

Income from Salary

1.0 Objectives:

After studying this course, the students shall be able to:

1. Explain the meaning of term salary and List the items included under the head salaries.
2. Define the term allowances. State the different types of allowances and their taxability as per provisions of Income tax act.
3. Define the term perquisites. And List different types of perquisites made available to salaried employees. Compute the value of such perquisites.
4. Comprehend the various retirement benefits and admissible deductions from salary income and Determination of taxable salary.
5. Explain the meaning of house property and state the cases of deemed ownership.
6. Calculate the NAV of house properties under different categories; calculate the deductions under Sec. 24 and Determination of income from house property.

1.1 Introduction:

What is Income from Salary? Salary means the money received by a person, referred to as an “employee” from an organization, referred to as an “employer” for offering specific services in connection with employment. A salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. Salary is basically a fixed amount of money agreed every year as pay for an employee, usually paid directly into his or her bank account every month.

If rent has to be charged to tax under “Income from House Property”, the property that has been given on rent must be a building or a land appurtenant thereto. Since the shop falls under the definition of a building, the rental income from such shop must be offered to tax under “House Property only”.

1.2 Presentation of Subject Matter

1.2.1 Income from Salary:

“Salaries” the first and most important of the five heads of income given in section 14. Under the tax laws, concept of “Salaries” is very wide and includes not only the salary in common parlance but also various other receipts, gifts, perquisites



and benefits. The lesson deals with various provisions what constitutes salaries and other relevant matters like salary, types of allowances , perquisites and benefits and their valuation for tax along with the applicable legal provisions contained in sections 15,16 and 17. Section 15 provides the basis of charging salary income and section 17 explains it. Section 16 prescribes the deductions to be made while computing the income from salary

- **Concept of Salary:**

Meaning of salary for income tax purposes is much wider. Salary means every Payment monetary or non -monetary made by employer to employee for Service rendered by employee.

- 1) The amount received by an individual shall be treated as salary only if the relationship between payer and payee of such payment should be of an employer and employee.
- 2) Conceptually salary and wages are same there is no difference.
- 3) It does not matter whether the employment is full time or part time. Once the relationship between employer and employee exists the income is to be charged under the head 'salaries'. If an individual receives salary from more than one employer during previous year is taxable under the head salary
- 4) Salary received from former employer, present employers or prospective employer should be clubbed and brought to charges under the head salary for relevant previous year
- 5) Once salary has accrued to an employee it subsequent waiver by the employee does not absolve him from liability to income tax.
- 6) If an employee surrenders his salary to the central government, the surrender salary would be exempt while computing his taxable income.
- 7) If employer pay the tax which is due on salary the amount of tax paid by the employer and salary received from employer both are taxable as salary income.
- 8) Voluntary payments by employer in the form of gift or perquisite are taxable under head salary.

- **Definition of salary:**

Section 17(1) of the income tax act gives an inclusive definition of salary which includes:

- a) Wages
- b) Any annuity and pension
- c) Gratuity
- d) Fees, commission, allowances , perquisites or profit in lieu of salary
- e) Any advance of salary
- f) Leave Encashment
- g) Any advance of salary
- h) Contribution of employer to Recognized Provident Fund to the extent it is taxable
- i) The contribution made by central government or any other employer to the to the account of an employee under notified pension scheme
- j) Transferred balance in a recognized provident fund to the extent it is taxable

Profits in lieu salary: [sec.17 (3)]:

These payments are received by employee in addition to salary and wages. It includes the following:

- a) Any compensation received by an Individual from his employer or former employer at or in connection with the termination of his employment or the modification of the terms and conditions of employment. The termination may be due to retirement, premature termination, and resignation or otherwise.
- b) The payment due to or received by an assessee from an unrecognised provident fund or an unrecognised superannuation fund to the extent to which such it does not consist of employees contributions or interest on such contribution.
- c) Any sum received under key man insurance policy including the sum allocated by way of bonus on such policy, will also be considered as profit in lieu of salary.
- d) Any amount received in lump sum or otherwise prior to employment or employment or after cessation of employment.

- e) All other payments received by an employee from his employer or former employer except the following.

Payment of gratuity exempted under section 10(10)

Payment of House Rent Allowance exempted under section 10(13A)

Payment of commuted pension exempted under section 10(10A)

Payment of retrenchment compensation exempted under section 10(10B)

Payment from an approved superannuation fund under section 10(13)

Payment from statutory provident fund or public provident fund

Payment from recognized provident fund to the extent it is exempt under section 10(12).

- **Basis of Charge: U/s .15**
- Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier. Hence, taxable salary includes:
 - a) Advance salary (on 'receipt' basis): Salary paid in advance is taxable under the head 'Salaries' in the year of receipt. Note: Such advance salary shall not be included again in the total income when the salary becomes due.
 - b) Outstanding salary (on 'due' basis): Salary falling due is taxable under the head 'Salaries' in the year in which it falls due. Note: Such due salary shall not be included again in the total income when it is received.
 - c) Arrear salary: Any increment in salary with retrospective effect which has not been taxed in the past, such arrears will be taxed in the year in which it is allowed. Arrear salaries are taxable on receipt basis.

However, the section clarifies that where any salary paid in advance is included in the total income of any person for any previous year it shall not be included again in the total income of the person when the salary becomes due.

Further, any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a partner of a firm from the firm shall not be regarded as "salary" for the purposes of this section because it is considered as business income u/s 28.

1.2.1.1 Features of Income from salary:

Following are the essential Features / characteristics to constitute an income as salary-

1. Employer-employee relationship:

Salary can be defined as the payment of remuneration by an employer to the employee for rendering personal services to the employer under an expressed or implied contract for rendering such services.

2. Compensation for services rendered:

Service must be provided as an employee and not in any other capacity. For this reason, remuneration of a doctor employed by a hospital will be taxable as salary. However, income of the same doctor will be professional income not salary if the doctor provides service in that hospital as a consultant and treats patients on that basis.

3. Name or form not important:

Any remuneration paid as compensation for services rendered by an employee to his employer will be treated as salary regardless of name given such as salary or wages or otherwise so long as -

- The relationship between the payer and payee is that of employer and employee; and
- The payment is made as a compensation for the services rendered by the employee

4. Mode of Payment

Salary may be paid in cash or kind.

5. More than One Source:

Salary may be from more than one employer.

6. Type of Employment:

Salary may be in any capacity like part-time employment or full time employment.

7. Past, Present and prospective employer

Salary may be received from not just the present employer but also a prospective employer and in some cases even from a former employer for example pension received from a former employer.

8. Real intention to pay:

Salary income must be real and not fictitious. There must exist an intention or an obligation to pay and `receive salary.

9. Subsequent Surrender of Salary not tax-free;

Salary is taxed on due basis. A subsequent surrender of the salary will not be tax-free except where an employee surrenders his salary to the central government, and then the salary so surrendered will not be treated as taxable income of the employee.

10. Tax- Free salary

Salary paid as tax-free is also taxable in the hands of the employee, though contractually income tax on such is borne not by the employee but by the employer.

11. Time of taxability;

Salary is taxable in the year of *receipt* or in the year of *earning or accrual* of the salary income, *whichever is earlier*. In simple terms following situations may arise :-

- Current salary will be taxable on accrual basis, as it will be payable later.
- Past salary or arrears will be taxable, when they are actually received, if they were not taxed earlier.
- Advance salary will be taxable at the time of receipt and it will not be taxed again when it is accrued.

As a result, salary is taxable at the time of accrual or receipt, whichever is earlier. Accordingly, method of accounting employed by the employee is not relevant to determine the taxability of salary.

12. Salary received by individuals only

Salary is taxable in the hands of individuals only because it is a compensation for personalised services, which can obviously be rendered by a normal human being only. No other type of person such as a firm, HUF, company or a body corporate can earn salary.

13. Voluntary payments taxable as salary

Voluntary payments like gift by an employer to an employee also form the part of taxable salary.

14. Salary in respect of services rendered in India

Under section 9 salary, leave salary and pension paid outside India are deemed to accrue and arise in India and are taxable in India. Similarly, salary paid to Indian diplomats by the Government of India is deemed to accrue and arise in India although the same is exempted u/s 10.

15. Gross salary Taxable;

Compulsory deductions from salary such as employees' contribution to provident fund, deduction for medical scheme or staff welfare scheme etc. are examples of instances of application of income. In these cases, for computing total income, these deductions have to be added back in the net salary received and gross salary will be taxable.

1.2.1.2 Specific provisions from income from salary

- **Pension:**

Pension is a periodical payment made by the employer to the employee after the retirement or death of employee as a reward for past service. In other words, Pension is a regular payment made at monthly or annual intervals by an employer to his employee on retirement his retirement of an employer as a reward for his past services.

Pension is of two types: commuted and un-commuted.

Un-commuted or periodical pension: Un- commuted pension received periodically. It is fully taxable in the hands of both government and non-government employees.

