

## CHAPTER 05

## Salary

Every payment made by an employer to his employee for service rendered during the course of employment would be taxable as Income from Salaries.

There should be Employer-Employee relationship / Master & Servant/Principal & Agent.

Employee may be Govt, Non-Govt, full-time or part-time employee.

Examples:

- Commission/Remuneration received by director: Taxed u/h "Salaries" if the director is an employee of the company. If he is not Employee → taxed u/h IFOS
- Member of Parliament/State Legislature: MPs, MLA, MLC are not employees of the Government & thus their salary is not taxable u/h salaries. It is taxable u/h IFOS.
- Salary paid to a Partner by a Firm: It is an appropriation of profits. It is not treated as Salary since no Employer-Employee relationship exists b/w the partner & firm. It is taxed u/h PGBP to the extent allowed as deduction to the firm u/s 40(b).
  - Salary includes both Monetary & Non-Monetary facilities.
  - Salary & wages are same (not different) terms for the purpose of Income Tax Act.

Definition of Salary [Sec 17(1)]

Salary includes the following: Wages, Annuity or Pension, Gratuity, Any fees, Commission, Perquisite or Profits in lieu of or in addition to any salary or wages, Advance Salary, Leave Salary or Leave Encashment, recognized PF to the extent it is taxable, Transferred balance in recognized PF (only taxable portion), Contribution made by the employer under a pension scheme u/s 80CCD,

It is an inclusive definition.

Basis of Charge [Sec 15]

- Salary is taxable on Due or Receipt basis whichever is earlier.
- Advance Salary: Advance salary is taxable on Receipt basis (whether it is due or not). Advance Salary which has been taxed on Receipt basis in earlier PYs cannot be taxed again on Due Basis in the PY in which it becomes due. Relief u/s 89(1) is available in this case.

3. **Salary in Arrears / Past Salary (Only Increment Part):** Salary in Arrears becomes taxable on due basis (whether it is paid or not). Since Salary paid in arrears is already taxed on due basis, it cannot be taxed again on payment basis (i.e., when it is paid). But in some circumstances, it may not be possible to tax salary on due basis.

**Ex:** If Pay Commission is appointed by CG & it recommends revision of salaries of employees, arrears received in that connection will be charged on receipt basis. Relief u/s 89(1) is available in this case.

**Salary due on last day of Month:** - Salary from April 2023 to March 2024 shall taxable in P.Y. 2023-24.

**Salary due on 1st day of Next Month:** - Salary from March 2023 to Feb 2024 shall taxable in P.Y. 2023-24.

#### Analysis Of Sec 15

Nature of Salary	Taxable in
Salary becomes due in PY 2023-24 (Paid in Subsequent Year)	PY 2023-24
Salary is received in PY 2023-24 (becomes due Subsequent Year)	PY 2023-24
Arrears of salary received during PY 2023-24 although it pertains to one of the earlier years & same were not taxed on due basis.	PY 2023-24
Arrears of salary received during PY 2023-24 although it pertains to one of the earlier years but same were taxed on due basis.	PY in which it was due

#### Place of Accrual of Salary [Sec 9(1)]

**General Rule:** Salary is deemed to accrue or arise at the place where the services are rendered.

Place of Service	Place of Payment	Deemed to accrue in India ?	Taxable ?
India	India	Yes	Yes
India	Abroad	Yes	Yes
India	Pension is paid Abroad	Yes	Yes
Leaves Earned in India	Leave salary is paid abroad	Yes	Yes

**Note:** If an employee gets pension outside India for the services rendered in India, such pension will be deemed to accrue in India. [Same will apply for Leave Salary paid outside India].

#### Exception to General Rule - Sec 9(1)(iii)

Salary paid by Government to Citizen of India (R/NR) for the services rendered outside India to the Government is deemed to accrue/arise in India.

However, Allowance or Perquisites paid outside India by GOI to a citizen of India for rendering services outside India will be fully exempt. [Section 10(7)].

#### Salary Paid Tax-Free

Salary paid tax-free does not mean that tax is not levied on such salary. It means that Employer bears the burden of the tax on salary of employee. In such case, Income from salaries = Salary Income + Tax on employee's Salary paid by the ER.

However, as per section 10(10CC), Income-tax paid by the employer on Non- Monetary Perquisites on behalf of the employee would be exempt in the hands of the employee.

#### Advance / Loan / Advance Against Salary

Loan is different from salary. It cannot be taxed as Salary. Advance against salary is different from advance salary. It is an advance taken by the employee from his employer.

This advance is generally adjusted with his salary over a specified time of period.

#### Foregoing of Salary V/s Surrender of Salary

If employee foregoes his salary, it does not mean that salary foregone is not taxable. Once salary accrues, subsequent waiver by employee does not make it exempt from tax.

Such waiver is only an application & hence, is taxable.

**Surrender of Salary to Central Government:** Surrender of Salaries (Exemption from Taxation) Act, 1961 → Such Salary is Exempt.

Contract of Service = Salary (EE agree to work under control of ER)

Contract for Service = PGBP (One person work for another person as a Freelancer)

## Components of Salary &amp; their Taxability

RECEIPTS	TREATMENT
Basic Salary	Fully Taxable
Dearness allowance/pay	
Leave encashment while in service	
Salary in lieu of Notice	
Fees & Commission	
Monthly Pension (uncommuted)	
Annuity from Employer	
Profits in lieu of Salary	
Advance Salary	Fully Taxable in PY of Receipt
Arrears of Salary	Fully Taxable in PY in which it becomes due.
Bonus	Taxable on Receipt Basis [if not taxed earlier on due basis].
Annual Accretion to the credit balance in RPF (Taxable Amount)	Excess of Employer's contribution over 12% of salary. Excess of Interest over 9.5% is taxable.
Leave Encashment / Gratuity / Commuted Pension on Retirement	Government employees: Exempt Non-Govt employee: Exempt as per calculation.
Salary to Partner (In Partnership Firm)	Not taxable under "Salaries", but taxable under "PGBP"
Retrenchment for Extra Duties	Fully Taxable
Retrenchment Compensation (Imp)	Least of the following is Exempt from tax: (a) Actual amt. received. (b) Amt as per Industrial Disputes Act; (c) An amount specified by Government (₹ 5,00,000)
Salary/Pension from UNO	Not chargeable to tax.
Compensation received under VRS	Exempt in some cases.
Pension under NPS	Taxable at the time of receipt.

### Meaning of "Salary" for Different Purposes

Allowance/Perquisites	Definition of Salary for such purpose
Gratuity for Covered Employees under Gratuity Act.	Basic Salary + DA (Both)
(a) Gratuity for other cases (b) National Pension Scheme (c) RPF (Er Cont.) (d) Leave salary; (e) HRA (f) VRS	Basic Salary + Dearness Allowance (if it forms part of salary for computing all retirement benefits) + Commission (if paid as % of turnover).
Perquisite for calculating value of Rent-Free Accommodation	Basic Salary + Dearness Allowance (if it forms part of salary for computing all retirement benefits) + Bonus + Any Commission + All taxable allowance + Gratuity & Leave salary received during the service.  + but <u>Excludes</u> : (a) Employer's contribution to PF of the employee; (b) Exempt Allowances; (c) Value of Taxable Perquisites u/s 17(2); (d) Medical Allowance to the extent it is not taxable. (e) Payment/Expenditure for Allotment of shares or Debentures or Warrants under ESOP etc.

