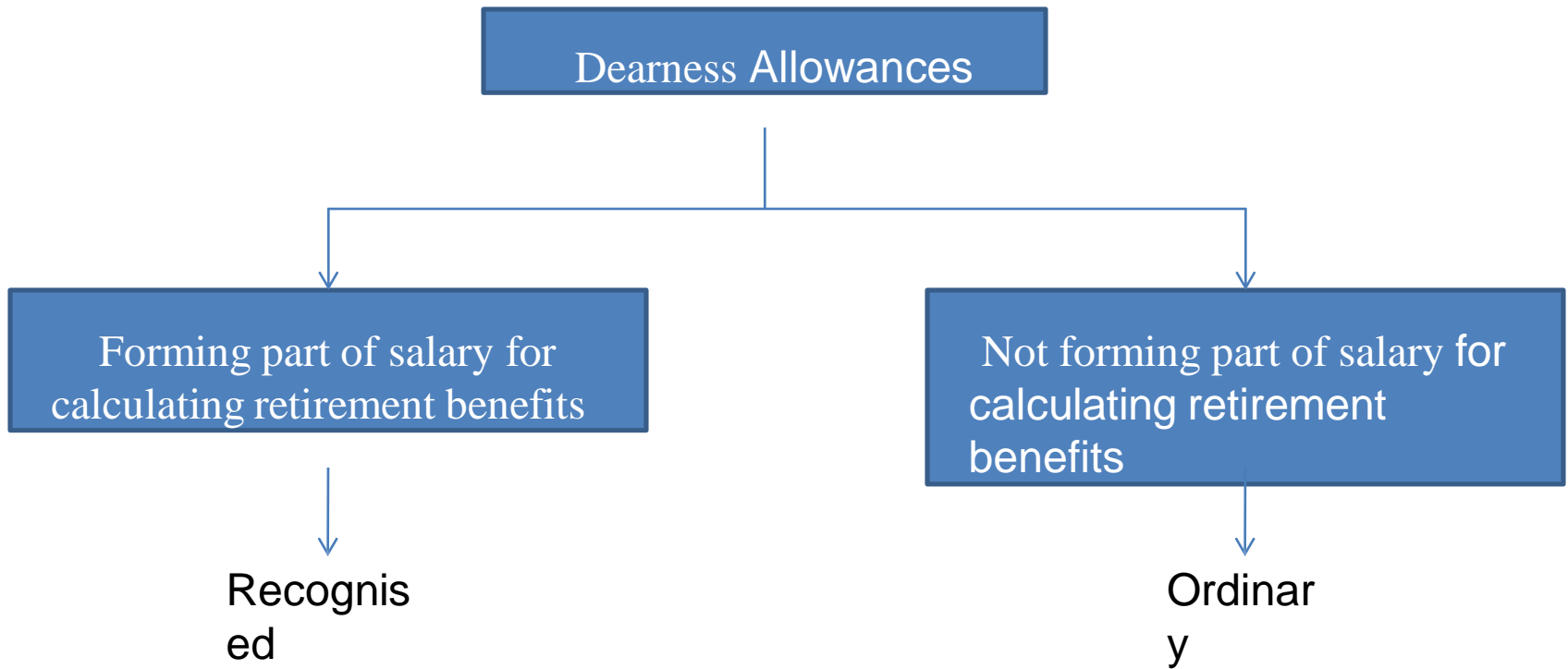
- 1. “Sweat equity Shares” mean equity shares issued by a Company to its employee or directors at a discount or for consideration other than for cash for providing know-how or making available rights in nature of Intellectual Property Rights.***
- 2. “Specified Security” means the securities defined in Sec 2 (h) of Securities Contract (Regulations) Act,1956 and also include securities offered under Employees Stock Option Plan (ESOP) .***
- 3. Perquisite will be taxable as the difference between the fair market value (FMV) of the shares as on the date of exercise of the options less exercise price.***

Provident Fund Chart

Particulars	Statutory P.F.	Recognised P.F.	Unrecognised P.F.	Public P.F.
Employee's Contribution (Deduction u/s 80C)	Available	Available	Not Available	Available
Employer's Contribution	Totally Exempt	Exempt upto 12% of Salary, excess is taxable	Taxable on retirement	Not Applicable
Interest Credited to Fund	Totally Exempt	Exempt upto 9.5% p.a., excess is taxable	Taxable on retirement	Totally Exempt
Amount withdrawn from Fund (at time of retirement)	Totally Exempt (Sec. 10(12))	Totally Exempt (Sec. 10(12))	Taxable (Note 1)	Totally Exempt (Sec. 10(11))

Note
1:





NOTE :

- 1) If question is silent, then entire D.A. Will be considered is ordinary D.A.
- 2) D.A. Is fully taxable allowance.

Even if salary is contributed to charity , then also it is taxable.

THANK YOU