Commuted Pension (Section 10(10A) :

Commuted pension means lump sum amount taken by commuting the whole or part of the pension. When an employee is allowed to forgo a portion of pension in lieu of a lump sum amount called commutation of pension. Tax treatment of these two kinds of pension is as under:

- a) *Regular payment* of pension, monthly or quarterly or at some other interval, periodical or uncommuted pension is **fully taxable** in the hands of all employees, whether government or non-government.
- b) Lump sum payment received by an employee on commutation of pension as per service rules will be-
 - i. *fully exempt* for employees of the Central or State Government or a Local Authority or a Statutory Corporation
 - ii. partially exempt for other employees to the extent of -
 - a. *One half of the total value* of pension If the employee has not received any gratuity on termination of employment, and
 - b. *One-third of the total value* of pension, if the employee has received any gratuity on termination of employment.

Exemption in respect of commuted pension [Sec.10 (10A)]:

- a) For the employee of government organization, local authorities, statutory corporations-It is fully exempt from tax hence not included in gross salary.
- b) For other employees:- any commuted pension received is exempt from tax to the following extent .

Gratuity received / Not received	Exemption
Gratuity received	Commutated value of one third of the pension is exempted from tax.
Gratuity not received	Commutated value of one half of the pension is exempted from tax.

- c) Any commuted pension received by an individual out of annuity plan of the fund set up by LIC will be exempt.

Illustrations 1

Mr. Suresh retired on 1.10.2020 is receiving Rs. 5,000/- per month as pension. On 1.02.2021, he commuted 60 % of his pension and received Rs. 3,00,000/- you are require to compute his taxable pension assuming :

- a) Suresh is a Government employ

- b) He is a private sector employee and received gratuity also at the time of retirement.
- c) He is a private sector employee and he did not receive gratuity at the time of retirement.

Solution:

- a) **Suresh is a government employee :**

Uncommuted pension received (October to March) (5000 x 4 months) + (40% of 5000 x 2 months)	24,000
Commuted pension received Rs. 3,00,000	Nil
Less: Exempt u/s 10(10A) - Rs. 3,00,000	
Taxable pension	24,000

- b) **Suresh is private sector employee and received gratuity –**

Particular	Amount
Uncommuted pension received (October to March) (5000 x 4 months) +(40% of 5000 x 2 months)	24,000
Commuted pension received Rs. 3,00,000	1,33,333
Less: Exempt u/s 10(10A) Rs. <u>1,66,667</u> $\left(\frac{1}{3} \times \frac{3,00,000 \times 100\%}{60\%}\right)$	
Taxable pension	1,57,333

- c) **Suresh is private sector employee and did not receive gratuity:**

Particular	Amount
Uncommuted pension received (October to March) (5000 x 4 months) + (40% of 5000 x 2months)	24,000

Committed pension received	Rs. 3,00,000	50,000
Less: Exempt u/s 10(10A)	Rs. <u>2,50,000</u>	
$\left(\frac{1}{2} \times \frac{3,00,000 \times 100\%}{60\%}\right)$		
Taxable pension		74,000

Gratuity (Section 10(10)) :

Gratuity is the payment made by the employer to the employee in appreciation of past services rendered by employee. In short gratuity is the retirement benefit. Gratuity is a lump-sum payment to reward an employee for his past services, on his retirement or termination. Amount received as gratuity on termination is exempt u/s 10(10) as under:-

1. Employees of Central or State governments or local authorities fully **exempt**
2. Employees in a concern covered under the Payment of Gratuity Act, 1972 is **exempt** subject to the lowest of the following amounts:
 - a. Amount of gratuity received,
 - b. Rs 20,00,000
 - c. 15 days' salary for every completed or part thereof in excess of six months, year of service computed based on last salary drawn taking numerator of 26.
**Completed year of service X 15 days X Last Drawn Salary / 26*
3. Employees in a concern NOT covered under the Payment of Gratuity Act, 1972 is exempt subject to the lowest of the following amounts:
 - a. Amount of gratuity received,
 - b. Rs. 20,00,000
 - c. Half month's salary for every completed year of service in excess of six months (ignoring the fraction) computed based on average salary of last 10 months preceding the retirement.

***Completed year of service* ½* Avg Salary for last 10 months**

[*Completed year of service includes a year or part thereof in excess of six months]

Exemption in respect of Gratuity [sec 10(10)]: Tax treatment of gratuity is given below:

- i) **Government employees** and employees of local authority: The entire amount of gratuity received received by them is exempted from tax.
- ii) **Employees covered under payment of Gratuity Act, 1972-** Any death-cum-retirement gratuity is exempt from tax to the extent of least of the following;

1	Gratuity actually received
2	Rs. 20,00,000
3	15 days of salary for every completed year of service or part thereof in excess of six months

Note : 1) Salary for the purpose means basic pay and dearness allowance

2) Number of days in a month for this purpose, shall be taken as 26

iii) Other employees:

In case of employees not covered in the above two categories, gratuity received from the employers is exempt to the extent of minimum of following.

1	Gratuity actually received
2	Rs. 20,00,000
3	Half month of average salary for every completed year of service (fraction to be ignored) (Based on last 10 months average salary preceeding the month of retirement)

Note: : 1) Salary for the purpose means basic pay , dearness allowance (if terms of employment so provide),commission (if it is based on fixed percentage of turnover)

2) Gratuity received during period of service is fully taxable

Illustrations 2

Mr. Shankar retired on 15/06/2020 after completion of 26 years 8 months service and received gratuity of Rs. 16,00,000. His monthly basic salary at the time of retirement was Rs. 70,000 p.m., Dearness allowance Rs. 14,000 p.m. (60% of which for retirement benefits), Commission 1% of turnover (Turnover in last 12 months was Rs. 1,50,00,000), Bonus Rs. 30,000 p.a.

Compute his taxable gratuity assuming –

- He is private sector employee and covered by payment of Gratuity Act, 1972
- He is private sector employee and not covered by payment of Gratuity Act, 1972
- He is a Government employee

Solution:

- He is covered by payment of Gratuity Act, 1972:-

Particular	Amount Rs.	Amount Rs.
Gratuity received at the time of retirement		16,00,000
Less: Exemption u/s 10(10)		13,08,461
Least of the following		
a) Statutory limit	20,00,000	
b) Gratuity received	16,00,000	
c) 15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months	13,08,461	
$\frac{15}{26} \times (70,000 + 14,000) \times 27$		
$15/26 \times 84,000 \times 27$		
Taxable Gratuity		2,91,538

b) He is covered by payment of Gratuity Act, 1972:-

Particular	Amount Rs.	Amount Rs.
Gratuity received at the time of retirement		16,00,000
Less: Exemption u/s 10(10)		11,81,700
Least of the following		
a) Statutory limit	20,00,000	
b) Gratuity received	16,00,000	
c) Half months of salary based on average salary of last 10 months preceding the month of retirement	11,81,700	
For each completed year of service (Note)		
Taxable Gratuity		4,18,300

Note: $\frac{1}{2} \times \text{Average salary} \times \text{year of service}$

$$\text{Average Salary} = \frac{(70,000 \times 10) + (14,000 \times 60\% \times 10) + [1,50,00,000 \times 1\% \times \frac{10}{12}]}{10}$$

$$= \frac{7,00,000 + 8,40,000 + 1,25,000}{10} = 9,09,000/10 = 90,900$$

$$1/2 \times 90,900 \times 26 = 11,81,700$$

C) He is Government employee:

Particular	Amount Rs.	Amount Rs.
Gratuity received at the time of retirement		16,00,000
Less: Exemption u/s 10 (10)		16,00,000
Taxable Gratuity		Nil

- **Leave salary or Encashment of Leave Salary {Section 10(10AA)}**

Employees are allowed to take various kinds of leave during the period of service some of these leaves is not availed by employee are allowed to be encashed every year or accumulated for future and encashed after retirement or death as per the rules of the organization. The payment received on account of encashment of leave would form part of salary. When an employee, instead of enjoying leave at his credit, gets the same encashed, following tax treatment will be given:-

- a. Amount received on encashment of leave during the *continuity of employment by all the employees*, will be *taxable* in the year of receipt. However, the employee will be entitled to relief u/s 89.
- b. Amount received on encashment of leave at the time of retirement by way of *superannuation* or otherwise, will be-
 - i) *fully exempt in case of an employee of the Central or State Government* ; and
 - ii) *Partially exempt in case of any other employee including employees of a local authority or a statutory corporation to the extent of the lowest of the following and only the balance will be taxable:-*
 - i. Actual amount received
 - ii. Notified Amount currently Rs 3,00,000;
 - iii. 10 months' average salary or
 - iv. Cash equivalent of leave to be encashed
 - i.e. (Leave Entitlement - Leave Availed) X Average Salary

Tax treatment for leave salary under section 10(10AA) are as under :

Nature of leave encashment	Status of employee	Tax treatment
Received during service	Government and non-government employee	Fully taxable, However relief can be taken u/s 89
Received at the time of retirement /leaving job	Government employee	Fully exempt u/s 10(10AA)(i)

Received at the time of retirement /leaving job	Non- Government employee	Least of following is exempt: a) Rs. 3,00,000 b) Leave salary actually received c) Cash equivalent of leave standing at the credit of employee (Based on average salary of last 10 months) (Maximum 30 days for every year of service) d) 10 month's salary (based on average salary of last 10 months preceding retirement)
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Other Points

- i. Salary for the purpose of calculating the exempt leave encashment means total of basic salary, dearness allowance and commission on sales achieved by salesmen.
- ii. Average salary means average salary of 10 months immediately preceding the retirement.
- iii. Leave entitlement is to be taken at 30 days for each completed year of service. *Part of the year will be ignored and not considered as completed year of service.*
- iv. If leave is encashed from more than one employer, the exemption limit will be taken in respect of all the employers.
- v. Superannuation means retirement on attaining a certain age e.g. 60 years. Courts have held that termination and even resignation of the employee will entitle them to exemption under this section.
- vi. Leave to the credit of the employee means total leave available as reduced by total leave availed.