### #. Allowances & its Taxability

Meaning of Allowance: Fixed quantity of money given regularly to employees in addition to salary to meet some particular requirements whether personal or connected with service. It is fixed, predetermined & given irrespective of actual expenditure.

Various Allowances & their Taxability

Fully Taxable Allowances	Partly Taxable Allowances	Fully Exempt Allowances
<ul style="list-style-type: none"> <li>✚ Dearness Allowance</li> <li>✚ Overtime Allowance</li> <li>✚ Fixed Medical Allowance</li> <li>✚ City Compensatory Allowance (CCA)</li> <li>✚ Interim Allowance</li> <li>✚ Servant Allowance</li> <li>✚ Project Allowance</li> <li>✚ Tiffin/Lunch Allowance</li> <li>✚ Warden Allowance</li> <li>✚ Non-practicing Allowance</li> <li>✚ Transport Allowance Except Handicapped Employees.</li> <li>✚ Entertainment Allowance</li> <li>✚ Family Allowance</li> <li>✚ Telephone Allowance</li> <li>✚ Split Duty Allowance</li> <li>✚ Any other cash allowance</li> </ul>	<ul style="list-style-type: none"> <li>✚ House Rent Allowance</li> <li>✚ Special Allowances</li> </ul>	<ul style="list-style-type: none"> <li>✚ Allowance to Government employees outside India 10(7)</li> <li>✚ Sumptuary allowance granted to HC/SC Judges.</li> <li>✚ Allowance paid by UNO.</li> <li>✚ Compensatory Allowance received by a judge / HC Judge.</li> </ul>

**House Rent Allowance [Sec 10(13A)]**

1. Least of the following is Exempt ↓

\* Actual amount of HRA received for the Relevant Period.

\* Excess of Rent paid over 10% of salary for the Relevant Period.

\* City of Residence:

• Mumbai, Delhi, Kolkata, Madras (Chennai): 50% of Salary for Relevant Period.

• Other cities: 40% of Salary for Relevant Period.

**Points to Remember:**

✚ For HRA, Salary = Basic Salary + DA (Retirement benefits) + Commission (if paid as % of T/O).

✚ Salary of the PY shall only be considered for calculating HRA Exemption. Salary of the period other than PY is not considered even if it is received in the PY & is taxable on receipt basis (Advance salary).

✚ Salary of the period during which rental accommodation is not occupied in PY is also not considered. - No Exemption if employee lives in his own house/in a house where he does not pay rent.

✚ Relevant period means: period during which house was occupied by the assessee during PY.

✚ If there is any change in the following 4 particulars then calculation separately for pre change period or post change period

✓ Rent Paid

✓ Place of Residence

✓ HRA Received

✓ Retirement benefit salary

**Special Allowances Exempt u/s 10(14)**

A. **Exemption does not Depend Upon Actual Expenditure by EE (Personal)**

• Actual Expenditure incurred by the employee is IRRELEVANT for the purpose of exemption.

• Exemption = Lower of (a) Allowance actually received or (b) Amount specified in Rule 2BB.

Name of Allowance	Nature & Given to	Exemption	
Children Education Allowance	Given for children's education	₹ 100 p.m per child upto Maximum of 2 children	
Children Hostel Allowance	Given for meeting expenditure of child	₹ 300 p.m per child upto Maximum of 2 children	
Transport Allowance	Expenses for communicating between place of his residence & place of duty.	₹ 3,200 p.m; only for Blind / Handicapped employees	
Allowance for Transport Employees / Running / Outstation	Granted to meet personal expenses during his duty if not in receipt of daily allowance.	(a) 70% of amt. received; (b) ₹ 10,000 p.m (Lower)	
Tribal areas/Scheduled Areas Allowance	For MP, Tamil Nadu, UP, WB, Bihar, Orissa, Karnataka, Tripura, Assam	₹ 200 p.m	
Special Compensatory (Hilly Areas) Allowance	High Altitude/Snow Area Allowance	₹ 300 - ₹ 800 p.m [7,000 p.m in Siachen of J&K]	
Border Area Allowance	Border area/Remote locality Allowance	₹ 200 - ₹ 1,300 p.m	
Compensatory Allowance (a) Field area (b) Modified Field Area	Employee cannot claim Border area Allowance if this exemption is taken	(a) 2,600 p.m in some cases (b) 1,000 p.m in some cases	
Underground Allowance	Employee working in/under mines.	₹ 800 p.m	
High Altitude Allowance	Granted to Members of Armed forces operating in High Altitude areas.	Altitude (fts)	Exemption
		9000-15000	₹ 1,060 p.m
		Above 15000	₹ 1,600 p.m

Highly Active Field Area	Granted to Members of Armed forces.	Upto ₹ 4,200 p.m
Island Duty Allowance	Granted to Members of Armed forces in Andaman & Nicobar; Lakshadweep.	Upto ₹ 3,250 p.m
Counter Insurgency Allowance	Members of armed forces away from their permanent locations.	₹ 3,900 p.m

**B. Exemption Depends Upon Actual Expenditure Incurred by EE (Official)**

- **Actual Expenditure** incurred by the EE is **RELEVANT** for the purpose of exemption.
- **Taxable** = Allowance Received - Amount utilized for specific purpose.

Allowances	Nature of Allowance
Travelling /Transfer Allowance	Allowance granted to meet the cost of travel on tour or on transfer of duty (including any sum paid for transfer, packing & transportation of personal effects on such transfer).
Conveyance Allowance	Granted to meet expenditure on conveyance during duties of office. <b>Note:</b> Expenditure for journey between office & residence is not exempt.
Daily Allowance	Allowance granted on tour or for journey in connection with transfer, to meet the ordinary daily charges incurred due to absence from his normal place of duty.
Helper allowance	Any allowance (by whatever name called) to meet the expenditure on a helper where such helper is engaged for the official duties.
Academic / Research Allowance	Any allowance (by whatever name called) granted for encouraging the academic research & other training / professional pursuits.
Uniform Allowance	Any allowance (by whatever name called) to meet expenditure on purchase or maintenance of uniform for wear during the office.

### C. Allowances & Perquisites to Chairman/Member of UPSC [Sec 10(45)]

#### 1. Exempt Allowance in Case of Serving Chairman & Members of UPSC

- Value of Rent-Free Official Residence & Value of Leave Travel Concession,
- Value of Conveyance facilities including Transport Allowance,
- Sumptuary Allowance.

#### 2. Exempt Allowance in Case of Retired Chairman & Members of UPSC

- Value of Residential telephone free of cost & number of free calls upto ₹ 1,500 p.m (over & above free calls p.m allowed by the telephone authorities).
- Upto ₹ 14,000 p.m for defraying the service of orderly & for meeting expenses incurred towards secretarial assistance on contract basis.

