

# Income under the head Salaries

## Lesson 4

### KEY CONCEPTS

- Salary ■ Allowance ■ Perquisites ■ Profit in lieu of Salary ■ Standard Deduction

### Learning Objectives

#### To understand:

- The Chargeability of Income under the head Salary.
- Impact of Section 115BAC on the computation of Salary Income
- The Computation of taxable value of Allowances, Perquisites, Profit in lieu of Salary.
- The various Deductions allowable under the head Salary
- The Computation of Income under the head Salary

### Lesson Outline

- Introduction
- Basis of Charge
- Impact of Section 115BAC under the head Salary
- Constituents of Salary
- Allowances
- Full Taxable Allowances
- Partly Taxable Allowances
- Perquisites
- Profits in lieu of Salary
- Provident funds - Treatment of Contributions to and Money Received from the Provident Fund
- Relief when Salary is paid in arrears or advance
- Deductions allowed from Salaries
- Computation of Salary Income
- Lesson Round-Up
- Test Yourself
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**REGULATORY FRAMEWORK**

Sections	Income Tax Act, 1961
Section 15	Basis of Charge / Chargeability
Section 16	Deductions
Section 16(ia)	Standard Deduction
Section 16(ii)	Entertainment Allowance
Section 16(iii)	Professional Tax
Section 17	Salary / Gross Salary
Section 17(1)	Salary
Section 10(5)	Leave Travel Concession
Section 10(10)	Gratuity
Section 10(10A)	Pension
Section 10(10AA)	Leave Encashment
Section 10(11)/(12)	Provident Fund
Section 10(13A)	House Rent Allowance
Section 10(14)	Special Allowances
Section 17(2)	Valuation of Perquisites
Section 17(3)	Profits in lieu of Salary
Section 89	Relief when salary is paid in arrears or advance

**INTRODUCTION**

The pre-requisite of any Income to be chargeable under the head salary is the *employer-employee relationship* existing between payer and payee and that is the primary basis on which the Income can be charged as “Salaries”. It is also important to note that the employment could be full time or part time, regularity doesn't matter, what matters is that the relationship should be *employer-employee*. The question whether a particular person receives the income in his capacity as an employee or not has to be decided from the facts of each case.

Let's examine the following cases, whether payments are chargeable under the head salaries:

- 1) Professor:** The professor of university would be receiving income by way of monthly salary from the university which is chargeable to tax under this head. But this does not mean that every item of income received by the employee from his employer would be taxable under this head. Thus, income by way of examiner-ship fees received by a professor from the same university in which he is employed would not

be chargeable to tax under this head but must be taxed as Income from other sources as per provisions of Section 56. This is because of the fact that the essential condition that the income in question must be received for services rendered in the ordinary course of employment & not otherwise. Thus, Income as examinership-fee would not be treated as Income under the head Salaries.