- **Voluntary Retirement compensation (Sec.10(10c):**

Any amount of received or receivable on voluntary retirement would be taxable as profit in lieu of salary. However it would be exempt subject to following:

Status of employee	Tax treatment
Central and state government employee, public sector company, any other company, local authority, cooperative society, IIT etc	Least of following is exempt : a) compensation actually received b) Rs. 5,00,000 c) 3 month's salary × completed year of service d) last drawn salary × remaining months of service left

- **Retrenchment Compensation: [Sec10(10B)]:**

Least of following is exempt:

- Compensation actually received
- Rs. 5,00,00
- 15 days average pay × completed year of service and part thereof in excess of 6 months .

- **Leave Travel Concession (LTC): [Sec.10(5)]:**

Exemption is available for 2 trips in a block of 4 calendar year :

Journey performed by	Exemption
Air	Amount of economy class air fare by the shortest route or amount spent whichever is less
Any other mode:- i) Journey performed by rail	Amount of air -conditioned first class rail fare by the shortest route or amount spent, whichever is lower.

ii) Rail service is not available	
a) And public transport does not exist	An amount equal to air –conditioned first class rail fare by the shortest route, as if the journey had been performed by rail,
b) But public transport exists	Amount not exceeding first class or deluxe class fare by shortest route to the place of destination.

- **National Pension Scheme (NPS):**

Contribution made by employer to NPS account of employee is first included under the salary, but at the time computation of total income of employee a deduction u/s 80CCD is available to employee for employees and employers contribution.

1.2.1.3 Taxable Allowances from Income from Salary:

Allowance is the fixed monetary amount paid by employer to employee for the meeting particular requirements like house rent, expenses of uniform, conveyance etc. Allowance is defined as a fixed quantity of money or other substance given regularly in addition to salary for meeting specific requirements of the employees. Most employers give different types of allowances or fixed monetary amounts to the employees over and above basic salary. These allowances are paid to meet some personal expenses like house rent, conveyance etc. or for performance of his duties such as entertainment or telephone allowance or partly for personal and partly for official purpose.

All such allowances are taxable and included in gross salary unless specific exemption is provided in respect of such allowance. Accordingly, the allowances are of four categories –

- Allowances, which are fully taxable;
- Allowances, which are wholly and unconditionally exempt;
- Allowance, which are tax-free or taxable subject to certain conditions or limits;

- d) Allowances, in respect of which exemption is allowed only for a sum prescribed on *ad hoc* basis.

Some of these allowances are dealt with as under.-

A) Fully Taxable Allowances :

Dearness Allowance , a compensatory allowance paid to meet high prices and increased cost of living.
Overtime allowance paid as extra wages paid to an employee putting in extra working hours over and above his normal hours of duty
City compensatory allowance also a compensatory allowance paid to employees posted in big cities like Delhi, Mumbai to compensate the high cost of living in such cities.
Non- practicing allowance normally paid to compensate professionals in government service like doctors, chartered accountants, engineers, scientists etc., who are prohibited from doing private practice
Warden or proctor allowance paid in educational institutions for working as a warden of the hostel or as a proctor in the institution
Deputation allowance paid to an employee sent from his permanent place of service to some place or institute on deputation for a temporary period
Servant allowance , if paid in cash even if the employee may have employed servants.
Other allowances by whatever name called such as family allowance, project allowance, marriage allowance, education allowance, holiday allowance etc. as these allowances are not specifically exempt.

B) Allowances which are Partly exempted :

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

HRA is given by employer to employee towards payment of rent for residence is taxable under the head of salaries. It is exempt u/s 10(13A) to the extent of the **least** of the following:

Metro cities (Mumbai, Delhi, Kolkata, Chennai)	Other places in India
a) Actual amount of HRA received	a) Actual amount of HRA received
b) Rent paid (-) 10% of salary for the relevant period	b) Rent paid (-) 10% of salary for the relevant period
c) 50% of Salary	c) 40% of Salary

Note: 1) Salary for this purpose include: Basic pay, Dearness Allowance (if enters for retirement benefit), Commission (if it is based on fixed percentage of turnover achieved by employer)

2) If the employee is not paying any rent or the rent paid by he is less than 10% of salary then exemption is not available.

ii) Notified Special Allowances [Sec.10 (14)]:

Notified special allowances which are exempt either in full or up to certain limit provided they are not in the nature of Perquisites. These allowances are of two types.

I. Allowance exempt to the extent of actual expenditure or actual amount received whichever least. They are following. [sec.10 (14)(i)]

- a) **Travelling Allowance:** Any allowance granted to meet the cost of travel or tour on transfer of duty.
- b) **Daily Allowance:** The allowance granted for the period of Journey on tour or transfer to meet the ordinary daily charges.
- c) **Conveyance Allowance:** Any allowance granted to meet the expenditure incurred on conveyance in the performance of duties of an office.
- d) **Helper Allowance:** Any allowance granted to meet the expenditure incurred on a helper where such helper is engaged in the performance of the duties of an office or employment of profit.
- e) **Research Allowance:** The allowance granted for encouraging the academic research and training in educational institutions.
- f) **Uniform Allowance:** Any allowance granted to meet the expenditure on purchase and maintenance of uniform.

Note: An employee being an assessed that chooses the provision of section 115BAC (alternate tax regime) would be entitled for exemption only in respect of travelling allowance, daily allowance, conveyance allowance in above.

II. Allowances which are exempt to the extent amount received or the Limit specified whichever is least.

Sr. No	Allowance	Exemption limit
1	Special compensatory Allowance (Hilly Areas) or Snow bound area, Uncongenial allowance (Areas in Manipur, Arunachal pradesh, Sikkim, U.P. , H.P.	Rs. 800 or Rs.300 per month depending on specified location Rs. 7,000 per month in Siachen area of Jammu and Kashmir
2	Border area, Remote Locality or Disturbed Area or Difficult Area Allowance (Subject to certain conditions and locations)	Amount exempt from tax varies from Rs. 200 to Rs. 1,300 per month.
3	Tribal / Schedule /Agency area allowance in (a) Madhya Pradesh (b) Tamil Nadu (c) Uttar Pradesh (d) Karnataka (e) Tripura (f) Assam (g) West Bengal (h) Bihar (i) Orissa	Rs. 200 per month
4	Allowance to a employee of the transport business to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place provided employee is not in receipt of daily allowance	Amount of exemption shall be lower of following: a) 70% of such allowance; or b) Rs. 10,000 per month
5	Children Education Allowance	Up to Rs. 100 per month per child up to a maximum of 2 children is exempt

6	Hostel Expenditure Allowance	Up to Rs. 300 per month per child up to a maximum of 2 children is exempt
7	Compensatory Field Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Specified areas in specified states.)	Rs. 2,600 per month
8	Compensatory Modified Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations)	Rs. 1,000 per month
9	Counter Insurgency Allowance granted to members of Armed Forces operating in areas away from their permanent locations. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance	Rs. 3,900 per month
10	Transport Allowance to meet expenditure on commuting between place of residence and place of duty.	Rs. 1,600 per month
	Transport Allowance granted to an employee who is deaf and dumb, blind or handicapped to meet expenditure on commuting between place of residence and place of duty	Rs. 3,200 per month
11	Underground Allowance to employees working in uncongenial, unnatural climate in underground mines	Rs. 800 per month
12	High Altitude Allowance granted to	Rs. 1,060 per month - for

	armed forces	altitude of 9,000 to 15,000 feet Rs. 1,600 per month -for altitude above 15,000 feet
13	Highly active field area allowance granted to members of armed forces	Rs. 4,200 per month
14	Island Duty Allowance granted to members of armed forces in Andaman and Nicobar and Lakshadweep group of Island	Rs. 3,250 per month
15	Fixed medical allowances	Fixed medical allowance is taxable but reimbursement of medical expenses is exempt up to Rs. 15,000

Note: An employee being an assessee who opts for provision of section 115BAC would be entitled for exemption only in respect of Transport Allowance granted to an employee who is blind, or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body to the extent of Rs. 3,200 per month.