### #. Perquisites & their Taxability

#### Definition of Perquisite

- ✚ Any Casual Emolument or benefits attached to office/position in addition to salary.
- ✚ It is an extra benefit in addition to the basic salary.
- ✚ It may be provided in cash or kind.
- ✚ It is not necessary that a recurring or regular receipt is alone perquisites; even a casual or non- recurring receipt can be perquisite.

#### Any Sum received shall be taxed as Perquisite only if following conditions are satisfied:

- Given by Employer. (If received from other person → Taxable u/h PGBP/IFOS)
- Given during the continuance of employment & must be directly related to service.
- Perquisite may be given for the benefits of employee or his Member of household.

#### Points to Remember:

- ✚ Reimbursement of Expenses incurred in official discharge of duties → Not a Perquisite.
- ✚ Perquisite will become taxable only if it has a legal origin. An unauthorized advantage taken by an employee without his employer's sanction cannot be considered as a perquisite. Such unauthorized amount would be chargeable u/h IFOS.

Ex: Suppose Mr. A is given a house by his employer. On 31.3.2023, he is terminated from service. But he continues to occupy the house without the permission of the employer for 6-months after which he is evicted by the employer. The question arises whether the value of the benefit enjoyed by him during 6-month period can be considered as a perquisite & be

charged to salary for PY 2023-24. It cannot be taxed u/h 'Salaries' since the relationship of employer- employee ceased to exist after 31.3.2023. It will be taxable u/h "IFOS".

Income-tax paid by the employer out of his pocket on the salary of the employee is a perquisite in the hands of the employee whether payment is contractual or voluntary.

### Some Relevant Points for the Valuation of Perquisites

1. Member of Household shall include:  
Spouse, Children & their spouses, Parents, Servants & Dependents.
2. (a) Children includes step child & adopted child.  
(b) Children born out of multiple birth after 1st child will be treated as "one child only."

### Perquisite I.R.O ' Rent Free Accommodation '

'RENT-FREE ACCOMMODATION' 'Accommodation' includes a house, flat, farm house (or part), or accommodation in a hotel, motel, service apartment, guest-house, caravan, mobile home, ship or other floating structure.

Employee	Value of perquisites (Unfurnished)	
(a) CG or SG employees	License fee determined by CG or SG.	
(b) Other than Government Employee		
<ul style="list-style-type: none"> <li>Accommodation owned by Employer</li> </ul>	Population of place of Accommodation	Perquisite
	Upto 15 lakhs	5% of salary
	More than 15 lac- Upto 40 lakhs	7.5% of salary
	More than 40 lakhs	10% of salary
<ul style="list-style-type: none"> <li>Accommodation is taken on rent/lease by the employer</li> </ul>	Lower of: (i) 10% of salary or (ii) Actual cost to employer.	
(c) Accommodation Provided in Hotel (Gov/Non-Government Employer)	Lower of (i) 24% of salary or (ii) Actual Hotel charges paid by employer.	

**Note:** If Accommodation is provided  $\leq$  15 days on his t/f from 1 place to another  $\rightarrow$  **No Tax**

**Salary:** - Basic + DA(R) + Bonus + Commission + All Taxable Allowances + Other Monetary Income Except Perquisites.

**Accommodation provided at two places:**

If any employee has been transferred & employer has provided him accommodation at the new place also, in such cases only one of the accommodations having lower perquisite value shall be taxable upto 90 days (3 x months) & after 90 days, both of the accommodations shall be taxable as perquisite.

**Value of perquisite to be restricted to CII:** Where the accommodation is owned or taken on lease or rent by the employer and the same accommodation is continued to be provided to the same employee for more than one previous year, the value of perquisite as calculated in 2. above shall not exceed the amount so calculated for the first previous year, as multiplied by the amount which is a ratio of the CII for the previous year for which the value is calculated and the CII for the previous year in which the accommodation was initially provided to the employee.

"First previous year" means the P.Y. 2023-24 or the previous year in which the accommodation was provided to the employee, whichever is later.

**Valuation of Furnished Accommodation**

Valuation shall be done as if employer has provided unfurnished accommodation

Add: 10% p.a. of original cost of furniture (if furniture is owned by employer).

Add: Lease charges/Rent paid for hiring furniture (If furniture is hired by employer).

**Points to Remember:**

✚ Rent-free official residence provided to a Judge of HC/SC, Union Minister, Chairmen & Member of UPSE, Leader of Opposition in parliament  $\rightarrow$  Not taxable.

✚ Rent-free Accom. house provided in a remote area (Mining, Oil Exploration)  $\rightarrow$  Not taxable.

**Perquisite I.R.O 'Medical Facilities'**

A. **Medical Facilities in India**

Place of Provision of Medical Treatment	Value of Taxable Perquisite
(a) Hospital owned/maintained by employer;	Nothing shall be Taxable in such cases
(b) Government Hospital; / Local Authority	

(c) Private Hospital (if recommended by Government for treatment of its employees).	Nothing shall be Taxable in such cases
(d) Specified facility for prescribed diseases in hospital approved by PCC/CC.	
(e) Any Illness related to Covid-19 Notified by CG	
(f) Any other facility in India (Ex: Family doctor)	Fully Taxable

#### B. Medical Facility outside India

Type of Expenditure	Value of Taxable Perquisite
(a) Medical treatment in Abroad	✚ Exempt to the extent permitted by the RBI. ✚ Taxable Perquisite = Amount exceeding the amount permitted by RBI.
(b) Cost of Stay in Abroad (including one attendant who accompanies the patient)	
(c) Cost on Travel (including one attendant who accompanies patient)	Exempt only if GTI of employee computed before including this expenditure $\leq$ ₹ 2 lacs.

Family: Spouse, Children, {Parents, Brothers & Sisters provided they are Dependent}

#### Points to Remember:

1. Health Insurance Premium paid by employer in approved scheme of CG/IRDA → Not Taxable.
2. Medical Facilities may be provided to an employee or any member of his family.
4. Fixed Medical Allowance → Always taxable.

#### Interest-Free Loan or Concessional Loan

If a loan is given by the employer to employee/member of his household, it is a taxable perquisite. How to value the amount of Perquisite when loan is given:

1. Find out the Maximum outstanding Monthly balance on last day of every month.
2. Find out Differential Interest for each month on the outstanding amount [SBI rate on 1st day of relevant PY - Concessional rate given by employee]

3. **Value of Perquisite on loan** = Sum of Differential Interest of all months. Maximum outstanding monthly balance = Aggregate outstanding balance for each loan as on the last day of each month.

**Exceptions:** In following cases, Interest-free Loan is not treated as perquisite:

- (a) If the amount of total loans  $\leq$  ₹ 20,000.
  - (b) If Loan is given for Medical Treatment of Prescribed Diseases (Cancer, tuberculosis, etc). However, any amount reimbursed (given) to the employee by insurance company shall be considered for valuation of Perquisite. [Note: Insurance company ne reimburse kiye hue paise = Perquisite]
- Note:** Loan given by Closely Held Company to its employee (who holds at least 10% voting power) is treated as deemed dividend u/s 2(22)(e).