- 2) **Director:** A director of a company may, in some cases, be an employee of a company where there exists a specific contract of employment between Director and the Company. The fact that the same person has dual capacity in his relationship with the company does not mean that he cannot be taxed under this head. Any income arising to such a director who due to existence of Employer-Employee relationship (e.g. a managing director or other whole-time director) by virtue of his employment would be taxable as his income from Salaries whereas any income received by him as Sitting Fees (Directors Fee) for attending the meetings of the Board would be assessable under the head Income from Other Sources "IFOS".
- 3) **Official Liquidator:** An official liquidator appointed by the Court or by the Central government would also become an employee of the Central government under the Companies Act, and consequently the remuneration due to him would also be assessable under the head 'Salaries'.
- 4) **Manager:** Remuneration received by a manager of a company even if he is wrongly designated as a director or by any other name would be chargeable to tax under this head regardless of the fact that the amount is payable to him monthly or is calculated at a certain percentage of the company's profits.
- 5) **Partner of a Firm:** Salary paid to a partner by a firm is nothing but appropriation of profits. Any salary, bonus, commission, or remuneration by whatever name called due to or received by partner of a firm shall not be regarded as salary but has to be charged as income from business. It is because of the fact that the relationship between the firm and its partner is not of employer and employee.
- 6) **Member of Parliament:** According to a circular of the Board dated 22-5-1967, the salary received by a person as Member of Parliament will not be chargeable to income-tax under the head "Salaries" but as "Income from other sources" because a Member of Parliament is not an employee of the government but only an elected representative of the people.
- 7) **Treasurer of a Bank:** The income received by a treasurer of a bank would be taxable as his salary income if the treasurer is an employee of the bank. If he does not happen to be an employee, the income received by him would be taxable as "Income from other sources". for this purpose, the question whether in a particular case the treasurer is an employee or not has to be decided on the basis of the facts and circumstances of each case having due regard to his powers, responsibilities and functions.
- 8) **Person carrying on a Profession or Vocation:** Income derived by any person from carrying on a profession or vocation must be taxed as business income and not as salary income because employment is different from profession.
- 9) **Income from Tips** would be chargeable in the hands of the employees as income from other sources, as such tips being received from customers and not from the employer, Section 192 (TDS on Salary Income) would not get attracted. *ITC ltd. Vs Commissioner of Income-tax (TDS) (SC)*.
- 10) **Salaries received by Judges** is taxable under the head salaries even though they have no employer.  
[*Justice Deoki Nandan Agarwala Vs. Union of India (SC)*]
- 11) **Agent and Principal:** Any Commission or remuneration earned by an agent is not assessed as salary because Agent is not an employee of Principal.

In case an employee receives any money from his employer as part of the terms of employment for not carrying on any profession, such income must be taxed as salary income. for instance, the allowance given by employer

to a doctor employed by him for not carrying on a profession in addition to the employment would be income arising from employment in accordance with the terms and conditions of such employment and must, therefore, be taxed as salary income. If an employee gets money from persons other than his employer and if such money is not in any way related to the contract of services with the employer under whom he is working, the receipts, if taxable as income, must be assessed under the head “Income from other sources”.

However, gratuity, bonus, commission or other items of payment made by the employer without any specific stipulation in the contract of employment to this effect, would still be taxable as salary, because they are paid by the employer for the services rendered by the employee. The fact that such payments are voluntary and in certain circumstances may qualify for exemption from income-tax in the hands of the employee, would not affect the income being computed under the head salary.

**Salary paid Tax-Free:** In case the Tax on Salary paid to employee is borne by the Employer which in actual was to be borne by employee. Then such tax paid by the employer will be added in the Income of employee as Income under the head Salaries and later on subtracted from the tax liability of employee.

However, Section 10(10CC) of the Act exempts any Tax paid by employer on Value of Non-Monetary Perquisites in the hands of employee

#### **Foregoing of Salary VS. Surrender of Salary**

Once Salary Income has accrued to an Employee, its subsequent waiver by the employee does not make it exempt from Assessment of same & Tax Liability. Such waiver is simply application of Income. However, if an Employee surrenders his Salary to the Central Government as per Section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961 for Public Interest, the salary so surrendered shall not be made taxable.

#### **Contract of Service VS. Contract for Service**

In case of ‘Contract of Service’ the relationship of Employer and Employee exists as Master and Servant, where employer being master can direct and control the employee with regard to duties and performance. However, in case of ‘Contract for Service’ the relation of Master and Servant does not exist as the person performing the task does it as a freelancer and decides on his own how to proceed and achieve the target without being controlled.

**The provisions related to “Salaries” are contained as under:**



### **BASIS OF CHARGE [SECTION 15]**

**The charging section** states that, salary is taxable on “due” or “paid” basis whichever is earlier. That is, if it is due, it is included in taxable salary, irrespective of whether it is paid or not, and if it is paid, it is taxable, irrespective of whether it is due or not. Therefore, it is only logical to note that if it has already been taxed on due basis, the same cannot be taxed again when it is paid.

**Section 15:** The following income shall be chargeable to income-tax under the head “Salaries”

- (a) any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not;
- (b) any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him;
- (c) any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year.

*Explanation 1:* For the removal of doubts, it is hereby declared 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.

*Explanation 2:* 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.

