

Income U/H SALARIES

→ SECTION 15 (Basis of charge)

- Salary Taxable on Due or receipt basis whichever is earlier
- if Salary Taxed on Due basis then it cannot be taxed Again when it is received vice versa.
- Arrear of Salary → Taxable in the year of Receipt.

→ ALLOWANCES

1) Fully Taxable Allowances (CDEF-HMT)

- City Compensatory Allowances
- Dearness Allowance
- Entertainment Allowance
- Fixed Medical Allowance
- High Cost of Living Allowance
- Meal Allowance
- Telephone Allowance

2) Fully Exempted allowance

- 1) Allowance → Paid to → Judges ~~(S.C/H.C)~~ (S.C/H.C)
- 2) Allowance }
Salary } → Paid to → UNO EEs
Perq }
- 3) Allowance }
Perq } → Paid by → Government of India → Paid to
↓
EEs (Sec 10(7))

3) Official Allowance

Rule → 'amount received' or 'actually spent'
whichever is lower is exempt

exempt under old regime.

(RA-HUT)

- R & D Allowance
- Academic Allowance
- Helper Allowance
- Uniform Allowance
- Transfer Allowance

exempt under ~~new~~ regime

(DTC)

- Daily Allowance
- Travelling Allowance
- Conveyance Allowance

4) Personal Allowance - (Exempt under old Regime only)

Rule: 'Allowance received' or 'limit under Income Tax Rule' whichever is lower shall be exempt.

- 1) Children Education Allowance
→ upto 100 PM upto 2 child
- 2) Hostel Allowance
→ upto Rs. 300 PM upto 2 child.
- 3) Transport allowance (Fully taxable unless)
→ EEs is blind, Deaf, Dumb/orthopaedically handicapped
→ Exempt upto 3200 PM under both regime
- 4) Outstation allowance
→ If EE working in Transport System
→ Exempt • 70% of allowance received } w.e.
• 10000 PM } is lower.
- 5) Underground allowance
→ EEs working in Mines.
→ Exempt upto ₹ 800 PM
- 6) Tribal Area Allowance
→ Exempt upto ₹ 200 PM

→ House Rent Allowance (HRA) (Exemption under old regime only) Section 10(13A)

Least of following will get exempt.

- Rent paid - 10% of Salary
- 50% of Retirement benefit Salary (MCDK) (Mumbai, Chennai, Delhi, Kolkata) OR
- 40% of RBS in other state
- HRA Received.

Salary for the Purpose of HRA

→ Basic Pay + DA(RBS) + Commission (1% on T/O)

Note: If there is change in HRA, Salary, location, Rent paid, then exemption shall be computed separately.

→ If Rent paid is Nil then no deduction/exemption allowed

DA - Identification: ① DA forms part of retirement
② DA is provided in terms of Employment

3. Deduction u/s 16

Entertainment deduction
Section 16(ia)
• allowed under Both regime
→ old → ₹ 50000
→ New → ₹ 75000
or Gross Salary whichever is lower

Entertainment deduction
Section 16(ii)
→ allowed if EE is Govt EE
→ least of following -
• 20% of Basic Salary
• 5000 P.a
• Entertainment Allowance Received

Allowed under old regime only

Professional Tax
Section 16(iii)

↓

Paid by ER Paid by EE

↓ ↓

① ②

↓ ↓

Added to Gross Salary then deduction is allowed

If P.T. is not paid, then deduction not allowed

→ Retirement Benefits.

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Gratuity

Received during Employment

↓
Fully Taxable

Received at the time of Retirement

Government EE

↓
fully exempt u/s 10(10)

Other than Govt. EE

(If G. is silent then assume Not Covered POCA)

Covered under POCA

least of following is exempt

- ₹ 20 lakh
- Gratuity Received
- $15/26 \times \text{Last drawn Salary} \times CY$

$CY \rightarrow C.Y + \text{Part thereof in exon of 6m}$

Last drawn Salary $\rightarrow \text{Salary BP} + \text{DA}$
 $\rightarrow$ (last month salary before gratuity)

This limit is one for lifetime

Not Covered under POCA

least of following is exempt

- ₹ 20 lakh
- Gratuity Received
- $\frac{1}{2} \times \text{Avg. Salary} \times CY$

$CY = C.Y$

Salary $\rightarrow \text{BP} + \text{DA (RBS)} + \text{Comm} (\%)$

Avg. Salary $\rightarrow$ 10 M Avg Salary Imm. Preced. to month of Retirement.