#### Perquisite in Respect of Travelling, Touring, Accommodation

Circumstances	Value of perquisite
Facility is provided uniformly to all employees	Actual Expenditure incurred by the employer
Facility is not available uniformly to all employees	Actual value offered to public by other agencies
Employee is on official tour & he takes his family member with him	Amount of expenditure incurred for such family member
Any official tour is extended as a vacation.	Expenses incurred for extended period.

#### Leave Travel Concession / Assistance in India [Sec 10(5)]

Different situations of Journey	Amount of exemption
1. Journey by Air	Max. Fare of Economy class by shortest route.
2. Journey by Rail / other mode even if Routes are connected by rail	Max. Fare of AC 1st class rail by shortest route.

### 3. If origin & destination of journey (or part) are not connected by rail:

(a) If Recognised public transport Exists	1stClass / Deluxe Class fare by shortest route.
(b) If No recognised public transport Exist	AC 1st class rail fare by shortest route (if rail connection exist)

#### Points to Remember:

- ✚ Exemption is available only for going anywhere in India along with family.
- ✚ Family: Spouse & children (Max 2 children), (Dependent Parents, brothers, sisters).
- No exemption for 3rd or subsequent child who is born on or after 1<sup>st</sup> Oct 1998. This rule shall not applicable in case of multiple birth.
- ✚ Only 2 journeys in a block of 4 years are Exempt: The block of 4 years applicable for AY 2023-24 is 2022-2025 (1 Jan 2022 - 31 Dec 2025). Earlier blocks were 2018-2021 & so on.
- ✚ Exemption is based on Actual Expenditure: No Exemption without performing any journey.
- ✚ Exemption is available only on Bus fare, Rail fare, Air fare → No exemption of taxi charges, loading charges, boarding expenses is available.

#### Carry Forward of Exemption

If any of the LTC available in earlier block has not been availed by the assessee, then assessee can claim carry forward of such unavailed exemption (ONLY ONE) in 1st calendar year of the next block. Such Carried forward exemption availed will not be counted i.r.o 2 journey in next block.

Ex: For the block of 2022-2025, X can claim exemption of LTC on two occasions. If X has not availed the exemption (or has availed exemption only on one occasion) during 2022-2025, then he can carry forward unavailed concession. The benefit of carry forward is available in respect of only one journey in 1st year of the next block (i.e during Calendar Year 2026). In addition, he can avail exemptions on two more occasions during 2026-2029.

#### Perquisite I.R.O 'Gift, Voucher or Token'

- ✚ Value of perquisite = Actual cost to the employer.

Cash gifts	Fully taxable without any exemption.
Gifts in Kind	Aggregate Exemption of ₹ 5,000 in a year.

**Note:** Gift or voucher or token may be received by the employee or by member of his household.

**Ex:** Employer provides a cash gift of ₹ 3,000 to X. Beside this, X gets a wrist watch of ₹ 8,000 from his employer.

**Ans:** ₹ 3,000 being cash is fully taxable. Further ₹ 3,000 (₹ 8,000 - ₹ 5,000) is taxable for gift-in-kind. (Alternative: - if amt exceeding ₹ 5,000/- Fully Taxable)

#### Perquisite I.R.O 'Telephones/Mobile Phones Bills'

If employer pays/reimburses telephone bills or mobile charges of employee → Perquisite.

**Note:** In case of Retired chairman/members of UPSC, Value of residential telephones free of cost & number of free calls upto ₹ 1,500 p.m. (over & above free calls allowed by tele company → Exempt.

#### Free Lunch / Tiffin / Food & Non-Alcoholic Beverages

Nature of expenditure	Taxability of perquisite.
1. Tea or snacks provided during working hours	Not a perquisite
2. Meal provided in office (In Excess of Rs.50/-)	Cost to employer - ₹ 50 Per Meal - Amount recovered from the employee
3. Food & non-alcoholic beverages provided in remote area or an off-shore installation	Not a perquisite if provided in working hours

**Note:** Working hours include overtime & working on holidays. No. of Days = 300 Days (if not given) Ex: Mr. X is employed in the office of Chartered Accountant and during the year he was given free lunch on many occasions and value per lunch is ₹ 175. In such case ₹ 125 (₹ 175 - ₹ 50) per lunch is taxable.

#### Perquisite I.R.O 'Credit Card Expenses'

**Perquisite** = Total expenditure incurred (including Membership fees) by the employer

Less: Expenditure incurred for official purposes [Complete details should be maintained]

Less: Amount recovered from employee.

**Perquisite I.R.O 'Club Expenditure'**

**Perquisite** = Total expenditure incurred (including annual fees) for club facilities

Less: Expenditure incurred for official purposes [Complete details should be maintained]

Less: Amount recovered from employee.

• Expenditure pertaining to health club, sports facilities etc. → Not a perquisite.

Note: Where the employer has obtained corporate membership of the club, value of perquisite shall not include the initial fee paid for acquiring such corporate membership.

**Perquisite I.R.O 'Free/Concessional Tickets' Sec. 17(2)(iii) & Rule 3(6)**

**Employer:** Engaged in the carriage of passengers or goods;

Services given: Free/concessional Tickets for Personal Journey/Goods;

**Perquisite** = Value at which such benefit or amenity is offered by such employer to the public

Note: In case of Employees of Airline or Railways → No Perquisite.

**Perquisite I.R.O 'Use of Moveable Assets'**

Value of perquisite is determined as follows:

Asset given	Value of benefit
(a) Laptops & computers	NIL
(b) Other Movable assets	10% p.a. of Actual Cost or Hire / Rent Charges

Completed years of Use is not required. Even use of asset for part of year will be perquisite.

**Transfer of Moveable Assets at Discounted/ Nominal Price**

**Perquisite** = WDV [Actual Cost - Depreciation]

✚ Sale Consideration paid by employee.

✚ Depreciation shall be calculated only if asset has been used by ER for business purpose.

✚ Depreciation is deductible for **completed years of use only**. (Fraction of years → Ignored)

✚ Depreciation shall be calculated as follows:

1. Computer & electronics items	50% on <b>WDV</b> for each completed year of usage.
2. Motor car	20% on <b>WDV</b> for each completed year of usage.
3. Any other Asset	10% on <b>SLM</b> for each completed year of usage

✚ Electronics items do not include household electronic appliances.

### Payment of Premium on Personal Accident Insurance/ Group Policies

- ✚ No immediate benefit & benefit will accrue in future, only if certain events take place. Moreover, employers would be taking such policy in their business interest only, so as to indemnify themselves from payment of any compensation. Therefore, the premium so paid will not be a taxable perquisite in the employees' hands.
- ✚ Life Insurance premium for EE or family member = Perquisite in the hands of EE & 80C allowed to employee.
- ✚ Mediclaim insurance for EE or family member = Exempt for EE & 80D not allowed to EE.
- ✚ KIP premium paid by ER: - No tax treatment in the hands of employees.