Similarly, if a salary which was paid in advance, if it has already been taxed in the year of payment, it cannot subsequently be taxed when it becomes due. The same is explained in the table given below:

<i>Nature of salary</i>	<i>Is it Taxable as Income of the Previous Year 2025-26</i>
Salary becomes due during the previous year 2025-26 (whether paid during the same year or not)	Yes
Salary is received during the previous year 2025-26 (whether it becomes due in a subsequent year)	Yes
Arrears of salary received during the previous year 2025-26 although it pertains to one of the earlier years and the same were not taxed earlier on due basis	Yes
Arrears of salary received during the previous year 2025-26 although it pertains to one of the earlier years but the same were taxed earlier on due basis	No

**Accounting method of the employee not relevant:** It is worthwhile to mention that salary is chargeable to tax on “due” or “receipt” basis (whichever matures earlier) regardless of the fact whether books of account, in respect of salary income, are maintained by the assessee on mercantile basis or cash basis. Method of accounting cannot, therefore, vary the basis of charge fixed by section 15.

#### **Advance Salary vs Arrears of Salary:**

In case of receipt of Salary in advance by the employee, it will be charged to tax on receipt basis as Advance Salary in the year of receipt, and shall not be assessed again in the year when it becomes due.

Any increment in the Salary with retrospective effect from some past date which have not been taxed in the past, shall be taxed in the year in which it is allowed on receipt basis as Arrears of Salary.

**Place of accrual of salary income [Section 9(1)]** - Income under the head “Salaries” is deemed to accrue or arise at the place where the service (in respect of which it accrues) is rendered. Keeping in view the aforesaid general observation, the rules are given below:

- Under section 9(1)(ii), salary in respect of service rendered in India is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

- Pension paid abroad is deemed to accrue in India, if it is paid in respect of services rendered in India. Likewise, leave salary paid abroad in respect of leave earned in India is deemed to accrue or arise in India.
- Section 9(1)(iii), however, makes a departure from the aforesaid rule. By virtue of this section, salary paid by the Indian Government to an Indian national is deemed to accrue or arise in India, even if service is rendered outside India. Deeming provisions of section 9(1)(iii) are applicable only in respect of salary and not in respect of allowances and perquisites paid or allowed by the Government to Indian nationals working abroad, as such allowances and perquisites are exempt under section 10(7).

The provisions of section 9(1)(ii)/(iii) are summarized below (it is assumed that salary is paid at the place where service is rendered)

Situation	Who is employee	Who is employer	Is it taxable in India		
			Where service is rendered	Salary	Allowance/perquisite
Case 1	Indian citizen (resident or non-resident)	Government of India	Outside India	Yes	No (exempt)
Case 2	Non-resident (but not covered by case 1)	Any	Outside India	No	No
Case 3	Resident and ordinarily resident (but other than case 1)	Any	Anywhere	Yes	Yes

As per **Section 10(7)**, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt.

As per **Section 10(6)**, specific exemptions are provided to individuals who are not citizens of India as follows

#### **Remuneration of Foreign Diplomats and Officials [Sub-clauses (ii), (iii)]**

The provisions of Section 10(6)(ii)/(iii), provide a complete exemption from income tax on the remuneration received by foreign officials and their staff by whatever name called, of an embassy, high commission, legation, commission, consulate or the trade representation of a foreign State, or as a member of the staff of any of these officials, for service in such capacity in India (not holding office as such in an honorary capacity)

#### **Condition:**

This exemption is based on the principle of **reciprocity**. This means the exemption is available only if the foreign country in question offers a similar exemption to Indian officials serving in that country. This ensures a fair and balanced approach to international diplomacy.

In addition to their remuneration, the income of a foreign national who is a member of the official staff of these officials is also exempt, provided they are not a citizen of India and are not engaged in any business or profession in India.

#### **Remuneration of Foreign Employees [Sub-clause (vi)]**

The provisions of Section 10(6)(vi), exempts the remuneration of a foreign employee (individual who is not a citizen of India) working in India for a foreign enterprise, provided certain conditions are met.

