

# Salary

## Table of content

- Basics
- Allowances
- Perquisites
- Retirement benefits
- Provident fund
- Deductions from Gross salary

## Salary

- Due or receipt basis w-e-e
- Salary paid in advance is taxable for the year when it is received.
- Bonus is taxable on receipt basis only.
- Forgoing of Salary
- Surrender of Salary to Co.
- Relief when Salary is paid in Arrears or in Advance

## Allowances (Monetary benefits)

Specified Allowances  
u/s 16(14)

Entertainment Allowance  
u/s 16(ii)

House Rent Allowance  
u/s 16(13A)

A. Depend upon Actual expenditure

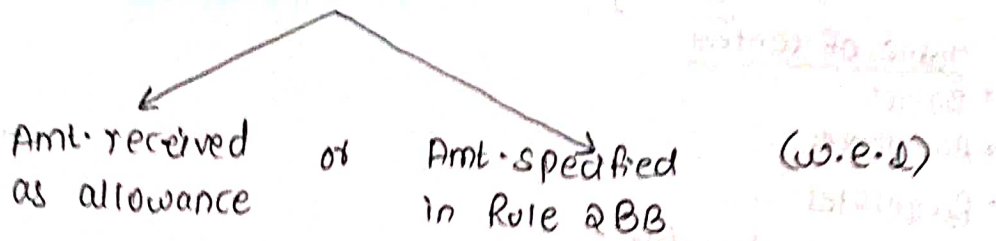
B. Do not depend upon Actual expenditure

### A. Depend upon the Actual expenditure (TOCHUA)

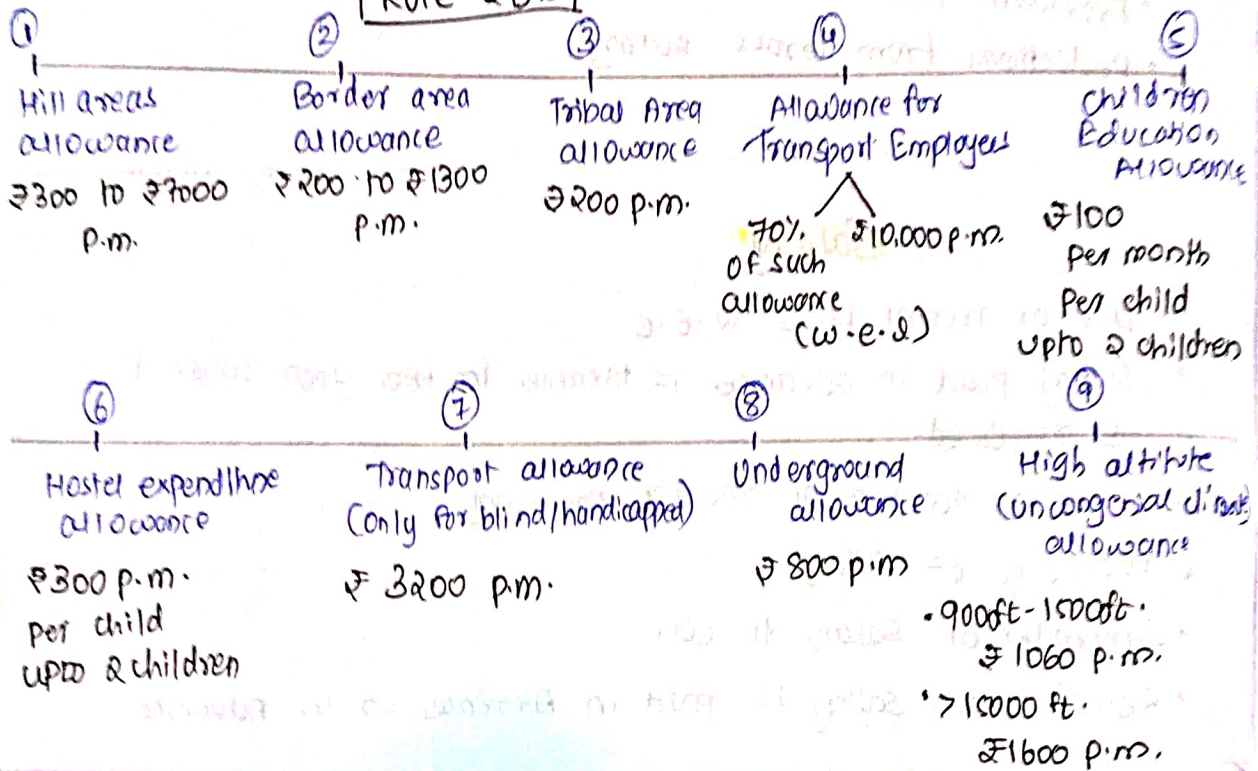
Amt. received as allowance or Actual expenditure (w-e-e)

1. Travelling Allowance
2. Daily Allowance
3. Conveyance Allowance
4. Helper Allowance
5. Uniform Allowance
6. Academic / Research Allowance

**B. Do not depend upon Actual expenditure**



**Rule 2BB**



**Entertainment Allowance**

**vis 16(Ci)**

(w.e.d.)