### Perquisite I.R.O 'Sweat Equity Shares/ESOP'

- ✚ Perquisite = FMV on Exercise Date - Amount Actually paid by the Employee.
- ✚ Year of taxability: Taxable in the year of Allotment of Shares.  
Ex. Mr. X is employed in ABC Ltd. & employer has issued 100 equity shares to the employee for free on 1.7.2023 & FMV is ₹ 150 per share on the exercise date. In this case, taxable amount = ₹ 15,000. {100 × (150 - 0)}
- Note: If the shares have been sold by the employee, cost of acquisition = FMV on exercise date [Sec 49(2AA)].

### Perquisites Taxable Only in Hands of Specified Employees [Sec 17(2)(iii)]

#### Specified Employee

- Employee is a director
- Employee has a substantial interest in company ( 20% Equity Share)
- Monetary income of employee u/h Salary more than Rs. 50,000.

Monetary perquisites are taxable in the hands of all employees [Specified + non-specified].

Non- Monetary perquisites are taxable in the hands of specified employees only.

Following perquisites will be taxable in the hands of specified employees only.

- ✚ Provision of Sweeper, gardener, watchman or personal attendant
- ✚ Facility of use of Gas, Electricity or Water supplied by employer
- ✚ Transport Facility.
- ✚ Educational facilities. ( Free or concessional )
- ✚ Motor Car Facility.

**Obligation of the employee met by the employer - Sec 17(2)(iv)**

Either by way of direct payment or by way of reimbursement. Also known as monetary perquisites. Ex. Payment of Personal loan of employee, Reimbursement of food bills etc.

Fully Taxable.

**Payment of LIP by the employer - Sec 17(2)(iv)**

Premium paid for employee or any member of his family taxable in the hands of employee & employee shall be entitled to claim deduction U/s 80C subject to Sec. 80C.

Other insurance premium shall not be perquisite for the employee bec. Such scheme for the benefits of employer not for employee.

Note: - Payment / reimbursement of Medclaim insurance premium by employer shall be exempt in the hands of employee.

**Perquisite in Respect of "Sweeper, Gardener, Watchman"**

Taxable Amount = Actual Cost (Total salary paid by ER - amount recovered from EE)

Note: When a house owned by employer is given to employee & employer incurs expenditure on maintenance of garden → Not a perquisite.

As per CBDT circular, provisions of gardener (when gardener is provided along with a house owned by the employer) cannot be taken as a perquisite, as employer in any case would have maintained the garden irrespective of the fact whether building was occupied by employee or lying vacant.

If Monetary amt paid = Taxable to all employee, actual amt. paid.

**Perquisite I.R.O 'Gas, Electric Energy or Water Supply'**

Taxable amount = Actual Cost (Total Expenditure of ER - Amt Recovered from Employee)

If EE himself is manufacturer → Perquisite = Manufacturing cost incurred by employer.

If amt paid by ER for such facilities → Perquisite = Amt. paid by ER.

**Perquisite I.R.O 'Transport Facility'**

Perquisite value if transport facilities are provided by airlines or railways to their employees / household members of employees = Nil

Other Cases = FMV of such facilities - Amt Recovered from Employee.

### Perquisite I.R.O 'Education Facility'

Nature of Expenditure	Taxable Perquisite
1. Edu / Training of employees	Not Taxable in all cases.
2. Education facility provided to the children of Employee. (if Edu Institute <b>Owned by ER</b> )	Reasonable cost of education is taxable. (FMV i.e. Institution in nearby locality) Exemption → ₹ 1000 p.m. per child. (N No.)
3. Education facility provided to other family members (if Edu Institute <b>Owned by ER</b> )	Fully Taxable. No Exemption is available. (FMV i.e. Institution in nearby locality)

Note: If Edu Institute not owned by ER then taxable in all cases I.e. No Rs. 1000 exemption.

Note: Monetary perquisite in Edu facility: - Taxable to all EE, amount actually paid.

Note: Scholarship given by an employer to the children of its employees → Not a perquisite.

### Perquisite I.R.O Car

Owned by	Expenses by	Purpose of use	Taxable Perquisite	
1. Employer	Employer	Fully Official	No Perquisite	
2. Employer	Employer	Fully Personal	Actual expenditure on car + Remuneration to driver + Depreciation @ 10% p.a on actual cost.	
Expenses recovered from employee are deductible. No limit of ₹ 900 for driver's salary.				
3. Employer	Employer	Partly official & Partly Personal	<u>CC of Engine</u>	<u>Perquisite</u>
			Upto 1600 CC or 1.6 Liter	1,800 p.m. + 900 p.m. for driver = ₹ 2,700 p.m.
			Above 1600 CC or 1.6 Liter	2,400 p.m. + 900 p.m. for driver = ₹ 3,300 p.m.

₹ 900 p.m. shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.

4. Employer	Employee	Partly official & Partly Personal	<u>CC of Engine</u>	<u>Perquisite</u>
			Upto 1600 CC or 1.6 Liter.	600 p.m. + 900 p.m. for driver = ₹ 1,500 p.m.
			Above 1600 CC or 1.6 Liter.	900 p.m. + 900 p.m. for driver = ₹ 1,800 p.m.
₹ 900 p.m. shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.				
5. Employee	Employer	Partly official & Partly Personal	Actual Expenditure incurred Less ↓	
			<u>CC of Engine</u>	<u>Perquisite</u>
			Upto 1600 CC or 1.6 Liter.	Actual Cost to ER - (1,800 p.m + 900 p.m for driver = ₹ 2,700 p.m)
Above 1600 CC or 1.6 Liter.	Actual Cost to ER - (2,400 p.m + 900 p.m for driver = ₹ 3,300 p.m)			
₹ 900 p.m. shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.				
6. Employee	Employer	Official use	Not a perquisite.	
7. Employee	Employer	Fully Personal	Actual cost to employer.	
8. Employee owns other conveyance but not car	Employer	Partly official & Partly Personal	Actual Expenditure incurred by Employer Less: ₹ 900 p.m.	

**Points to Remember:**

- ✚ Meaning of Month: Month means completed months.
- ✚ When two or more cars are provided by employer to the employee: If an employer provides two or more cars (which falls in category 3), taxable value of only one such car (at employee's option) shall be determined according to the rules given in category 3. For other cars, value of perquisite shall be calculated under category 2.
- ✚ Car facility between residence & office: Not taxable.
- ✚ Facility for HC/SC Judges/Chairman/members of UPSC: Not taxable.
- ✚ Transport allowance provided to serving chairman/members of UPSC is also not taxable.

**Any Other Benefit/Amenities Provided by Employer (Residual provision)**

Perquisite = Cost to Employer (Arm's length price) - Amount recovered from employee.