#### **Conditions:**

- The foreign enterprise must **not be engaged in any business or profession in India**.

- (b) The employee's total stay in India during the previous year must **not exceed 90 days in the aggregate**.

The remuneration paid to the employee for their services in India **is not liable to be deducted from the income of the employer** chargeable under the Income Tax Act.

#### **Remuneration of Non-resident for Services on a Foreign Ship [Sub-clause (viii)]**

The provisions of Section 10(6)(viii), provides a specific exemption for non-resident individuals who receives remuneration for services rendered in connection with their employment on a foreign ship.

#### **Condition:**

The individual's total stay in India during the previous year should **not exceed 90 days in the aggregate**.

#### **Remuneration of Foreign Government Trainees [Sub-clause (xi)]**

The provisions of Section 10(6)(xi), provides an exemption for the remuneration of an employee of a foreign government who is in India for training in a government-owned or public sector undertaking. This clause is designed to promote training and knowledge transfer between nations.

#### **Condition:**

The training must be conducted in an establishment or office of the Government of India, any company where the entire paid-up share capital is held by the Central or State Governments, or a combination of both, an undertaking owned by the Government.

### **IMPACT OF SECTION 115BAC UNDER THE HEAD SALARY**

The below exemptions / deduction will not be allowed to the individual get salary and paying tax as per section 115BAC of the Income tax Act, 1961.

<b>Sr. No.</b>	<b>Nature of Exemption/Deduction Relating to Salaries</b>	<b>New System of Tax u/s 115BAC</b>	<b>Existing System of Tax</b>
<b>A</b>	<b>RETIREMENT BENEFIT EXEMPTIONS</b>		
	Leave Salary u/s 10(10AA)	Allowed	Allowed
	Gratuity u/s 10(10)	Allowed	Allowed
	Commutation of Pension u/s 10(10A)	Allowed	Allowed
	Retrenchment Compensation u/s 10(10B)	Allowed	Allowed
	VRS Compensation u/s 10(10C)	Allowed	Allowed
	Leave Travel Concession u/s 10(5)	Not Allowed	Allowed
<b>B</b>	<b>ALLOWANCES</b>		
	Exemption u/s 10(13A) and Rule 2A House Rent Allowance	Not Allowed	Allowed

Sr. No.	Nature of Exemption/Deduction Relating to Salaries	New System of Tax u/s 115BAC	Existing System of Tax
1.	<b>Exemption u/s 10(14)(i) and Rule 2BB</b> – any such special allowance or benefit, not being in the nature of a perquisite specifically granted to meet expenses wholly, necessarily and exclusively incurred in the performance of the duties of an office or employment of profit to the extent to which such expenses are actually incurred for that purpose.		
	Travelling Allowance to meet the cost of tour or on transfer	Allowed	Allowed
	Conveyance Allowance in performance of duties of on office or employment of profit	Allowed	Allowed
	Daily Allowance for the period of journey in connection with transfer	Allowed	Allowed
	Helper Allowance	Not Allowed	Allowed
	Any allowance granted for encouraging the academic, research and training pursuits in educational and research institutions	Not Allowed	Allowed
	Uniform Allowance	Not Allowed	Allowed
2.	<b>Exemption u/s 10(14)(ii) and Rule 2BB</b> any such allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides, or to compensate him for the increased cost of living..		
	Children Education Allowance	Not Allowed	Allowed
	Hostel Expenditure Allowance	Not Allowed	Allowed
	Tribal Area Allowance	Not Allowed	Allowed
	Transport Allowance to Handicapped/Deaf/Dumb/Blind employee	Allowed	Allowed
Transport Allowance to other than above employees	Not Allowed	Not Allowed	
C	<b>Perquisites</b>		
	Free food and beverage through vouchers provided to the employee upto Rs. 50/meal/Tea & snacks	Not Allowed	Allowed
	Other exemptions from perquisites e.g. use of Computers, laptops etc	Allowed	Allowed
D	<b>Deductions u/s 16</b>		
	Standard Deduction u/s 16(i)	Allowed	Allowed
	Entertainment Allowance u/s 16(ii)	Not Allowed	Allowed
	Professional Tax u/s 16(iii)	Not Allowed	Allowed