- ① Allowance Received
- ② 20% of Basic salary
- ③ ₹5000 p.a.

- Granted only for Government Employees
- Given to employees for entertainment of customers & Guests

**House Rent Allowance**

**vis 10(BA)**

- ① Actual HRA Received

- ② Rent paid - 10% Salary

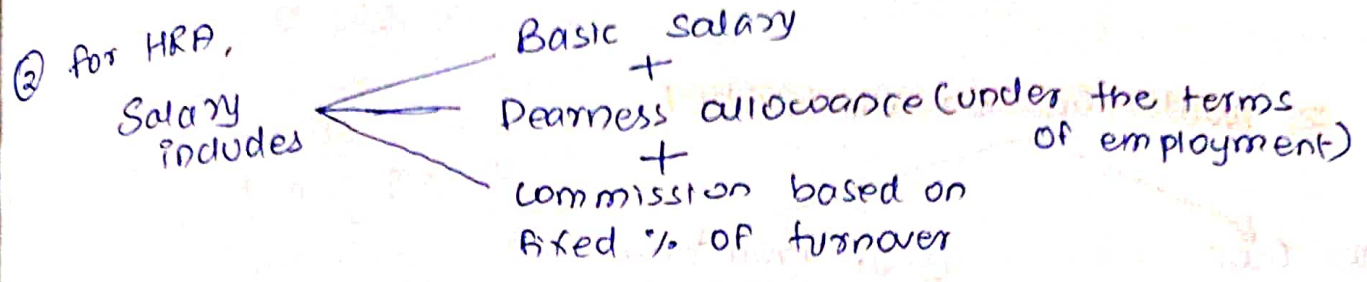
- ③ 50% of salary if house is in New Delhi, Mumbai, Chennai, Kolkata  
40% in other areas

(w.e.d.)