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Pension

(Exemption allowed under old Regime only)

Un-commuted

↓
Fully Taxable

Govt EE

↓
fully Exempt

Received Gratuity.

↓
1/3 of Total Pension Exempt

Commutated

Other than Govt EE

Not Received Gratuity

↓
1/2 of Total Pension Exempt

↳ this exemption is one time in life

Total Pension $\rightarrow$ Commuted Amt $\div$ % of Commuted.

3) Leave Encashment. (Section 10(10AA))

During Employment

At the time of retirement

↓
Fully Taxable

other than Govt. EE

Govt. EE

↓
Fully exempt

Least of following is exempt.

- Leave Encashment Received.
- ₹ 2500000 (Life time)
- 10M x Avg. Salary
- Leave @ credit (month) x Avg Salary.

Note:

1) Leave @ credit (month)

Leave Available for Cy. (Max 30 P.a)

→ encashed or availed during Employment

Leave @ credit (Day)

Leave @ credit (month)

$$\begin{array}{r} \times \times \\ (\times \times) \\ \times \times \\ \div 30 \\ \hline \times \times \end{array}$$

2) Salary → Basic + D.A (RBS) + Comm(%)

3) Avg. Salary → 10 M Avg Salary Imm. Preceding 'Day' of Retirement.

4) Provident Fund (Allowed under Both regime) - Imp

Particular	SPF	RPF	URPF	PPE
ER Contribution	Exempt	Exempt upto 12% of RBS	Taxable at the time of withdrawal	N.A
EE Contribution	Deduction allowed u/s 80C	Ded. allowed u/s 80C upto	No. ded. allowed	Ded. allowed u/s 80C
Interest	Exempt (Note-3)	Exempt upto 9.5% p.a (Note-3)	Taxable at time of withdrawal	Exempt (Note-3)
Withdrawal	Exempt	Exempt (Note-1)	(Note-2)	Exempt

Note-1 ÷ If EE give 5 Yr Continuous Service to same ER

- If retires before 5 Yr due to ill health or reason beyond EE's control. like discontinuance or Cessation of ER Business
- Amt Accumulated in RPF is trfd to RPF maintained by new ER or trfd in NPS A/c

Note-2 ÷

ER Cont.	EE Contribution	Int on EE Cont	Int on ER Cont
Taxable u/s Salary	Exempt	Taxable u/s other source	Taxable u/s Salary

- 3 If EE Contribution exceeding ₹ 250000 in any FY or, on or after 1/4/2021 - Int accrue in exceed amount not exempt i.e. taxable.
- However, if ER do not contribute in that fund then the limit is ₹ 500000 instead of 250000

TAXABILITY OF PERQUISITES

1b Rent Free or concessional accommodation.

Step-1

Value of accommodation

Case-1
Accommodation owned by ER
Specified % of Salary*
(Note-1)

Case-2
accommodation on Rent
by ER
Rent Paid by ER } w.e
or
10% of Salary* } lower

Case-3
Grant. EE
↓
Licence fee
by Grant

Step-2: Add: 10% P.a of Cost of Asset (if owned by ER)

Step-3: Add: Hire charge paid by ER (if taken on Rent by ER)

Step-4: Less: Amount Received by ER from EE

Note-1

Population %	upto 15 lakh	15 lakh - 40 lakh	> 40 Lakh
	5%	7.5%	10%

Accommodation provided at two place

→ only one of the accommodation shall be taxable having lower Perq value, but only for 90 days (three month). thereafter both accommodation shall be taxable.

Accommodation provided in hostel

Perq Value: 24% of Salary* or actual Exp. → w.e lower

Exception: Perq shall not be taxable if

- Hotel accommodation is for a period not exceeding 15 days in agg.
- EE has been transferred from one place to another.