Fully Exempted Allowances / Wholly and unconditionally exempt Allowances

Allowances paid to Judges of the High Courts and the Supreme Court	Allowances paid by the United Nations organization to its employees.
Compensatory allowance received by Judge	Foreign allowance paid by the government to its employees being Indian citizen posted out of India for rendering services abroad
Sumptuary Allowance to high court or supreme court judge	Pension to gallantry award winners like Paramvir Chakra, Mahavir Chakra , Vir Chakra etc - S. 10(18)

1.2.1.4 Perquisites from Income from Salary:-

Definition and Meaning of Perquisites:

Under section 17(2), value of perquisites allowed to an employe is chargeable to tax. But the section does not define the term. In normal commercial parlance, perquisites denote any casual emoluments or benefits attached to an office or position in addition to salary or wages. Perquisites are normally allowed in kind - not in cash; and are measurable in monetary terms.

The term perquisite indicates some extra benefits in addition to the amount that may be legally due by way contract for service rendered. It may in cash or kind. In modern times salary packages of employees include monetary salary and perquisites.

The term perquisite defined in under section 17(2) of Income Tax Act. Include the following items.

- a) The value of rent free accommodation
- b) The value of concession rent
- c) The value of any benefit or amenity granted or provided free of cost or concessional rate if any.

On the basis of definition perquisites can be classified in following three ways.

- I) Perquisites taxable in the case of all employees
- II) Tax free Perquisites in case of all employees
- III) Perquisites taxable only in the hands of all specified employees

Perquisites taxable in the case of all employees:-

Perquisites taxable in the case of all employees and their valuation is as under:

Rent free or concessional Rent Accommodation:

i) If the accommodation is UNFURNISHED:-

For Government employees: The value of accommodation shall be equal to the LICENCE FEE charged for such accommodation.

For Non- Government or other employees:-

Valuation is as under as per prescribed rate:

Population of City as per 2001 census	Where the accommodation is owned by employer	Where the accommodation is not owned by employer.
In cities having population above 25 lakhs	15% of salary in respect of period during which the accommodation is occupied by employee as reduced the rent if any, actually paid by employee.	Actual rent paid or payable by the employer or 15% of salary whichever is lower.
In cities having population above 10 lakhs but does not exceeding 25 lakhs	10% of salary in respect of period during which the accommodation is occupied by employee. As reduced the rent if any, actually paid by employee.	Actual rent paid or payable by the employer or 15% of salary whichever is lower.
In cities having population up to 10 lakhs.	7.5% of salary in respect of period during which the accommodation is occupied by employee. as reduced the rent if any, actually paid by employee.	Actual rent paid or payable by the employer or 15% of salary whichever is lower.
Accommodation in hotel	----	24% of salary or actual charges paid whichever is less

Note: - Salary for the purpose of Valuation of rent free accommodation includes the following:

- 1) Basic Salary
- 2) Dearness Allowance to the extent applicable for retirement benefit
- 3) Bonus fees and commission
- 4) Taxable allowances
- 5) Leave encashment of salary pertaining to the current year.

Following should not be included in salary.

- 1) Employer's contributions to P.F. and Interest P.F.
- 2) Dearness Allowance not applicable for retirement benefit
- 3) Exempted Allowances
- 4) Value of Perquisites
- 5) Advance Salary

II. If the accommodation is 'FURNISHED':

Value of Rent free unfurnished accommodation (as per above rule)	xx
Add :- Value of furniture	xx
Taxable value of Rent free furnished accommodation	xx
Less :- Rent amount received from employee if any	xx
Taxable value of Rented furnished accommodation	xx

Note:

- 1) Value of Furniture: it includes Radio sets, T.V., Refrigerator, Air conditioners and other household appliances.

If furniture is owned by employer	10% p.a. of the cost of furniture
If furniture is not owned by the employer	Rent /lease of furniture paid by employer

- 2) If an accommodation is provided in a hotel is not chargeable to tax if the following two conditions are satisfied.
 - i) Total period not exceeding in aggregate 15 days in previous year.
 - ii) Such accommodation is provided to an employee's transfer from one place to another.

A) Monetary obligations of the employee discharged by the employer :-

• **Valuation of Free domestic Servants :**

If domestic servants are engaged by the employee and the employer paid or reimbursed to the employee for the wages of such servants the actual cost to the employer shall be taxable in the hands of all employee.

- **Valuation of perquisite in respect of gas, electric energy or water supply :**
If the gas, electric energy or water connections are taken by the employee and employer paid or reimbursed such expenses then actual expenditure of the employer as reduced by any amount recovered from employee, is a taxable in the hand of all employee.
- **Valuation of perquisite in respect of education facility :**
Children's education fee paid or reimbursed. (Bills issued in the Name of employee)
 - Holiday home facility
 - Hotel bill or club bill of employee discharged by the employer
 - Income tax or Professional tax of employee paid by the Employer.
- C) Life Insurance premium or Deferred Annuity Premium of Employee paid by employer.**
- D) Specified security or sweat equity shares allotted or transferred by employer.**
- E) The amount or aggregate of amounts of any contribution made –**
In Recognized Provident Fund,
In NPS referred to in section 80CCD (1)
In an approved superannuation fund
By the employer to the account of employee, to the extent is Exceeds Rs. 7, 50,000. [section17 (2) (vii)}
- F) Annual accretion by way of interest, dividend, or any other amount**
Similar nature during the previous year to the balance at the credit of RPF/NPS/Approved superannuation fund to the extent its relate to employer contribution to the included in total income on account of the same having exceeded Rs. 7,50,000.
- G) Any other Fringe Benefits –**
Any other amenity includes following:-
 - i) Interest free or concessional rate loan :**
Interest free or concessional rate loan given by an employer to employee or his family member chargeable to tax in the hand of all employees are taxable on following basis.

- 1) Find out the maximum outstanding balance for each loan as on the last day of each month.
- 2) Find out rate of Interest charged by State Bank of India (SBI) on the first day of relevant previous year in respect of loan for the same purpose advanced by it.
- 3) Calculate interest for each month of the previous year on the outstanding amount (mentioned in point 1) at the rate of interest (given in point 2)
- 4) Find Interest actually recovered if any
- 5) The balance amount is taxable value of perquisite (point 3-point 4)

No value would be charges as perquisite if

- a) Loan in aggregate does not exceed Rs 20,000
- b) Loan is provided for treatment of specified diseases (Rule 3A) like neurological diseases, Cancer, AIDS, Chronic renal failure, Hemophilia (specified diseases)

ii) Use of movable assets of the employer by the employee is a Taxable perquisite as under: 17(2)(viii) read with Rule 3(7)(vii)

Use of Laptops and Computers	Nil
Movable asset other than Laptops, computers and Motor Car	10% of original cost of the asset (if asset is owned by the employer) or actual higher charges incurred by the employer (if asset is taken on rent) less amount recovered from employee.

ii) Transfer of movable assets by an employer to its employee:-

17(2)(viii) read with Rule 3(7)(viii)

The value of benefit arising to the employee from the transfer of any movable asset owned by the employer is to be determined as under :

Asset transferred	Value of perquisite
Computers, Laptop and Electronics items	Original cost of asset less depreciation at 50% (using reducing balance method) for each completed year of usage by employer less amount recovered from the employee

Motor Car	Original cost of asset less depreciation at 20% (using reducing balance method) for each completed year of usage by employer less amount recovered from the employee
Any other asset	Actual cost of asset less depreciation at 10% (on SLM basis) for each completed year of usage by employer less amount recovered from the employee.

- iv) Travelling, touring and accommodation: 17(2)(viii) read with Rule 3(7)(ii)**
- a) Facility of travelling, touring and accommodation availed of by the Employee or any member of his household for any holiday.
 - b) Perquisite value taxable in the hands of employee shall be expenditure incurred by the employer less amount recovered from employee
 - c) Where such facility is maintained by the employer, the value of benefit shall be taken to be the value at which such facilities are offered by other agencies to the public less amounts recovered from employee.
- v) Free food and non-alcoholic beverages: 17(2)(viii) read with Rule 3(7)(iii) :**
- a) Fully Taxable: Free meals in excess of Rs. 50 per meal less amount paid by the employee shall be a taxable perquisite
 - b) Exempt from tax: Following free meals shall be exempt from tax
 - Food and non-alcoholic beverages provided during working hours at office or
 - Through non-transferable paid vouchers usable only at eating joints (exemption would not be available in case of employee being an assessee, who opts for the provisions of section 115BAC) provided by an employer is not taxable, if cost to the employer is Rs. 50 or less per meal.
 - Tea, Coffee or Non-Alcoholic beverages and Snacks during working hours are tax free perquisites;
 - Food in office premises during working hours in remote area or an off-shore installation.
- vi) Gift or Voucher or Coupon:- 17(2)(viii) read with Rule 3(7)(iv):**
- Gifts in cash or convertible into money (like gift cheque) are fully taxable.