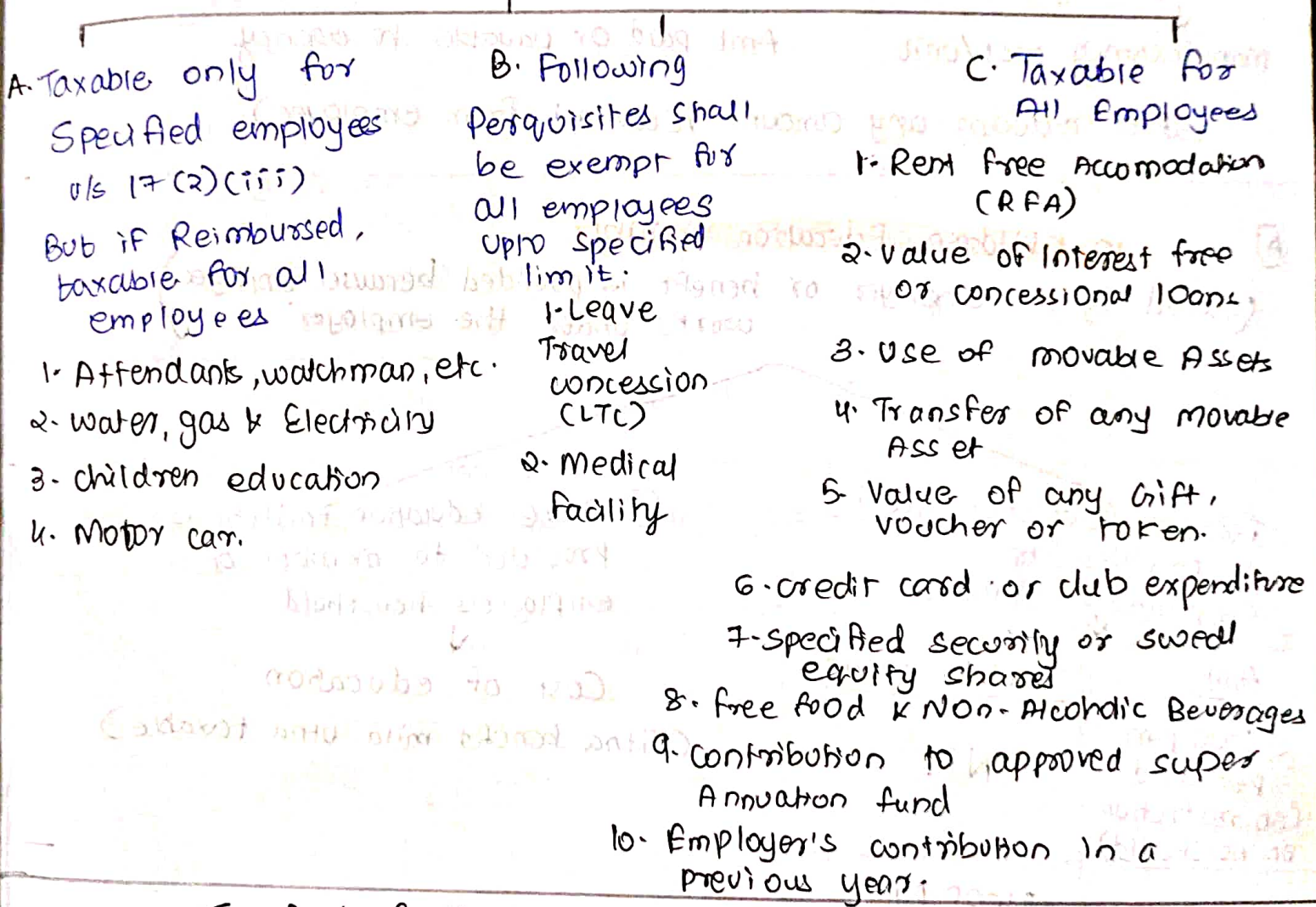
- Only for Old Regime

Notes on HRA

① HRA and salary are taken only for that period, during which house is taken on Rent.



Perquisites (benefit in kind)

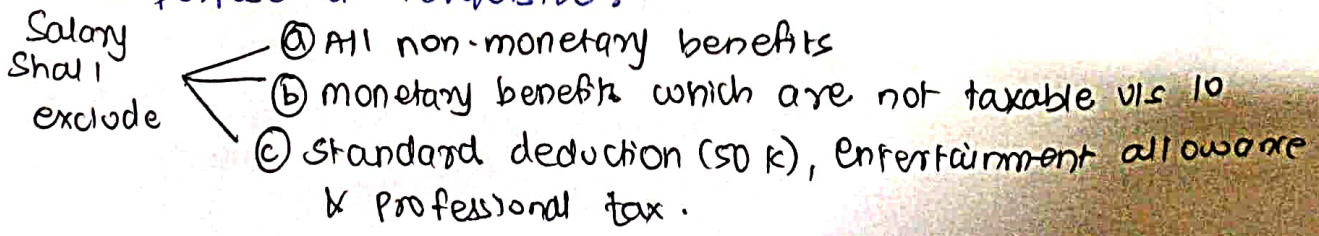


Specified Employee u/s 17(2)(iii)

An employee shall be specified emp. if he satisfies any one of the :

- ① Director of company
- ② Employee having Substantial interest (20% or more)
- ③ Employee having Salary of more than ₹ 50000 p.a.

for the purpose of Perquisite:



A] 1. Attendants, Sweeper, wardener, watchman etc.

Actual cost shall be taxable

(after reducing any amount which is paid by the employee)

A] 2. Water, Gas or Electricity

① If from Own Sources (Employer's)

Manufacturing cost/unit

② If from other Agencies

Amt. paid or payable to agency

(after reducing any amount recovered from employee)

A] 3. Children Education facility

(owned by the employer or benefit is provided because employee works under the employer)

① where Education facility is provided to Employee's children

② where education facility is provided to member of employee's household

Cost of education

(Jitna benefit mila utna taxable)

Amt.	Taxable value
≤ 1000 p.m. per child (no restriction on no. of child)	Nil
> 1000 p.m. per child	₹ 1000 p.m. per child

- Grand children & other members of household are included in ②
- Any amount recovered from employee shall be reduced
- Amt. of scholarship solely based on discretion is not taxable.

## 4. Motor Car

A)

① Car owned or hired by Employee & used by employee

② Car owned or hired by Employer & used by Employee

official	Partly official Partly personal	Personal
No value is taxable provided specified documents are maintained	Actual Expenditure by Employer	Actual Exp. by employees
	(-) ₹ 1800 p.m. (≤ 1.6 Ltr.)	(-) Recovered from employee
	₹ 2400 p.m. (CC > 1.6 Ltr.)	shall be taxable
	(-) ₹ 900 p.m. (for chauffeurs)	
	(-) Amt. recovered from employee	