Meaning of Salary* for RAAC

Inclusion

- Basic Pay
- DA (RBS)
- Taxable portion of allowance
- Bonus / Commission / fees etc
- Leave encashment / Gratuity
↳ During the Employment

exclusion

- Taxable portion of perq (M/NM)
- Taxable portion of PF
- Any payment after retirement (gratuity / Commuted Pension / PF) etc
- Arrear of Salary / Adv. Salary

Note: Salary only for the period for which rent free accommodation is provided shall be taken into consideration

Fringe Benefits under Section 17(2)(vi)

1) Interest free or concessional loan rule 2(7)(i)

Perq = Sum of monthly o/s balance $\times$ (SBI Rate - ER Rate) $\times$ 1/12

Exception: No perq shall be computed in following cases:

- Where agg. amt of all such loan during particular year upto 20000
- if ER has given loan for treatment of specified disease under rule 2A.

Note: Entire loan o/s $\rightarrow$ Loan Amt $\times$ (SBI rate - ER rate) $\times$ T/12

2) Free food or refreshment

a) Free refreshment (Tea / Non-Alcoholic Beverages / Snacks) during working hours are **Exempt**

b) Free meal taxable as follows:

Perq $\rightarrow$ (Cost of meal - Amount Recovered)

old regime

Exempt upto 50% per meal.

3) Facility of travelling, touring, accommodation

a) Perq value = actual exp by ER - Amount recovered from EE.

b) if EE is on official tour and any his family member accompanied.

Perq value = amount spent on family member

c) if official tour is extend for personal purpose

Perq value = expenditure on part of extended period

4) Gift to the EEs

Cash Gift

Fully Taxable

Kind Gift

Exempt upto 5000,
In excess of 5000 - fully taxable

5) Credit Card facility / Club facilities

Amount spent for personal purpose

Perq. Hence taxable

Amount spent for official purpose

Exempt

6) Use of ER Assets by EE

Asset

Perq utilities

Laptop / Computer

NIL

Although assumed it is used for official purpose even though it is used for personal purpose

Other

10% of actual cost (if taken on Hire - Rent paid by ER)
(- Amount recovered from EE)

7) Sale of movable Assets - Imp

Particular	Amount	Depreciation rate & method	
Cost of Asset	-	Asset	Rate
(-) Depreciation	(-)	1) Computer & Peripherals	50% WDV
(-) Amount recovered from EE	(-)	2) Motor / Vehicle	20% WDV
Taxable perq	-	3) other Asset	10% SLM

Medical facility

In India

- Expenses Incurred by ER
- In ER hospital
 - In Govt hospital
 - In Approved hospital for specified Disease
 - Health Insurance Premium of ER & family members
 - Any other

Treatment
Exempt
Exempt
Exempt
Exempt
Taxable

Outside India

Expenses Incurred by ER

Stay Abroad
Treatment Abroad ^{upto Rs 100000}
Travel Abroad
GTA > 2L
GTA < 2L

Treatment
Exempt
Exempt
Fully taxable
Fully exempt

- Exemption is allowed to → ER, Spouse, Children, Dependent (Parent, Brother & Sister)
- Exemption of stay and travel → patient + one attendant only

9) Leave Travel Concession — Allowed only under old regime

Journey Performed by	Maximum exemption for shortest route
Air	Economy fare
Other than Air	1st class AC fare of fair railway
Places not connected by Rail	
a) RTS exists	Deluxe or first class fare of RTS
b) No RTS exists	1st class AC fare of fair railway on basis of km travelled

- The exemption shall be available to an individual **two times** in each block of four calendar year (Current block is 2022-25)
- Family include
 - Spouse / Children — maximum 2 children but in case of twins or other child after on child, exemption is allowed for all children.
 - Wholly or mainly dependent parents or siblings (brother/sister)
 - LTC exemption — only travel in India

10) Amount or the aggregate of amount of Contribution by ER

- a) in a Recognised Provident fund
b) in NPS
c) in an approved superannuation fund
- in excess of 7.50 L
↓
Perquisites

→ Int on such contribution by ER shall also be Perquisites

$$TP = (PC/2) \times R + (PC_1 + TP_1) \times R$$

Where

TP = Taxable Perq

PC = Amt or agg. Amt of ER's Cont. in excess of 7.5L

PC₁ = " " " in excess of 7.5L for **Earlier Year**

TP = Agg of taxable Perq under Section 17(1) for **Current Year**

R = 1 / f avg. → $\frac{\text{Int credit / Accum}}{\text{Fund Avg}}$

Fund Avg = $\frac{\text{Op bal} + \text{Cl bal}}{2}$

Int

a) On bank of fund —
b) ER/EE's Cont. (-)
c) Op bal of fund (-)
Int =

10) Any other benefit

Perq = Cost to the ER - Amount recovered

Note: If ER has provide telephone facility. Including mobile phones. It will be exempt. However telephone allowance are fully taxable

Perquisites are taxable only in hands of Specified EEs.