- Gift in kind up to Rs.5,000 in aggregate per annum would be exempt, beyond which its full amount would be taxable. It may be given on a ceremonial occasion or otherwise. The gift may be given to the employee or any of his family members by the employer.

vii) Credit cards: 17(2)(viii) read with Rule 3(7)(v):-

An employer gives a credit card to an employee or his family member, a credit card which can be used for personal purposes also. In such a case the membership fee/annual fees paid by the employer will be taxed as a perquisite as under

- Personal expenditure incurred by the employer in respect of a credit card used by the employee or any member of his household less the amount recovered from the employee is a taxable perquisite
- Expenses incurred for official purposes shall not be a taxable perquisite provided complete details in respect of such expenditure are maintained by the employer

viii) Free Recreation/ Club Facilities: 17(2)(viii) read with Rule 3(7)(vi):

- Expenditure incurred by the employer towards annual or periodical fee etc. less the amount recovered from the employee is a taxable perquisite.
- Expenses incurred on club facilities for official purposes are exempt from tax.
- Use of health club, sports and similar facilities provided uniformly to all employees shall be exempt from tax.
- In case of corporate membership of a club fee to acquire corporate membership is not treated as a perquisite

• Tax-free Perquisites in all cases:-

A) Medical facilities: [Proviso to section 17(2)]:

Expense incurred or reimbursed by the employer for the medical treatment of the employee or his family (spouse and children, dependent - parents, brothers and sisters) in any of the following hospitals is not chargeable to tax in the hands of the employee:

- Hospital maintained by the employer.

- Hospital maintained by the Government or Local Authority or any other hospital approved by Central Government
 - Hospital approved by the Chief Commissioner having regard to the prescribed guidelines for treatment of the prescribed diseases.
 - Payment or reimbursement of Health Insurance premium of employee by employer.
 - Amount paid or reimbursed for medical treatment of employee or any family member in outside India is tax free to the extent permitted by Reserve Bank of India.
- B) Refreshment:** Any refreshment provided by employer to employees during office hours at a place of work are tax free.
- C) Subsidized lunch** or dinner provided by employer at office in office hour is tax free if cost of per meal is less than Rs. 50.
- D) Training facility:** Amount spent on training of employee is Tax free.
- E) Free telephone including mobile phone:** Telephone provided to an Employer to an employee at his residence. Telephone or Mobile bill paid by employer is tax free
- F) Transport facilities:** Transport facilities provided by an employer Engaged in the business of carrying of passenger or goods to his employees either free of charge or at concessional rate.
- G) Employer contribution to staff group insurance scheme is fully exempt.**

- **Perquisites taxable on in case of ‘specified employees’: [Section 17(2)(iii)]:**

Meaning of Specified employees:

The following employees are called specified employees.

- a) A director employee of a company.
- b) An employee who has substantial interest in a company.

A person has a substantial interest in a company if he is a beneficial owner of equity shares carrying 20% or more voting power in a company.

- c) Employee drawing salary in excess of Rs. 50,000.

Salary for this purpose shall include all taxable monetary payments but shall not include the value of any nonmonetary perquisite. From salary deduct entertainment allowance if applicable and tax on employment.

Following are the taxable perquisites in case of specified Employees only.

A) Car facility :

The valuation of a car facility is done as under:

- i) **Car is owned or hired by the employer and used only for the office duties employee :NIL**
- ii) **If car is owned or hired by the employer and provided to the employee used exclusively for private purpose of employee** The amount spent by employer on running and maintenance of the car during the previous including the chauffeur's salary ,if any shall be taken as value of perquisite. If the car is owned by the employer, even the amount of no wear and tear of the car calculated at 10% of the cost of the car should further added to such value.
- iii) **If car is owned or hired by the employer & provided to employee to be party for private purpose and partly for office :**

Exp. Of the car By...	Small car 1600 cc or Less engine capacity	Large car of more than 1600 cc engine capacity
A EMPLOYEE	Rs.600 p.m.	Rs.900 p.m.
B EMPLOYER	Rs.1800 p.m.	Rs.2400 p.m.

If the chauffeur's is also provided by the employer to run the car, the value perquisite increased by the Rs.900 p.m.

- iv) **If employee owns any automotive conveyance (other than car) and running and maintenance charges are met or reimbursed by employer :** The value will be NIL if it is used wholly for official purposes. If 'Specified conditions' are satisfied. But if the conveyance is used partly for official are partly for private purpose, the actual expenditure incurred employee as reduced by Rs. 600 p.m. (or as reduced by a higher amount specified conditions) given below are satisfied is taxable.

- v) **If any other conveyance** like scooter/ motor cycle is provided by the employer. The value of perquisite is the amount actually spent by the employee on the running and maintenance of conveyance attributable to the private use being reasonable in the opinion of the Assessing officer.
- vi) **If car owned by the employee, expenses incurred by employer and used for partly official and partly personal purposes** Actual expenditure incurred by employer minus expenses pertaining to official use minus anything recovered from employee, is taxable in the hands of employee. Expenditure pertaining to official use can be calculated as per logbook of the car. Alternatively, expenditure pertaining to official use can be calculated at the rate of Rs. 1800 per month (1600 cc or less) / Rs. 2,400 per month (above 1600 cc) for car and Rs. 900 per month for driver.
- vii) The use of vehicle by an employee for traveling from his residence to place of work and back shall not be perquisite at all.
- B) **Free Education Facilities** : The value of benefit to the employee resulting from provision of free or concessional education facilities member of his household (i.e. spouse, children & their spouses, servants and dependents) shall be as under.
- i) **Where educational institution is owned by employer**: The value benefit will be treated NIL, if the cost of education does not exceed Rs, p.m., per child. But if the cost of education exceeds Rs.1, 000 p.m. shall be treated as the value of perquisite.
- ii) **Where educational institution is not owned by the employer**: The perquisite shall be taxable for all employees on the basis of school fees reimbursed by the employer in respect of education provided to the me of his household (i.e. spouse, children & their spouses, parents, servant dependents) Tuition fee chargeable to tax **Scholarship** given by employees children of its employee is not assessable perquisite in the hands of employer.
- C) **Valuation of provision for domestic servants** :

If domestic servant engaged by employer and facility of such servants provided to the employee, it will be taxable in the hands of only specified employee. If any

amount paid by employee for such services the amount so paid shall be deducted from the value of perquisite.

D) Free supply of Gas electricity and water :

If the gas, electric energy or water connections are taken in the name of employer and facility of such supplies provided to employee it will be perquisite in the hand of only specified employee. Value of such benefit determined as under

Circumstances	Value of benefit
If purchased from outside & supplied to employee	Amount paid to the supplier
If supplied from own source	Manufacturing cost per unit incurred by the employer

If any amount paid by employee for such services the amount so paid shall be deducted from the value of perquisite.

1.2.1.5 Provident Fund Contribution

Provident fund is a retirement benefit scheme. Under this scheme a certain amount is deducted by the employer from the employee's salary as his contribution towards the fund. The employer also generally makes matching contribution to the provident fund. The employees and employers contribution are invested outside in securities. The interest earned on it is also credited to the Provident Fund Account. At the time of retirement, the accumulated balance is given to the employee.

Following of the different types of provident funds:

1) Statutory Provident Fund (S. P. F):

These provident fund set up under Provident Fund Act, 1925. This is maintained by the government and the semi government organizations, local authorities, universities and recognized educational institutions.

2) Recognised Provident Fund (R.P.F.):

This is set up under the Employee's Provident Fund Act, 1952 and is maintained by private sector employees. These provident fund are recognized by the commissioner of Income Tax

3) Unrecognized Provident Fund: (U. R.P.F.)

If a provident fund is not recognized by the Commissioner of Income Tax. These fund approved by commissioner of Provident fund.

4) Public Provident Fund (P. P. F.):

The central government has established this fund under Public Provident Fund Act, 1968. The membership of the open to every individual. Minimum contribution to the fund is Rs. 500.

Income tax Provisions for Provident Fund:

Particular	R. P. F.	U. R. P. F	S. P. F.	P. P. F.
Employees contribution Or assessee's contribution	Eligible for deduction u/s 80 C	Not eligible for deductions	Eligible for deduction u/s 80 C	Eligible for deduction u/s 80 C
Employer's contribution	Amount in Excess of 12 % of salary is taxable	Not taxable yearly	Exempt from tax	Employer does not contribute
Interest credited	Amount in excess of 9.5 % p.a. is taxable	Not taxable yearly	Exempt from tax	Exempt from tax
Amount received on retirement	Exempt if, continuing service over five years, entire balance transferred to his NPS account , on cessation of employment and get new employment to the extent of	Employer's contribution and interest there on is taxable as salary Employee's contribution is not taxable. Interest on employee's contribution	Fully exempt from tax	Fully exempt from tax

	accumulated balance in RPF account transferred to his RPF account maintained by the new employer.	taxable as income from other source.		
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Note: Salary for R. P. F. Basic salary, dearness allowance (if enters retirement benefit), Fixed percentage commission on sales.