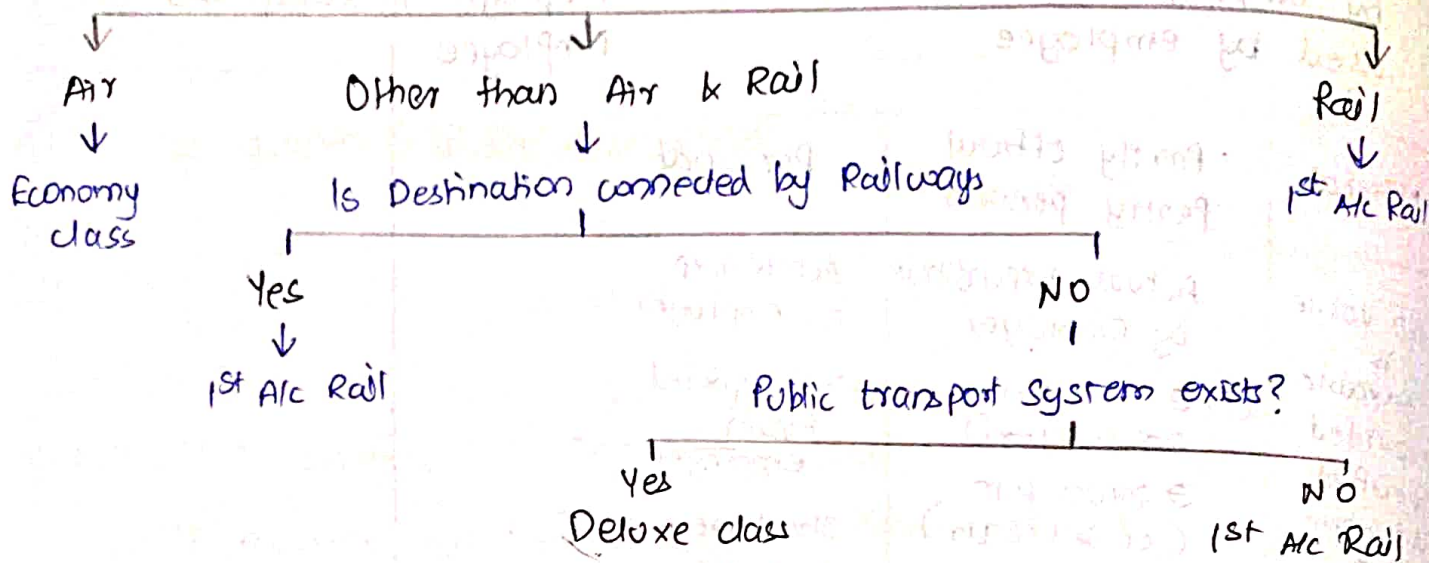
Official	Partly official		Partly Personal		Personal
	Cubic cap.	Amt.	Cubic cap.	Amt.	
No value is taxable provided specified documents are maintained	Running & maintenance cost incurred by :-				Actual exp. (running & maint.) + chauffeurs exp. + Depreciation 10% on SLM  (-) Amt. recovered from the employee  shall be taxable
	Employer (₹)		Employee (₹)		
	Cubic cap.	Amt.	Cubic cap.	Amt.	
	≤ 1.6 Ltr.	1800 p.m.	≤ 1.6 Ltr.	600 p.m.	
	> 1.6 Ltr.	2400 p.m.	> 1.6 Ltr.	900 p.m.	
	(+) ₹ 900 p.m. (for chauffeur compulsory)				
	shall be taxable				

Note: for point ②, Actual expenditure incurred by Employer is irrelevant. Running & maintenance cost is considered.

B]