**#. Retirement Benefits****Leave Salary [Sec 10(10AA)]**

- ✚ Amt. received by encashment of unutilized leave on retirement/termination of employment.
- ✚ Leave salary received during the period of service → Fully Taxable. (Gov/Non-Gov. EE)
- ✚ Taxability of leave salary received at the time of retirement is different. It is as follows:
  - Government Employees (at the time of retirement) → Fully Exempt
  - Non-Government Employees (at the time of retirement)      Partly Exempt

**Taxability (@ the time of retirement) for Non-Government Employees**

Least of the following is EXEMPT ↓

- (i) Leave Salary Actually received.
  - (ii) ₹ 25,00,000
  - (iii) 10 × AMS {based on average salary of last 10 Months}
  - (iv) Leaves Earned (in No. of Months) × AMS.
- ✚ **Leaves Earned** = [Completed years of service × No. of leaves credited/month (Maximum 30 days allowed in a year)] - Leaves taken/ availed.
  - ✚ AMS = Average monthly Salary of 10 months immediately preceding date of retirement.
  - ✚ Leave credited cannot exceed 30 days for each completed year of service rendered.
  - ✚ Salary = Basic + DA(R) + Commission (T/o)

**Points to Remember:**

- ✚ Receipt of Leave salary from two or more employers: in the same year/ different year, then the aggregate amount of leave salary exempt from tax cannot exceed ₹ 25,00,000. If Leave salary is received in any earlier year from former employer & again received from another employer in later year, limit of ₹ 25,00,000 will be reduced by amount of leave salary exempt earlier.
- ✚ Leave salary paid after death / passed away → Exempt.
- ✚ Leave salary received by family of government servant who died in harness (on duty) → Exempt.

**Gratuity [Sec 10(10)]**

It is a retirement benefit payable at time of cessation of employment on basis of duration of service. Statutory obligation of ER as per Gratuity Act 1972

**Type of Employee**

1. Government (CG/SG/LA) = Fully Exempt u/s 10(10)(i)
2. Non-Government Employees
  - Taxable Gratuity = Gratuity Received - Gratuity Exempt.

**Employees Covered**

By Gratuity Act, 1972

**Least of following is Exempt**

1. Gratuity Actually Received
2. ₹ 20 lacs
3.  $15/26$  days  $\times$  Last Drawn Salary  $\times$  No. of completed yr of service or part yr in excess of 6 Months.

**Employees Not Covered By**

Gratuity Act, 1972

**Least of following is Exempt**

1. Gratuity Actually Received
2. ₹ 20 lacs
3.  $\frac{1}{2} \times$  Avg Salary of 10 Month  $\times$  No. of completed yr  
[Ignore less than year]

AMS: Average salary for 10 months immediately preceding Retirement Month (& not date).

Points to Remember:

- ✚ Salary Means:  
Covered under Gratuity Act = Basic Pay + DA(Full / Both)  
**Not** Covered under Gratuity Act = Basic Pay + DA(R) + Commission (T/o)
- ✚ For Seasonal Employee No. of Days = 7/26 days (Only for Covered under Gratuity Act)
- ✚ For Piece rate employee = 3 Month Average preceding the retirement.
- ✚ Gratuity Received during the period of Service → Fully Taxable.
- ✚ Gratuity received by Members of Defence Service → Fully Exempt.
- ✚ Retirement Gratuity received by EEs of CG/Members of Civil Services/LA → Fully Exempt.
- ✚ Gratuity is received after death of employee → Fully Exempt of legal heirs.
- ✚ Completed YOS (year of service) will include the period of earlier employment if the employee was not entitled to gratuity at that time/during that employment.
- Exemption Limit of ₹ 20 Lacs is the maximum amount of gratuity exempt. If gratuity is received in any earlier year from former ER (if any) & again received from another employer in later year, limit of ₹ 20 Lacs will be reduced by the amount of gratuity exempt earlier.
- If No ER-EE relation = Fully Taxable { Eg Gratuity paid by LIC to its Insurance Agents }

**Pension [Sec [10(10A)]**

- ✚ Pension means a periodic payment made to employee in consideration of past services payable after his retirement. Pension is of two types:

COMMUTED PENSION [Commutation = Inter- Change] <b>LUMSUM</b>	✚ Converting future right to receive monthly pension into lumpsum amount receivable immediately on retirement/superannuation. ✚ It is lumpsum payment in lieu of periodical payment.
UNCOMMUTED PENSION (Monthly pension)	✚ It is periodical payment of pension. ✚ It is <b>always TAXABLE</b> in the hands of both Government/Non- Government Employee.

Ex: If a person is entitled to receive a pension of ₹ 10,000 p.m. for the rest of his life. He may commute 50% of this amount & get a lumpsum of ₹ 3 lacs (random amount). After commutation, his monthly pension will now be the balance 50% of ₹ 10,000 p.m. = ₹ 5,000 p.m.

### Tax Treatment of Uncommuted (Monthly) Pension:

It is always TAXABLE in the hands of both Government/Non-Government Employee.

### Tax Treatment of Commuted Pension

Type of Employee	Tax Treatment				
1. Government	EXEMPT.				
2. Non-Government Employees	<p>✚ Taxable Pension = Pension Received - Exempt Pension.</p> <p>✚ EXEMPTION I.R.O COMMUTED PENSION</p> <table border="1"> <tbody> <tr> <td>1. If Gratuity is received by Employee</td> <td>Exemption = 1/3rd of the Full Pension (Total Pension).</td> </tr> <tr> <td>2. If Gratuity is not received by Employee</td> <td>Exemption = 1/2rd of the Full Pension (Total Pension).</td> </tr> </tbody> </table>	1. If Gratuity is received by Employee	Exemption = 1/3rd of the Full Pension (Total Pension).	2. If Gratuity is not received by Employee	Exemption = 1/2rd of the Full Pension (Total Pension).
1. If Gratuity is received by Employee	Exemption = 1/3rd of the Full Pension (Total Pension).				
2. If Gratuity is not received by Employee	Exemption = 1/2rd of the Full Pension (Total Pension).				

**Note:** For this purpose, Full Pension = Commuted Pension / % of commutation

### Points to Remember:

✚ Commuted Pension to Judges of HC/SC → Fully Exempt.

✚ Commuted Pension received by Individual out of annuity plan of LIC → Exempt.

✚ Pension received from UNO by the employee or his family members → Exempt.

✚ Family Pension received by the family members of Armed forces (Include Para Military Forces) → Exempt u/s 10(19).

✚ Family Pension received by family members after death of an employee (Other than armed forces) → Taxable u/h IFOS. Deduction u/s 57 = Lower of ₹ 15000 OR 1/3rd of Pension.

✚ If pension received during the service = Taxable.

### Retrenchment Compensation [Sec 10(10B)]

✚ Any compensation received by a workman at the time of his retrenchment shall be Exempt to the Extent of Lower of the following:

(a) Actual Amount Received.

(b) ₹ 5,00,000.

(c)  $15/26 \times \text{Avg. salary of last 3 Month} \times \text{Length of service}$  (More than half year shall be treated as full year).