1.2.1.6 Deductions from Income from salaries: (Section 16)

From salary income only following deductions are allowed:

Standard Deduction: u/s .16(i)

The standard deduction of Rs. 50,000 or the amount of salary, whichever is Lower is to be deducted from gross salary of employee.

Entertainment Allowance: u/s. 16(ii)

Entertainment Allowance received by an employee is first added in salary Income and there after deduction is to be made from gross salary.

However this **deduction is available only to the Government Employee**. The Amount of deduction will be least of the following:-

- i) 20% of basic salary
- ii) Actual Entertainment Allowance received
- iii) Rs. 5,000

Actual amount spent by employee towards entertainment out of the allowance received by him is not a relevant consideration.

Professional Tax on employment: u/s 16(iii) –

Professional Tax or Tax on Employment, levied by a State under article 276 of The Constitution, is allowed as Deduction.

The following points should be kept in view —

- 1) Deduction is available only in the year in which professional tax is paid.
- 2) If the professional tax is paid by the employer on behalf of an employee, it is first Included as salary income and then the same amount is allowed as deduction on

Account of “professional tax” from gross salary.

- 3) There is no monetary ceiling under the Income-tax Act. Under article 276 of the Constitution, a State Government cannot impose more than Rs. 2,500 per annum as professional tax. Under the Income-tax Act, whatever professional tax is paid during the previous year is deductible.

1.2.1.7 TDS on Income from Salary

The employer deducts TDS on salary at the employee's 'average rate' of income tax. It will be computed as follows: Average Income tax rate = Income tax payable (calculated through slab rates) divided by employee's estimated income for the financial year.

The TDS to be deducted by dividing the estimated tax liability of the employee for the financial year by the number of months of his employment under the particular employer. However, if there is no PAN of employee, TDS shall be deducted at the rate of 20% plus 4% cess.

Income Tax Slabs FY 2022-23 & AY 2023-24 (New & Old Regime Tax Rates)

The income tax slabs are different under the old and the new tax regimes. Further, the slab rates under the old tax regime are divided into three categories

Income Tax Slab Rates For FY 2022-23 (AY 2023-24)

The income tax slabs are different under the old and the new tax regimes.

a. New Tax regime

Income Slabs	New Tax Regime FY 2022-23 (AY 2023-24)
₹0 - ₹2,50,000	NIL
₹2,50,000 - ₹5,00,000	5% (tax rebate u/s 87A is available)

₹5,00,000 - ₹7,50,000	10%
₹7,50,000 - ₹10,00,000	15%
₹10,00,000 - ₹12,50,000	20%
₹12,50,000 - ₹15,00,000	25%
>₹15,00,000	30%

b. Old Tax regime

Income Slabs	Age Below 60 years
₹0 - ₹2,50,000	NIL
₹2,50,000 - ₹5,00,000	5%
₹5,00,000 - ₹10,00,000	20%
>₹10,00,000	30%
Income Slabs	Age Above 60 years to 80 years
₹0 - ₹3,00,000	NIL
₹3,00,000 - ₹5,00,000	5%
₹5,00,000 - ₹10,00,000	20%
>₹10,00,000	30%
Income Slabs	Age Above 80 years
₹0 - ₹5,00,000	NIL
₹5,00,000 - ₹10,00,000	20%
>₹10,00,000	30%

Important points to note if you select the new tax regime:

- Please note that the **tax rates in the New tax regime** is the same for all **categories of Individuals**, i.e. Individuals, Senior citizens and Super senior citizens.
- Individuals with Net taxable income less than or equal to Rs 5 lakh will be eligible for tax rebate u/s 87A i.e. tax liability will be NIL in both - New and old/existing tax regimes.
- ***In Budget 2023**, rebate under new regime has been increased and therefore, income upto Rs 7 lakh will be tax-free from FY 2023-24.
- **Surcharge:** In case the income exceeds a certain threshold, surcharge will be applicable
- Surcharge rates are as below:

- 10% of Income tax if total income > Rs.50 lakh
- 15% of Income tax if total income > Rs.1 crore
- 25% of Income tax if total income > Rs.2 crore
- 37% of Income tax if total income > Rs.5 crore

**In Budget 2023, the highest surcharge rate of 37% has been reduced to 25% under the new tax regime. (applicable from 1st April 2023)*

- Surcharge rates of 25% or 37%, will not be applicable to the income which is taxable under sections 111A (Short Term Capital Gain on Shares), 112A (Long Term Capital Gain on Shares), and 115AD (Tax on income of Foreign Institutional Investors). Therefore, the highest surcharge rate on the tax payable for such incomes will be 15%.
- From Assessment Year 2023-24, the maximum surcharge rate on tax payable for dividend income or capital gain mentioned in Section 112 will be 15%. The surcharge rate for an Association of Persons (AOP) consisting entirely of companies will also be limited to 15%.
- Additional Health and Education cess at the rate of 4% will be added to the income tax liability + surcharge in all cases

Conditions for opting new tax regime

The taxpayer opting for concessional rates in the New Tax regime will have to forgo certain exemptions and deductions available in the existing old tax regime. In all there are 70 deductions & exemptions that are not allowed, out of which the most commonly used are listed below:

Particulars	Old Tax Regime	New Tax regime (until 31 st March 2023)
Income level for rebate eligibility	₹ 5 lakhs	₹ 5 lakhs
Standard Deduction	₹ 50,000	-
Effective Tax-Free Salary income	₹ 5.5 lakhs	₹ 5 lakhs

Rebate u/s 87A	12,500	12,500
HRA Exemption	✓	X
Leave Travel Allowance (LTA)	✓	X
Other allowances including food allowance of Rs 50/meal subject to 2 meals a day	✓	X
Standard Deduction (Rs 50,000)	✓	X
Entertainment Allowance Deduction and Professional Tax	✓	X
Perquisites for official purposes	✓	✓
Interest on Home Loan u/s 24b on self-occupied or vacant property	✓	X
Interest on Home Loan u/s 24b on let-out property	✓	✓
Deduction u/s 80C (EPF LIC ELSS PPF FD Children's tuition fee etc)	✓	X
Employee's (own) contribution to NPS	✓	X
Employer's contribution to NPS	✓	✓
Medical insurance premium - 80D	✓	X
Disabled Individual - 80U	✓	X
Interest on education loan - 80E	✓	X
Interest on Electric vehicle loan - 80EEB	✓	X
Donation to Political party/trust etc - 80G	✓	X
Savings Bank Interest u/s 80TTA and 80TTB	✓	X
Other Chapter VI-A deductions	✓	Did not exist
All contributions to Agniveer Corpus Fund - 80CCH	✓	exist
Deduction on Family Pension Income	✓	✓
Gifts up to Rs 50,000	✓	✓
Exemption on voluntary retirement 10(10C)	✓	✓
Exemption on gratuity u/s 10(10)	✓	✓
Exemption on Leave encashment u/s 10(10AA)	✓	✓

Daily Allowance	✓	✓
Transport Allowance for a specially-abled person	✓	✓
Conveyance Allowance	✓	✓

Income Tax Rate for domestic companies – FY 2022-23

Particulars	Old regime Tax rates	New Regime Tax rates
Company opts for section 115BAB (not covered in section 115BA and 115BAA) & is registered on or after October 1, 2019 and has commenced manufacturing on or before 31st March, 2023.	–	15%
Company opts for Section 115BAA, wherein the total income of a company has been calculated without claiming specified deductions, incentives, exemptions and additional depreciation	–	22%
Company opts for section 115BA registered on or after March 1, 2016 and engaged in manufacture of any article or thing and does not claim deduction as specified in the section clause.	–	25%
Turnover or gross receipt of the company is less than Rs. 400 crore in the previous year 2018-19	25%	25%
Any other domestic company	30%	30%

NOTE:

- Additional Health and Education cess at the rate of 4 % will be added to the income tax liability in all cases.
- Surcharge applicable for companies is as below:
- 7% of Income tax where total income > Rs 1 crore

- 12% of Income tax where total income > Rs.10 crore
- 10% of income tax where domestic company opted for section 115BAA and 115BAB

Income tax rate for Partnership firm or LLP as per old/ new regime.

A partnership firm/ LLP is taxable at 30%.

NOTE:

- 12% Surcharge is levied in income is more than Rs 1 crore
- Health and Education Cess at the rate of 4% will be applicable
- No concessional rates are introduced for firms LLPs in new tax regime

1.2.1.8 Determination of Taxable Income from Salary :

Computation of Taxable Income from salary of Mr. / Mrs.....