**1. Leave Travel concession in India (LTC)**

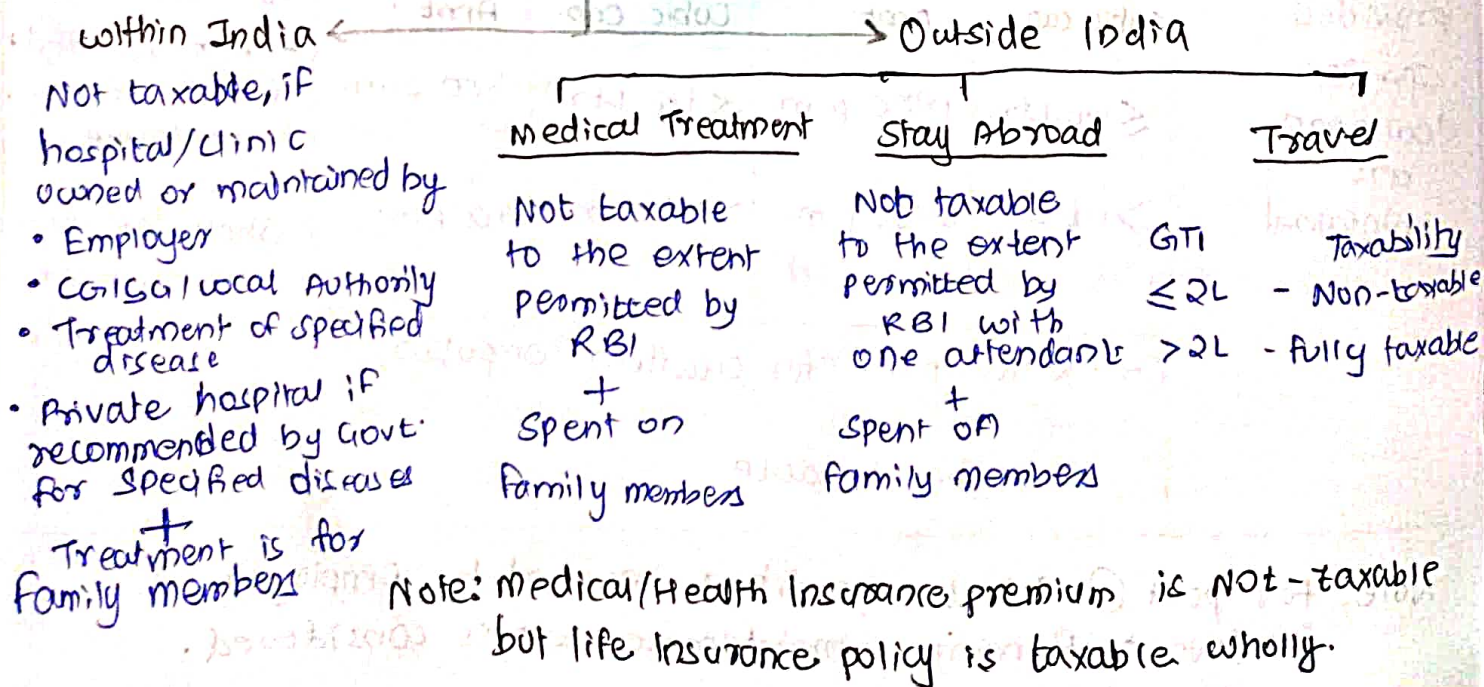
Journey framed by -



- LTC is a facility for visiting anywhere in India with family members. Members include children, spouse, & parents, brothers & sisters wholly dependent.
- Only 2 Journeys out of 4 calendar years are exempt.  
Block [2018-2021] If not availed one journey can be claimed in the first year of new block.  
Block [2022-2025]
- Exemption should not exceed actual expenditure
- Exemption shall be taken for Shortest Route
- Fare of more than 2 children shall not be allowed as deduction. But all children born before 1st Oct. 1993 are eligible for deduction. Multiple birth (twins) after one child shall also be exempt.

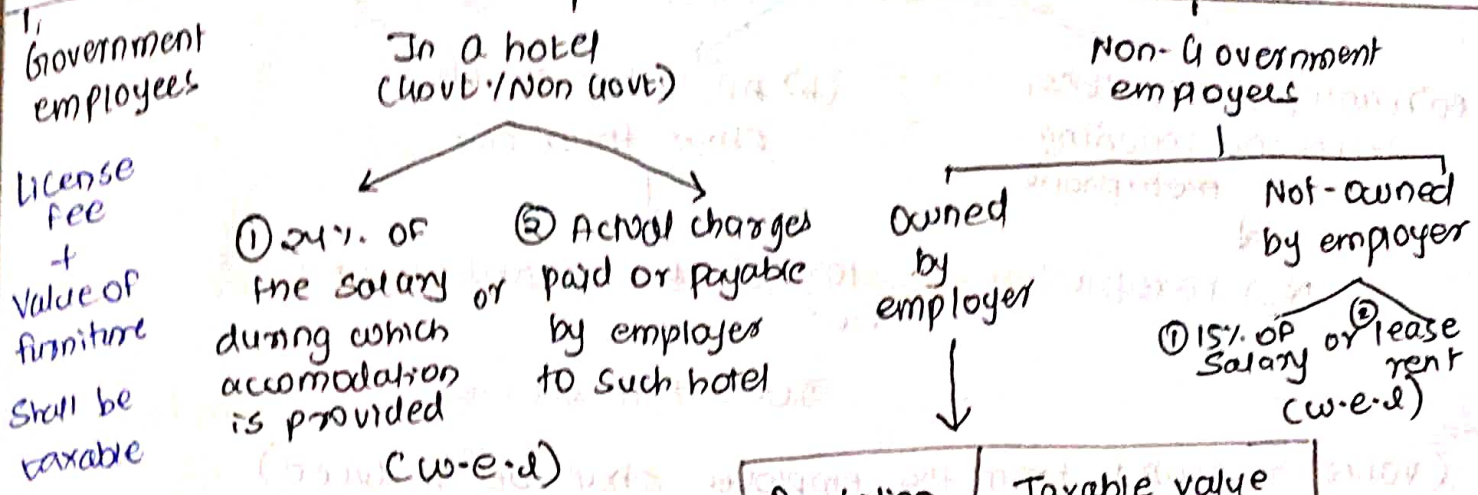
B]

**2. Medical facility**



c]