**Note:** Compensation received by workman as per scheme approved by CG → Exempt 10(10B).

**Salary:** Basic + DA (Both)

### Compensation Received on Voluntary Retirement [Sec 10(10C)]

Lower of the following shall be exempt: -

1. Actual VRS received
2. Maximum Limit upto ₹ 5,00,000
3. Condition: [Higher of (a) or (b)]
  - (a)  $LDS \times 3 \text{ Months} \times \text{completed year of service.}$
  - (b)  $LDS \times \text{Balance months of service left before retirement/superannuation.}$

#### Points to Remember:

- ✚ Salary = Basic + DA(R) + Commission (T/o)
- ✚ Relief u/s 89 is not available if exemption is taken in this section.
- ✚ Exemption u/s 10(10C) shall be allowed once in a lifetime
- ✚ It applies to an employee who has completed 10 years of service or completed 40 years of age. [Except employee of a public sector company under voluntary separation scheme framed by the company].
- ✚ It applies to all employees except directors of a company or a cooperative society.

### National Pension Scheme

Applicability	Only to new employees of government or any other employer.
Scheme	Every employee is required to contribute 10% of his salary every month towards NPS. A matching contribution is made by the employer.
Tax treatment	<ol style="list-style-type: none"> <li>1. Employer's contribution: First included in salary income of the employee &amp; deduction (upto 10%/14% of salary) is given u/s 80CCD(2).</li> <li>2. Employee's contribution: Deductible (upto LOWER OF 10% of salary or ₹ 1.5 lacs ) u/s 80CCD(1).</li> </ol>
Maturity amount	Pension received out of the aforesaid amount → Taxable to recipient.

## #. Deduction Allowed from Salary

### Standard Deduction [Section 16(ia)]

- ✚ Lower of (i) ₹ 50,000 or (ii) Amount of Salary.
- ✚ But if Assessee opted for Sec 115BAC then Lower of (i) ₹ 75,000 or (ii) Amount of Salary.

### Entertainment Allowance [Sec 16(ii)]

- ✚ Purpose: For entertaining the customer of employer.
- ✚ It is first included in gross salary income & then deduction is available u/s 16 (ii)
- ✚ Least of the following is Exempt for GOVERNMENT EMPLOYEES (CG / SG) only.
  - ✓ Amount received during the PY.
  - ✓ ₹ 5,000.
  - ✓ 20% of basic salary.

✚ Actual expenditure towards entertainment is NOT RELEVANT.

✚ Such deduction allowed only to Govt. employee.

### Professional Tax [Sec 16(iii)]

- ✚ It is levied on profession, trade & employment by a State under Article 276 of the Constitution. SG/LA cannot impose more than ₹ 2,500 as profession tax. (₹2500 P.A)
- ✚ If EE pay PT then it is deductible only when it is actually paid by the Employee during PY. Student should note that the Limit of ₹ 2,500 is for the levy of professional tax in a previous year by the State Government. However, under Income Tax Act, there is no such limit on claiming deduction in a PY. Thus, if ₹ 5,000 is paid as professional tax during the PY, whole of ₹ 5,000 will be deductible in the PY in which it is paid.
- ✚ If an Employer pays Professional Tax on behalf of Employee, it shall be first included in salary of the employee as perquisite & then shall be allowed as deduction on payment basis.
- ✚ If PT paid by a person engaged in Business/Profession = Allowed to debited to P&L.

### Relief [Sec 89] (Only for Individuals)

- ✚ If any individual receives any portion of his salary in arrears or in advance or receives profits in lieu of salary (gratuity, commuted pension), family pension & as a result of such receipt, his income is assessed at a higher rate than the rate at which it would have been assessed if there was no such aforesaid receipts, he can claim relief u/s 89.

Procedure for computing relief as given in Rule 21A is as follows:

1. Calculate the tax payable of PY in which the arrears/ advance salary is received on
  - (a) Total Income including of advance salary/ salary in arrears.
  - (b) Total Income excluding of advance salary/ salary in arrears

The difference between (a) & (b) is the tax on additional salary included in the total income.

2. Calculate the tax payable of PY to which the advance salary/salary in arrears relates.
  - (a) Total Income including of advance salary/ salary in arrears
  - (b) Total Income excluding of advance salary/ salary in arrears.

Calculate the difference between (a) & (b) for every PY to which the additional salary relates.

3. Excess tax on additional salary as calculated in 1 & 2 shall be Relief allowed u/s 89.

Nothing shall be roundoff except final tax liability U/s 288B.

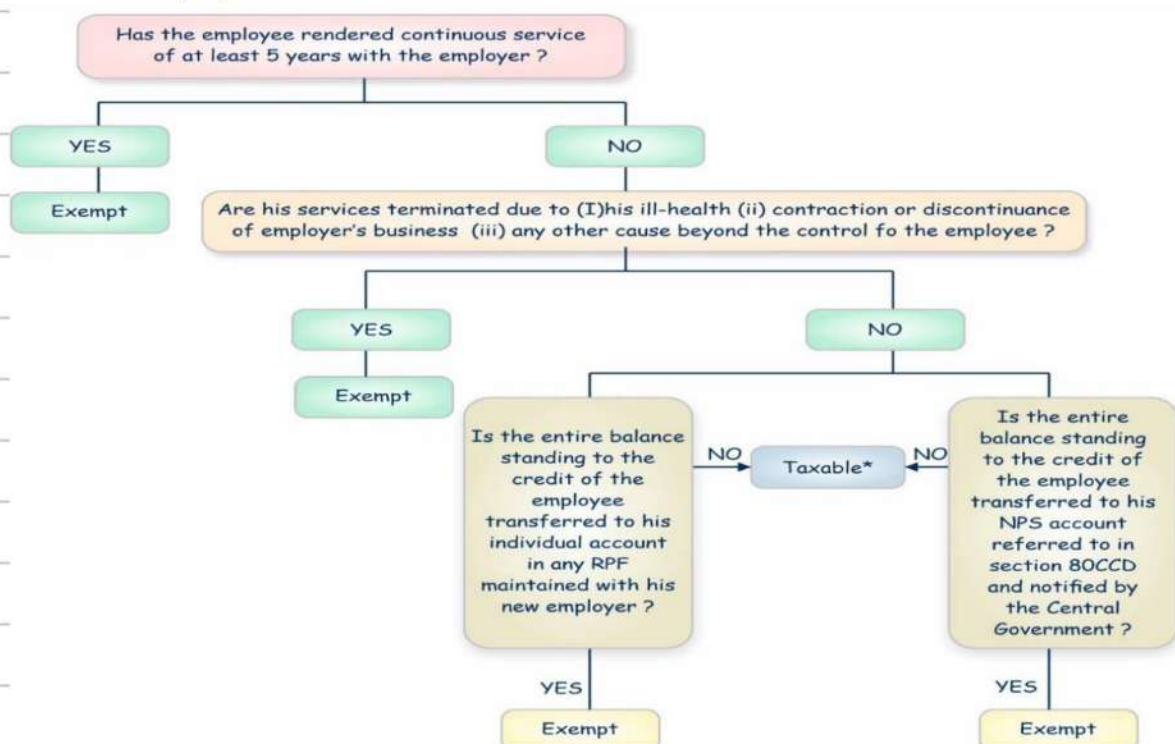
#### Treatment of Provident Fund for Income-Tax Purposes

Particulars	SPF	RPF	URPF	PPF
Employees contribution	Deductible u/s 80C	Deductible u/s 80C	No deduction	Deductible u/s 80C
Employer's Contribution	Fully exempt	Exempt upto 12% of salary	Fully Exempt	NA as there is only assessee's own contribution
Interest on PF	Fully exempt	Exempt upto 9.5% p.a.	Fully Exempt	Fully exempt
Withdrawal on Retirement	Fully exempt u/s 10(11)	Exempt subject to certain conditions	Taxable EE Contribution Ignore	Fully exempt u/s 10(11)

#### IMPORTANT NOTES

1. URPF: Employer's contribution & Interest on provident fund taxable u/h salary. It becomes taxable when accumulated balance is withdrawn by employee. Interest on employee's contribution → Taxable u/h IFOS.