For the Assessment year 2023-2024

Financial year: 2022-2023

PAN:

Particulars	Rs.
1) Basic Salary	XXX
2) Dearness Allowance	XXX
3) City Compensatory Allowance	XXX
4) Entertainment Allowance, Tiffin allowance	XXX
5) Medical Allow./ Servant Allow/ Other Special allowances	XXX
6) Bonus, Commission, Fees	XXX
7) Advance of Salary/Arrears of Salary / Ex. Gratia payment	XXX
8) Pension or annuity, leave encashment while in service	XXX
9) H.R.A.(Exempt a. H.R.A. received b. rent paid less 10% of salary c. 50% of salary In Mumbai, Delhi, Kolkata & Chennai or 40% in other place whichever is less)	XXX
10) Children Education Allowance (Exempt Rs. 100 P.m. per child up to 2 children)	XXX
11) Children Hostel Allowance (Exempt Rs. 300 P.m. per child up to 2 children)	XXX
12) Assesses in Transport system: Transport Allow, (exem. 70% of	XXX

allow. Or Rs. 10,000 p.m. whichever is less)	
13) Employer's contribution to Recognized Provident fund in excess of 12% of salary	XXX
14) Interest on Provident Fund exceeding 9.5% p.a.	XXX
15) Gratuity (Less : Exempt u/s 10 (10))	XXX
16) Commuted value of pension (Less : Exempt u/s 10 (10A))	XXX
17) Leave salary (less : exempted u/s 10 (10AA))	XXX
18) Rent-free Accommodation (As per rules)	XXX
19) Domestic Servants (As per rules)	XXX
20) Personal payments of employee paid by employer and Other perquisites.	XXX
GROSS SALARY	XXX
Less Deductions :	
1. Standard Deduction u/s 16(i)	XXX
2. Entertainment Allowance u/s 16 (ii) [20% on Basic pay] (If assesses is of Govt. Servant)	XXX
3. Professional / Employment Tax u/s 16 (iii)	XXX
<u>TAXABLE AMOUNT OF SALARY</u>	<u>XXX</u>

Illustrations:

Illustration 1

Mr. Anup an employee of Infosys ltd. Pune, gives you details of his salary for the year ended 31/03/2022 as under:

- i) Basic salary Rs. 25,000 p.m.
- ii) D.A. Rs. 15,000 p.m. (considered for retirement benefit)
- iii) Transport Allowance Rs. 1,500 p.m.
- iv) Children Hostel Allowance Rs. 1,500 p.m. for 3 children.
- v) Children Education Allowance Rs. 1,500 p.m. for 3 children.
- vi) The company contributes Rs. 5,000 p.m. towards his R.P.F.
- vii) Rs. 14,500 was credited to his RPF as interest @14.50% p.a.
- viii) He paid professional tax Rs. 2,500 during the year.

You are asked to compute the Income from salary for the A. Y. 2023-2024.

Solution:**Computation of Income from Salary of Mr. Anup For A. Y. 2023-2024.**

Particular		Old Tax Regime Rs.	New Tax Regime Rs.
1) Basic Salary (Rs. 25,000 x12)		3,00,000	3,00,000
2) D. A. (Rs. 15,000x12)		1,80,000	1,80,000
3) Transport Allowance (Rs. 1,500x12)		18,000	18,000
4) Children Hostel Allowance :- Amount Received (Rs.1,500x12x3)	54,000		54,000
Less: Exemption (u/s.10 (14) (Rs. 300x12x2)	-7,200	46,800	
5) Children Education Allowance :- Amount Received (Rs.1,500x12x3)	54,000		54,000
Less: Exemption (u/s.10(11)) (Rs. 100x12x2)	- 2,400	51,600	
6) Employer contribution to R.P.F. (Rs.5,000x12) Less: Exemption (see Note 1)	60,000 -57,600	2,400	12,000
7) Interest on RPF 14.5% Less: Exempt (u/s.10(11)) [14500x9.5%]	14,500 13,775	725	-
Gross		5,99,525	6,18,000
Salary Less: Deduction u/s 16		52,500	
i) Standard deduction 16(i)	50,000		
ii) Professional tax 16(iii)	2,500		
Taxable Income From Salary		5,47,025	6,18,000

Note:1) Employer Contribution to Recognized Provident Fund (RPF):

Salary for RPF	Rs.
Basic Salary	3,00,000
D. A. (Applicable)	1,80,000
Salary for RPF	4,80,000

Employer's contribution exempted up to: 12% of salary i.e Rs. 4,80,000 x 12% = Rs. 57,600. For NTR its 10% of Salary Rs.48,000.

Illustration 2

Mr. Arjun, a GST officer from Kolhapur submits the following details for computation of his salary income for the financial year 2022-2023.

Particular	Rs. P.a.
Basic pay	2,52,000
Dearness Allowance (forming part of salary)	54,000
House Rent Allowance	24,000
Children's Hostel Allowance (for three children)	3,000
Entertainment Allowance	2,400
Employer's contribution to Statutory Provident Fund @14% of Basic salary and D. A.	42,840
Interest credited to above PF account @12% p. a.	51,120
Transport Allowance	14,400
Rent paid by Mr. Arjun for residence	36,000
Mr. Arjun has been granted a soft loan of Rs. 2,00,000. On 01-10-2020 repayable after 5 years. The state Bank of India interest rate is 14% p.a. The interest rate on this soft loan charged is 2% p.a.	
Mr. Arjun was admitted in a Government hospital for treatment against heart trouble. The re-imburement received by arjun for this medical treatment was Rs.45,000.	
Professional tax paid Rs. 2,500 during the year	

Compute the Income from Salary for the A. Y. 2023-2024.

Solution:

Computation of Income from Salary of Mr. Arjun for A. Y. 2023-2024.

Particular		OTR Rs.	NTR Rs.
1) Basic pay		2,52,000	2,52,000
2) Dearness Allowance (forming part of salary)		54,000	54,000
3) House Rent Allowance :			
Amount Actual Received	24,000		
Less: Exemption u/s 10 (13A) (Note 1)	5,400	18,600	24,000
4) Children's Hostel Allowance :			3,000

Amount Actual Received	3,000		
Less: Exemption us u/s 10(14) (300x12x2)	7,200	NIL	
5) Entertainment Allowance		2,400	2,400
6) Employer's contribution to Statutory Provident Fund (Exempt)		Nil	Nil
7) Interest credited to above PF account @12% p. a. (Exempt)		Nil	Nil
8) Transport Allowance		14,400	14,400
9) Concessional Rate loan (2,00,000 X 12%X6/12)		12,000	12,000
10) Reimbursement of medical expenditure at government hospital (Exempt)		Nil	Nil
Gross Salary		3,53,400	3,61,800
Less: Deductions u/s 16		54,900	
i) Standard deduction u/s 16(i)	50,0000		
ii) Entertainment Allowance u/s 16(ii) (note 2)	2,400		
iii) Professional Tax u/s. 16(iii)	2,500		
Taxable Income From Salary		2,98,500	3,61,800

Note: 1) **House Rent Allowance:**

Salary for HRA	Rs.
Basic Salary	2,52,000
D. A. (Applicable)	54,000
Salary for HRA	3,06,000
Exempt least of the following	Rs.
1) H. R. A. received	24,000
2) Rent Paid (-) 10% of salary	5,400
[(36,000-(3,06,000 x 10%)) 36,000-30,600=5,400	
3) 40% of Salary (3,06,000 x 40%)	1,22,400

Exempted House Rent Allowance Rs. 5,400.

2) Entertainment Allowance:

Exempt least of the following	Rs.
1) Actual Allowance Received	2,400
2) 20% of basic pay (2, 52,000X20%)	50,400
3) Maximum Rs. 5000	5,000

Deduction available Rs.2, 400.

Illustration 3

Mr. Ravi, a Managing director of LKP Ltd. Delhi, receives the following salary and perquisite from his employer during the previous year 2022-2023.

- 1) Basic salary Rs. 66,000 p.a.
- 2) Bonus Rs. 18,000
- 3) D. A. Rs. 2,000 p.m. (enters into retirement benefit)
- 4) Commission on sales at 4 % turnover of Rs. 18,50,000
- 5) Advance salary of Rs. 22,000
- 6) Employer contribution towards recognized provident fund Rs. 18,000.
- 7) Interest credited in RPF Account at. 13% Rs. 13,000.
- 8) A rent free furnished house in Delhi. (Rent of furnished house paid by employer Rs. 84,000 rent of furniture Rs. 18,000.)
- 9) He has provided free services of a Gardner salary Rs. 4,000 p.a. free services of cook salary is Rs. 3,600 p.a. of watch man salary Rs. 900 p.a.
- 10) Mr. Ravi's 2 children are studying in the school run by the employer. The cost of education in similar institution per student is Rs. 1,000 p.a.
- 11) Electricity bill paid by employer Rs. 3,000 p.a.
- 12) He has been provided 1800 cc car for both official and private purpose. The Running and maintenance expenses paid by employer.
- 13) Company is provided free lunch during working days (in all 250 lunches Rs. 70 each)
- 14) He received Rs. 17,000 by way of reimbursement of the private hospital bill by the Employer.
- 15) He paid life insurance premium Rs. 15,000 p.a.

16) He paid professional tax Rs. 2,500 p.a.

Compute the Income from Salary for the A. Y. 2023-2024.

Solution:

Computation of Income from Salary of Mr. Raj For A. Y. 2023-2024.