## 1. Rent free Accommodation



### Exception (Non-taxable)

- 1) Total period  $\leq 15$  days + 2) for employer's transfer

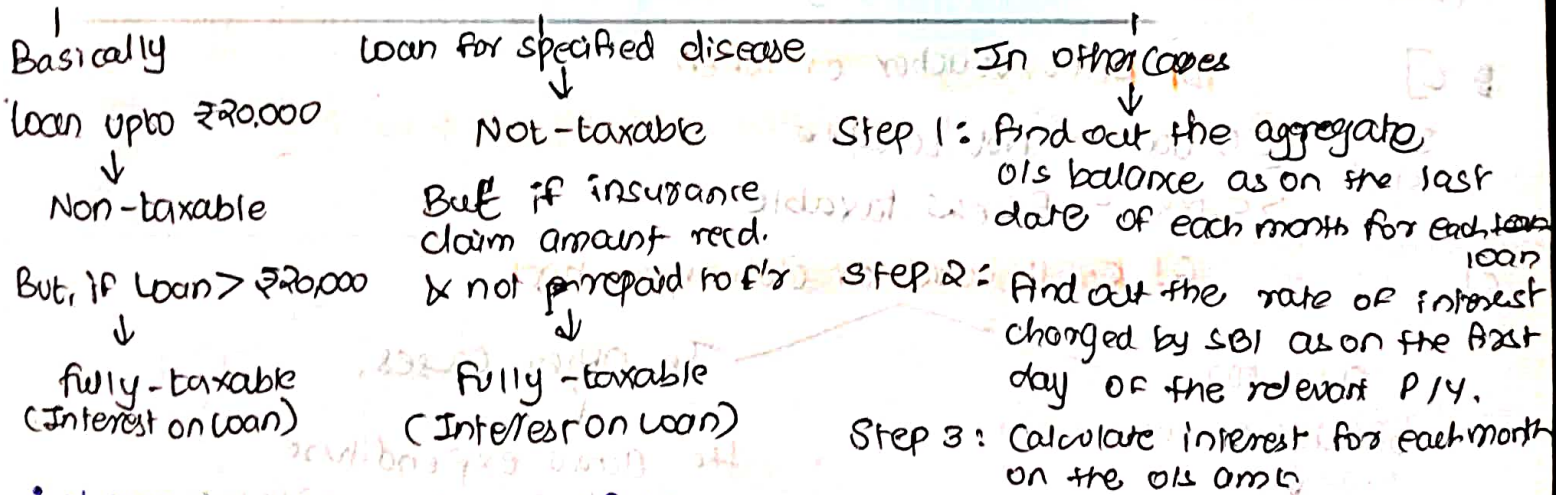
If provided more than 15 days, then perquisite exceeding 15 days shall only be taxable

Population	Taxable value
upto 10L	7.5% of salary
10L - 25L	10% of salary
Above 25L	15% of salary

Note: salary = Basic + D.A. + Bonus + commn. + Taxable portion of all allowances (pending) + cash payments from all employees.

c]

## 2. Interest free or concessional loans



• National interest on interest free security deposit given by the employer for a flat belonging to the employee taken on lease cannot be treated as perquisite.

- This perquisite is available to employee as well as member of household - It shall include a) spouse b) children and their spouses c) parent d) servants & dependants.

c]

### 3: Use of Movable Assets

(a) Laptops, computers, telephone including mobile, mobile phone

↓  
Non-taxable

(b) All other Assets other than car

↓  
10% of the actual cost  
P.A. or  
actual Hire charges

(Value recovered from the employer shall be reduced)

c]

### 4: Transfer of Any Movable Asset

Asset transferred	Taxable value
(a) computer & electronic items	Actual cost - 50% / completed yr on the basis of WDV
(b) Motor cars	Actual cost - 20% / completed yr on the basis of WDV.
(c) Other Assets	Actual cost - 10% / completed yr on the basis of SUM

(amt. recovered from the employee shall be reduced)

c]

### 5: Gift, Voucher or Token

In kind  $\leq 5,000$  - Not taxable

$> 5,000$  - Excess taxable

c]

### 6: Credit card or club expenditure

Only for official purpose  
↓

Not-taxable  
(provided specified document are maintained)

In other cases,  
↓

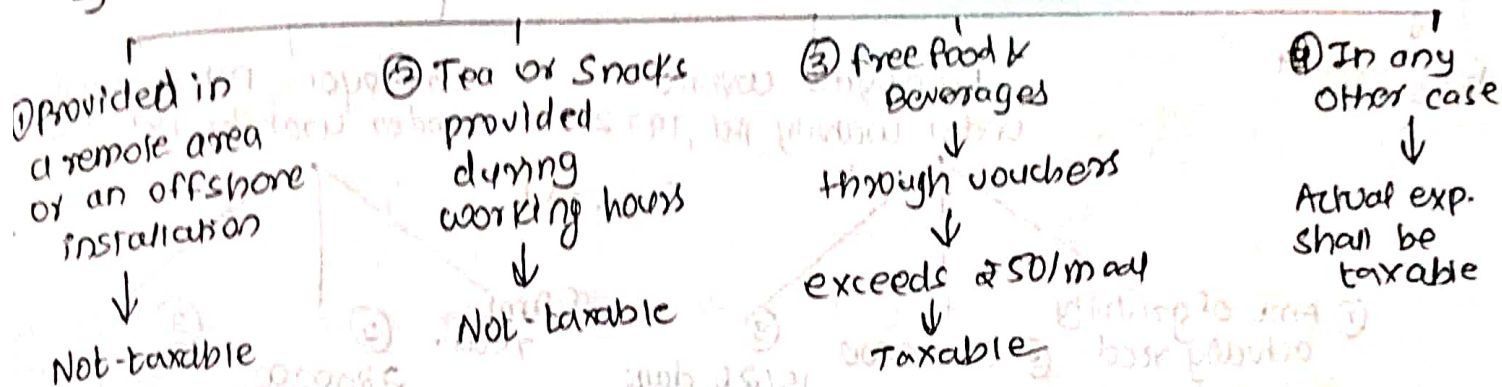
the actual expenditure incurred by the employer is taxable

- Employer obtains membership in his name → Not taxable
- Expenditure on health club, sport facility provided to employees → Not taxable
- Amount recovered from employee shall be reduced.