2. RPF: Withdrawal from RPF is exempt if the following condition satisfied:
- If employee has rendered continuous service with his employer for a period of 5 years/more.
  - If service has been terminated by reason of (i) employee's ill health, (ii) discontinuance of employer's business, (iii) reasons which are beyond employee's control. [even if continuous service < 5 years].
  - If the employee joins new employment on cessation of his old employment & accumulated balance in his PF A/c (due to him) is transferred to his individual A/c in any RPF maintained by such other (new) employer. In such case, for calculating period of service for (i) & (ii) above, period for which employee rendered continuous service under his former employer shall be included.
3. If accumulated balance due to an employee in RPF is paid to him otherwise than in the circumstances referred to above (Ex: where employee voluntarily resigns before completion of 5 years of service, amount paid to the employee is taxable. In such cases, deduction allowed shall be withdrawn. Thus,
- ✚ Employer's contribution + Interest on it (which was not taxed earlier) → Taxed as Profit in lieu of salary.
- ✚ Interest on employee's contribution → Taxable u/h IFOS.



It includes: [Amended by Finance Act, 2020]

<p><b>Contribution to RPF/NPS/Approved superannuation fund</b> <b>Sec 17(2)(vii)</b></p>	<p>The amount or the aggregate of amounts of any contribution made to the account of the assessee by the employer -</p> <p>a) In a recognised provident fund;</p> <p>B) In the scheme referred to in section 80CCD(1); and</p> <p>C) In an approved superannuation fund,</p> <p>To the extent it <b>exceed ₹ 7,50,000</b> in a previous year shall be taxable to employee u/h salary.</p>
<p><b>Interest/Dividend on taxable contributions under RPF/NPS/Approved SAF</b> <b>Sec 17(2)(viiia)</b></p>	<p>The annual accretion by way of interest, dividend or any other amount to the balance at the credit of RPF, NPS u/s 80CCD, Approved SAF shall be taxable in the hands of the employee u/h salary to the extent it relates to the employer contribution in excess of Rs. 7.5L.</p>

Note:

1. Salary = basic + D.A (R) + Commission (T/o).

The CBDT has, vide Rule 3B, notified the following manner to compute the annual accretion by way of interest, dividend or any other amount of similar nature during the previous year

$$TP = (PC/2) * R + (PC1 + TP1) * R$$

<b>TP</b>	Taxable perquisite under section 17(2)(vii) for the current previous year
<b>PC</b>	Amount or aggregate of amounts of employer's contribution in excess of ₹ 7.5 lakh to recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund during the previous year
<b>PC1</b>	Amount or aggregate of amounts of employer's contribution in excess of ₹ 7.5 lakh to recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund for the previous year or years commencing on or after 1 April, 2020 other than the current previous year
<b>TPI</b>	Aggregate of taxable perquisite under section 17(2)(vii) for the previous year or years commencing on or after 1" April, 2020 other than the current previous Year

<b>R</b>	I/ Favg
<b>I</b>	Amount or aggregate of amounts of income accrued during the current previous year in recognized provident fund, national pension scheme u/s 80CCD and approved superannuation
<b>Favg</b>	(Amount or aggregate of amounts balance to the credit of recognized provident fund, national fund pension scheme u/s 80CCD and approved superannuation fund on 1st April, 2021 + Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on 31st March, 2022)/2

Where the amount or aggregate of amounts of TPI and PCI exceeds the amount or aggregate of amounts of balance to the credit of the specified fund or scheme on 1<sup>st</sup> April, 2021, then, the amount in excess of the amount or aggregate of amounts of the said balance shall be ignored for the purpose of computing the amount or aggregate of amounts of TP1 and PC1.

3. Lumpsum payment at the time of retirement / termination of service is exempt from tax is:
  - a) Employee continuous service for 5 years or more.
  - b) Service is terminated due to ill health of employee or discontinuance of employer's business or any other reason beyond his control.
  - c) On cessation of employment, RPF account is transfer from one employer to another.
  - d) The entire balance outstanding is credited under pension scheme under section 80CCD and notified by the CG.
4. Previous employer period will also be counted for 5 years counting.
5. In case, if UPRF is converted into RPF, then the amount to be taxed shall be the amount which is arrived by treating the fund as RPF from its inception i.e from the year of creation of fund.  
 Sec 10(11): Any payment from SPF or PPF would be exempt.  
 Sec 10(12): Any payment from RPF would be exempt.
6. **Taxability of accrued interest from SPF/RPF [ Amended by Finance Act 2021 ] :**  
**'Exemption u/s 10(11)/10(12) shall not apply to the income by way of interest accrued during the previous year in the account of a person to the extent it relates to the**

amount or aggregate of amounts of contribution made by that person (EE) exceeding ₹ 2,50,000 (₹ 5,00,000 if no contribution by the employer of such person ) in any previous year in that fund, on or after 1/4/2021 and computed in such manner as may be prescribed

It may be noted that interest accrued on contribution to such funds upto 31/3/2021 would be exempt without any limit, even if the accrual of income is after that date.

#### Approved Superannuation Fund {Sec 10(13)}

ER contribution - exempt upto ₹ 150000. EE contribution - deduction under section 80C

Interest - Exempt. However, the annual accretion by way of interest, dividend, or any other amount of similar nature during the previous year to the balance at the credit of the fund or scheme referred above to the extent it relates to the contribution which is included in total income in any previous year computed in such manner as may be prescribed. [Amended by Finance Act, 2020 w.e.f 01-04-2021 i.e AY 2021-22]



Exemption of payment from the fund: if the payment are made to :-

- To legal heirs on the death of the beneficiary or
- To an employee in substitution of or in commutation of an annuity on his retirement at or after a specified age or if he becomes incapable prior to his retirement.
- In form of refund of contribution on death of beneficiary. (point 1)
- In the form of refund of contribution to an employee leaving the service in circumstances other than those mentioned in point 1 above, to the extent the payment does not exceed contribution made prior to commencement of this act and interest thereon.



By way of transfer to the account of the employee under a pension scheme referred to in section 80CCD and notified by the CG.