Particular		OTR Rs.	NTR Rs.
Basic salary		66,000	66,000
Bonus		18,000	18,000
D. A. (2,000X12)		24,000	24,000
4% commission on sales (Rs. 18,50,000X4%)		74,000	74,000
Advance salary		22,000	22,000
Employer contribution to RPF	18,000	Nil	18,000
Less: Exempt u/s 10(11)(12) (Note -1)	-19,680		
Interest on R.P, F. @13%	13,000	3,500	
Less: Exempt u/s10 (11)(12) 9.5%	-9,500		
Value of rent free furnished accommodation(Note-2)		45,300	45,300
Grander salary		4,000	4,000
Cook salary		3,600	3,600
Watchmen salary		900	900
Education facility (1,000 x 12X2)	24,000	Nil	24,000
Less : Exempt up to (1,000 x 12X2)	24,000		
Electricity bill paid by employer		3,000	3,000
Value of motor car facility (Note -3)		28,800	28,800
Lunch facility (Rs. 50 x 250 days)	17,500		17,500
Less: Exempt up to (Rs. 20 x 250 days)	-12,500	5,000	
Reimbursement of Hospital bill		17,000	17,000
Gross Salary		3,15,100	3,66,100
Less: Deduction u/s 16		52,500	
i) Standard deduction u/s 16(i)	50,000		
ii) Professional Tax u/s 16(iii)	2,500		
Taxable Income From Salary		2,62,600	3,66,100

Note:1) Employer Contribution to Recognized Provident Fund (RPF):

Salary for RPF	Rs.
Basic Salary	66,000
D. A. (Applicable)	24,000
4% commission	74,000
Salary for RPF	1,64,000

Employer's contribution exempted up to: 12% of salary i.e Rs.1,64,000 x 12% = Rs. 19,680

2) Value of Rent Free Furnished accommodation –

Accommodation is not owned by employer.

Salary for Accommodation	Rs.	
Basic Salary	66,000	
D. A. (Applicable)	24,000	
4% commission	74,000	
Bonus	18,000	
Salary for accommodation	1,82,000	
Particular	Rs.	Rs.
Value of furnished accommodation is lower of following		
a) Rent paid by employer	84,000	
b) He is at Delhi So 15 % of salary (1, 82,000 x 15%)	27,300	
Value of unfurnished accommodation		27,300
Add: value of furniture		+18,000
Value of rent free furnished accommodation		45,300

3) Value of Motor car facility:

Situation: Car owned by employer and expenses paid by employer

Purpose: Official and private

Engine capacity (C.C.): 1,800 C.C. Above 1,600 CC

Value of Motor car: Rs. 2,400 x12 = **Rs. 28,800**

Illustration 4) Mr. Sachin is General Manager of a Raftar Ltd. Delhi. He has submitted the following particulars of his income for the financial year 2022-2023.

- 1) Basic salary Rs. 1,10,000 p.a.
- 2) D. A. Rs. 2,000 p. m. (Rs. 500 p.m enters in to retirement benefit
- 3) Medical Allowance Rs. 500 p.m.
- 4) Commission on sales Rs. 20,000
- 5) Entertainment allowance Rs. 800 p.m.
- 6) Travelling Allowance for his official tour Rs. 40,000 actual expenditure on tour Rs. 27,000
- 7) He was given cloth worth Rs. 2,000 by his employer free of cost.
- 8) He resides in the Bungalow of the company. Its fair rent is Rs. 2,000 p.m. He pays Rs. 11,000. p.a. as a rent for the house. Furniture of Rs.60,000 is also provided by company.
- 9) A watchmen and a cook have been provided by the company who were paid Rs. 400 p.m. each
- 10) He had been provided with motor car of 1.8 liter engine capacity power for his official as well as personal use. Running and maintenance expenses are born by the company
- 11) Professional tax paid Rs. 2,500 p.a.

Compute his Income from Salary for the A. Y. 2023-2024.

Solution:

Computation of Income from Salary of Mr. Sachin For A. Y. 2023-2024.

Particular		OTR Rs.	NTR Rs.
Basic Salary		1,10,000	1,10,000
Dearness Allowance (Rs. 2,000 x 12)		24,000	24,000
Medical Allowance (Rs. 5,00 x 12)		6,000	6,000
Commission		20,000	20,000
Entertainment allowance (Rs. 800 x 12)		9,600	9,600
Travelling Allowance for official use	40,000	13,000	40,000

Less: Actual expenditure exempt [u/s 10(14)]	-		
	27,000		
Free cloth given by employer (exempted)		Nil	Nil
Value of rented furnished accommodation (Note .1)		19,690	19,690
Watchmen Salary (Rs. 400 x 12)		4,800	4,800
Cook salary (Rs. 400 x12)		4,800	4,800
Value of motor car facility (Note.2)		28,800	28,800
Gross Salary		2,40,690	2,67,690
Less: Deduction u/s 16		52,500	
i) Standard deduction u/s 16(i)	50,000		
ii) Professional Tax u/s 16(iii)	-2,500		
Taxable income from salary		1,88,190	2,67,690

Note: 1) Value of concessional rent furnished accommodation –

Accommodation is owned by employer.

Salary for Accommodation	Rs.
Basic Salary	1,10,000
D. A. (500X12)	6,000
Commission	20,000
Medical Allowance	6,000
Entertainment allowance	9,600
Travelling Allowance	13,000
Salary for accommodation	1,64,600
Particular	Rs.
Value of furnished concessional rate accommodation :	
He is at Delhi So 15% of salary (1,64,600 x15%)	24,690
Add: value of furniture (Rs.60,000 x10%)	6,000
Value of rent free furnished accommodation	30,690
Less: Amount collect from employee	-11,000
Value of furnished concessional rate accommodation	19,690

2) Value of Motor car facility:

Situation: Car owned by employer and expenses paid by employer

Purpose: Official and private

Engine capacity (C.C.): 1,800 C.C. Above 1,600 CC

Value of Motor car : Rs. 2,400 x12 = **Rs. 28,800**

Illustration : 5) Mrs. Radhika employed as lecturer in private Institute at Pune, gives you, her earnings during the year 2022-2023.

- 1) Basic pays Rs. 30,000 p. m.
- 2) D.A. 5,000 p. m. (enter for retirement benefit)
- 3) H.R.A. 2,500 p.m.
- 4) Gratuity received Rs. 30,000 p.a.
- 5) She gets education allowance Rs.1500 p.m. per child for 2 children
- 6) She paid professional tax Rs. 2,500 pa
- 7) Employer's expenditure on free supply of gas, electricity and water Rs. 3000
- 8) She get conveyance allowance Rs. 3,400 p.a. spent Rs. 2,400.

Compute her income from salary for the A. Y. 2023-2024 by assuming that as she opted for the provisions of section 115BAC (New Tax Regime).

Solution:

Computation of Income from Salary of Mrs Radhika for the A. Y. 2023-2024.

Particular	New Tax Regime Rs.
Basic salary (30,000x12)	3,60,000
D.A. (5,000x12)	60,000
H.R. A .(2500x12)	30,000
Gratuity received (Gratuity received in employment is taxable)	30,000

Education allowance (Rs.1500 x 2 x 12)	36,000
Free supply of gas, electricity and water	3,000
Conveyance allowance (3400-2400)	1,000
Gross Salary	5,20,000
Less: Deduction u/s 16	
i) Standard deduction u/s 16(i)	
ii) Professional Tax u/s 16(iii)	
Taxable income from salary	5,20,000

Note : The following are the deductions and exemptions cannot claim by Radhika as she opt opted for the provisions of section 115BAC.

1. The standard deduction, professional tax.
2. House Rent Allowance (HRA)
3. Children education allowance

Check your progress: I

A) Choose correct alternative from the given alternatives.

- i) Advance salary of an employee is taxed in the year _____.
 - a) of receipt
 - b) To which is becomes due
 - c) As decided by the employee
 - d) As decided by the employer
- ii) Any payment received by an employee from his former employer shall be charged to tax under the head _____.
 - a) Salary income
 - b) Income from other sources
 - c) Capital gains
 - d) Profits and gains from Business or Profession
- iii) Gratuity received by a government employee is _____.
 - a) Fully exempt
 - b) Fully taxable
 - c) Exempt up to certain limit
 - d) None of the above
- iv) The concession available while valuing perquisites in respect of meal provided to an employee is Rs. _____per meal.

- a) 200 b) 100 c) 25 d) 50
- v) While computing perquisite in respect of interest free loan, small loans upto Rs. _____/- in the aggregate shall be ignored. (i.e. exempt).
- a) 20,000 b) 25,000 c) 2,00,000 d) 2,50,000
- B) Fill in the blanks.**
- i) Value of rent free unfurnished accommodation in the hands of private sector employee (where accommodation is owned by the employer) is _____% of salary where population of city is 8 lakhs.
- ii) Meaning of term "Salary" is defined under section _____ of the Act.
- iii) In case of Government employee the maximum deduction for entertainment allowance Rs. _____
- iv) Employer does not contribute to----- provident fund
- v) Un commuted pension is _____ whether received by the Government employee or non-government employee