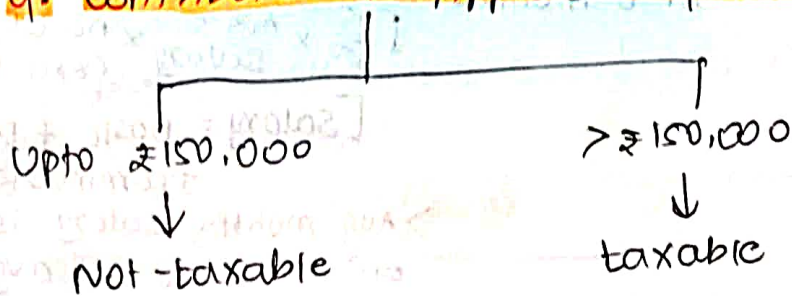
## 7: Specified Security or Sweat Equity share

Fair market value (as on the date of exercise)  
(→) Amt. recovered from employee (exercise price)  
Balance → Taxable

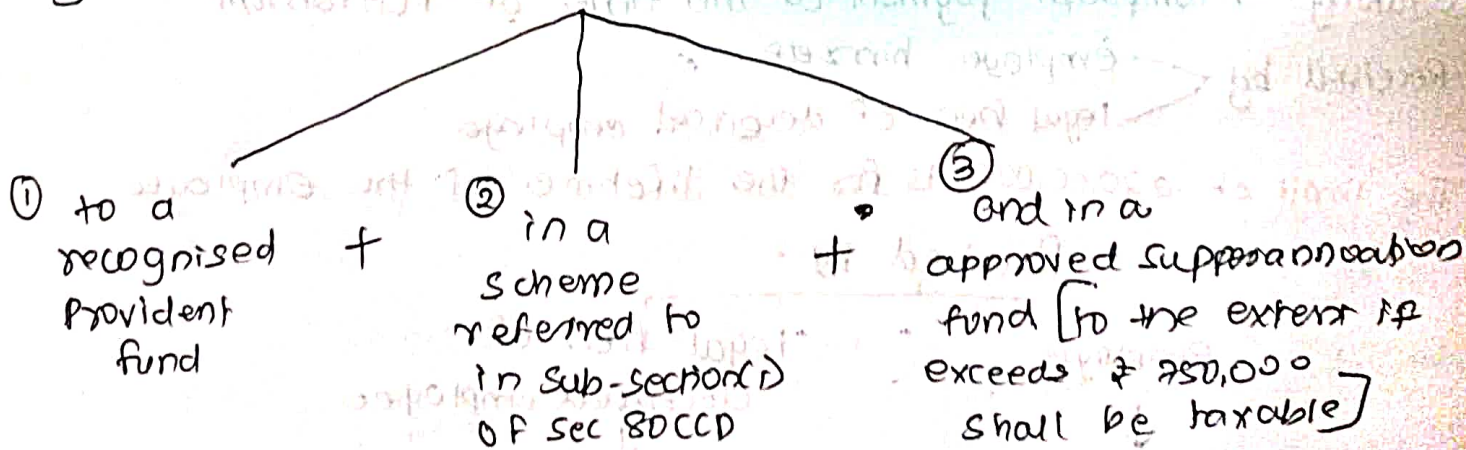
## 8: Free Food & Non-Alcoholic Beverages



## 9: Contribution To Approved Superannuation fund



## 10: Employer's contribution in a previous year



# Retirement Benefits

① Gratuity v/s 10(10)

② Pension v/s 10(10A)

③ Leave salary v/s 10(10AA)

④ Retrenchment compensation v/s 10(10B)

⑤ Voluntary Retirement v/s 10(10C)

## II: Gratuity v/s 10(10)

Govt. Employee, local Authority

↓  
fully exempt

Non-Government Employees

Employees covered under Gratuity Act, 1972

Employees not covered under Gratuity Act, 1972

① Amt. of gratuity actually recd.

② ₹20,00,000

③ 15/26 days salary for every completed year in excess of 6 months

$$\left[ \frac{15}{26} \times (\text{Basic} + \text{DA}) \times \text{no. of yrs. (incl. fractions)} \right]$$

$$[\text{Salary} = \text{Basic} + \text{DA}]$$

① Amt. recd.

② ₹20,00,000

③ 15/30 days avg. salary for every completed year ignoring fractions

$$\left[ \frac{15}{30} \times \text{Avg. Salary} \times \text{no. of years (incl. fractions)} \right]$$

$$[\text{Salary} = \text{Basic} + \text{DA (terms)} + \text{commission on T/O}]$$

> Avg. monthly salary is calculated on the basis of avg. salary for the 10 months immediately preceding the month in which the employee has retired.