Specified EEs:

- Director (full time) of Co
- EE $\rightarrow$ Hold 20% or more eq. shares (Substantial SHs)
- Monetary Salary during year exceed 50000
 $\rightarrow$ BLS / Allowance + Comm + Bonus + Leave Encash.

1) Gardener / Watchman / Sweeper or any other servant / Personal Attendant

Perq = Amt Spent by ER (less) Amt Recovered by EE

2) Transport facility

a) ER business is Carriage of goods or Passengers.

b) Perq = FMV of Ticket - Amt recovered by EE.

Note: Business: Railways or Airlines - No Perq $\rightarrow$ Ticket - fully exempt

3) Education facility - Imp

Nature of Expenditure	Perquisite
1) Training of EEs	Not taxable
2) Education to family members	Fully taxable
3) Education to children of EEs	Cost of Education in similar locality / Institution $\rightarrow$ Amount recovered from EE
a) School maintained by the ER or the School Sponsored by ER	
b) Other Schools	Cost of E Cost to ER $\rightarrow$ Amt recovered from EE

4) Gas Electricity or water facility

Particular	Perquisites
• ER has his own Business	Manufacturing cost to the ER $\rightarrow$ Amt recovered
• Sourced from third party	Amt paid to third party by ER $\rightarrow$ Amt recovered

Note: if reimbursement - fully taxable.

5) Sweat Equity Shares / ESOP

a) Perquisite: FMV on exercise date - Amount paid by EE.

b) FMV should be taken on the date on which option is exercised by EE

6) Payment of Insurance Premium by ER

Particular	Perquisites
a) Health / Medical Ins.	Exempt
b) Personal Accident	Exempt
c) Staff group Insurance	Exempt
d) LIC of EE	Taxable

Both regime

motor car facility

CAR owned by ER and used by EE

Purpose	Expenses met by	Perg value
1) Partly official and partly personal	ER	Small Car - 1800 PM Big Car - 2400 PM (Amt recovered from EE - 1400 RE) For Driver - 900 PM
2) Partly official and partly personal	EE	Small Car - 600 PM Big Car - 900 PM (Amt recovered from EE - 1400 RE) For Driver - 900 PM
3) Personal	ER	Expenses incurred by ER + Driver Salary + 10% of C.O.A of Car (if owned) + Hire charges of Car (if any) = Amt recovered from EE Perg value

CAR owned by EE & used by EE

Purpose	Expenses met by	Perg value
1) Partly official and partly personal	ER	Expenses incurred by ER + Driver Salary = Fixed Expense (official) Small Car (1800) Big Car (2400) Driver (900) = Amt recovered from EE Perg value
2) Personal	ER	Expense incurred by ER + Driver Salary = Amt recovered from EE Perg value

Other Vehicle

Purpose	Expenses met by	Perg value
1) Partly official and partly personal	ER	7900 PM

- Small Car - upto 1600 cc or 1.6 litre
- Big Car - exceed 1600 cc or 1.6 litre

NOTE:

① more than one Car. provided to EE for official/personal use $\rightarrow$ Any 1 Car treated as partly official and partly personal, and other Car shall be treated as personal.

Peg $\rightarrow$ lower of the combination

② if Car is used for 100% official purposes the no Peg

Relief u/s 89

- Relief on tax paid on Arrear of Salary Recd if exceed the tax on Arrear of Salary to which relates

- Relief u/s 89

$\rightarrow$ Tax on arrear in CY - Tax on arrear to which it relates

Steps to Calculate.

- 1) Calculate tax on of CY including Arrear
- 2) Calculate tax of CY excluding Arrear
 $\text{Tax of Arrear in CY} = \text{Step 1} - \text{Step 2}$
- 3) Calculate tax of Year to which Arrear relates including arrear
- 4) Calculate tax of Year to which Arrear relates excluding arrear
 $\Rightarrow \text{Tax on arrear to which relates} = \text{Step 3} - \text{Step 4}$
- 5) if $\text{Tax of Arrear in CY} > \text{Tax on arrear to which relates}$
then Relief u/s 89 Allowed from GTI