• Gratuity → lumpsum payment at the time of Retirement

• Received by  $\left\{ \begin{array}{l} \text{employee himself} \\ \text{legal heir of deceased employee} \end{array} \right.$

• The limit of ₹20,00,000 is for the lifetime of the employee

• Received by -

Employee

legal heir of deceased employee

↓  
Taxable  
v/h Salary

↓  
Taxable  
v/h IFS

• In case of piece rated employees, for calculating 15 days, daily wages on average of total wages for 3 months preceding retirement (overtime excluded)

### 3. Leave salary vis 10(10A)

Govt. Employees → wholly Exempt

Non-Govt. Employees → Lower of the following

- ① Leave encashment actually received
- ② 300,000
- ③ 10 months avg. salary
- ④ Cash equivalent of unavailed leaves on the basis of

Step 1: Leaves actually allowed or

30 days/yr. (w-e.d)

Step 2: Leaves actually taken

← maximum 30 days for every year of service (ignoring fractions). It is calculated on the basis of average salary.

Step 3: 
$$\left[ (\text{Step-1} - \text{Step-2}) \times \frac{\text{Avg. monthly salary}}{30} \times \text{years of service} \right]$$

- Salary = Basic + DA (terms of employment) + commn. y. on T/o
- The limit of ₹300,000 is for the lifetime of employee
- Avg. Salary = 10 months salary immediately preceding date of retirement.
- Where leave encashment is recd. during employment, then it shall be taxable for all employees.

### 2. Pension vis 10(10A)

Uncommuted Pension

(Periodical payment)



Taxable for all employees

Commuted Pension

(Lumpsum payment)



State of employee	Gratuity Received/ not received	Exemption in respect of commuted pension vis 10(10A)
Govt./local/ statutory employee	may or may not be received	Entire commuted pension is exempt from tax
Non-govt. employee	gratuity is received	1/3rd of 100% commuted pension which he is normally entitled to receive.
Non-govt. employee	gratuity is not received	1/2 of 100% commuted pension which he is normally entitled to receive

#### 4. Retrenchment compensation u/s 10(10B)

(w.e.d)

(1) Amount Received

(2) ₹ 500,000

(3) 15/26 days avg. salary for every completed yr. + excess of 6 months.

$$\left[ \frac{15}{26} \times \text{Avg. salary} \times \text{no. of years (incl. fractions)} \right]$$

- Co-se employee ko nikalna
- Avg. salary for 3 months preceding the date of retrenchment is taken
- Salary excludes bonus and employer's PF contribution.

#### 5. Voluntary Retirement u/s 10(10C)

(w.e.d)

(1) Amount Received

(2) ₹ 500,000

(3) Amt. does not exceed

(i) 3 months salary for each completed yr. of service

$$(3 \times \text{Salary} \times \text{no. of completed yrs})$$

(ii) Salary multiplied by balance months of service left before the date of his retirement

$$(\text{Salary} \times \text{yrs. of service left} \times 12)$$

- Salary = Basic + DA (under the terms of employment) + comm. % on T10
- Exemption is allowed only for central/state government employees, PSUs, local authority, company, university, stat. corporation or notified institute of mgmt.

#### Provident fund

Particulars	Statutory PF (SPF)	Recognised provident fund (RPF)	Un-Recognised Provident fund (URPF)
Employer's contribution	Exempt	Exempt upto 12% Excess taxable	Exempt
Interest credited to PF	Exempt	Exempt upto 9.5% rate of Int. Excess taxable	Exempt
Repayment of lumpsum on retirement	Exempt	Exempt in some cases (note-ii). When not exempt, it shall be treated as URPF	Note - (iii)
Deduction u/s 80C on employer's contribution	Available	Available	Not Available

## Notes on Provident fund

① Salary = Same as HRA

② Interest due on RPF shall be taxable to the extent contributed by employee exceeding ₹200,000 in any previous year.  
Where there is no employer's contribution then the higher limit will be ₹500,000 instead of ₹200,000

③ Lump sum balance payable to employee in case of RPF shall be exempt in following situations.

(a) Served employer  $\geq$  5 years

(b) ~~Current~~ employer has been terminated because of reasons which are beyond control.

④ ~~to~~ Lump sum balance payable to employee in case of URPF shall be taxable as follows:

(a) Employer's contribution + Int. } taxable w/h Salaries

(b) Employee's contribution's Interest } taxable w/h IFS

⑤ Income deemed to be Received (Sec. 7)

- 1- The annual increase of interest in RPF in excess of 9.5% p.a.
- 2- Contribution of employer to RPF  $>$  12% Salary of employee
- 3- Transferred balance in a RPF from URPF.

## Deductions from Gross Salary (Sec. 16)

① Standard deduction  
v/s 16(ia)

↓  
₹50,000

but the amount of Deduction cannot exceed Gross salary

② Entertainment allowance  
v/s 16(ii)

↓  
As already discussed

③ Professional tax  
(tax on employment)

v/s 16(iii)

↓  
State Govt. / Local auth.

↓  
₹2500 p.a.

↓  
Receipt basis only

↓  
First included in salary then deduction shall be allowed.