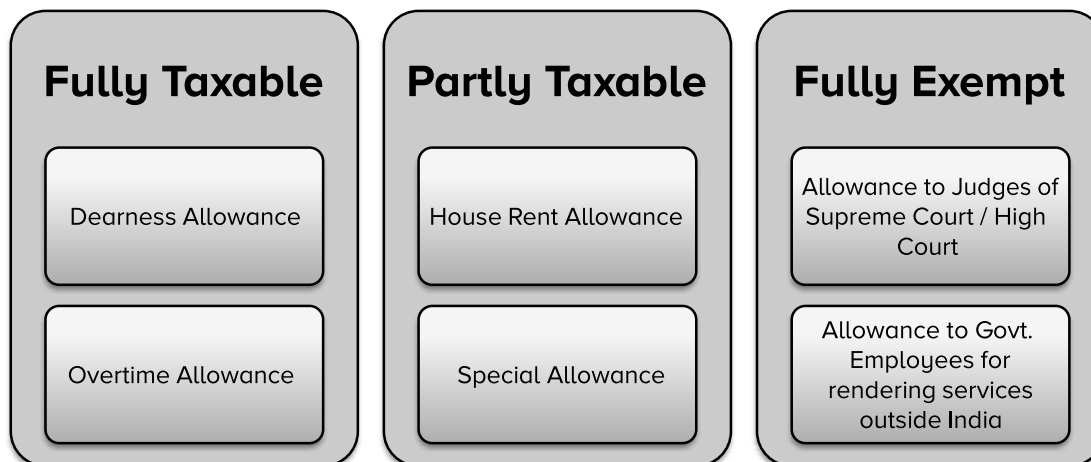
**CONSTITUENTS OF SALARY [SECTION 17]****Salary [Section 17(1)]:**

Salary is defined to include the following:

- wages;
- any annuity or pension;
- any gratuity;
- any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages;
- any advance of salary;
- any payment received by an employee in respect of any period of leave not availed by him;
- the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognised provident fund to the extent it is taxable;
- transferred balance in a recognised provident fund to the extent it is taxable; and
- the contribution made by the Central Government or any other employer to the account of an employee under a notified pension scheme referred to in section 80CCD.
- the contribution made by the Central Government in the previous year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 80CCH.

**ALLOWANCES**

An allowance is defined as a fixed amount of money given periodically in addition to the salary for the purpose of meeting some specific requirements connected with the service rendered by the employee or by way of compensation for some unusual conditions of employment. It is taxable on due/accrued basis whether it is paid in addition to the salary or in lieu thereon. These allowances are generally taxable and are to be included in the gross salary unless a specific exemption has been provided in respect of allowances provided under the Act.



FULLY TAXABLE ALLOWANCES		
Sr. No.	Heading	Details
1.	Dearness Allowance, Additional Dearness Allowance and Dearness Pay	This is a very common allowance these days on account of high prices. Sometimes Additional Dearness Allowance is also given. It is included in the income from salary and is fully taxable. Sometimes it is given under the terms of employment and sometimes without it. When it is given under the terms of employment it is included in salary for purposes of determining the exemption limits of house rent allowance, recognised provident fund, gratuity and value of rent free accommodation and is also taken into account for the purposes of retirement benefits.
2.	Fixed Medical Allowance	Fully Taxable.
3.	Tiffin Allowance	It is given for lunch and refreshments to the employees. It is taxable.
4.	Servant Allowance	It is fully taxable even if it is given to a low paid employee, not being an officer, i.e., it is taxable for all categories of employees.
5.	Non-practicing Allowance	It is generally given to those medical doctors who are in government service and they are banned from doing private practice. It is to compensate them for this ban. It is fully taxable.
6.	Hill Allowance	It is given to employees working in hilly areas on account of high cost of living in hilly areas as compared to plains. It is fully taxable, if the place is located at less than 1,000 metres height from sea level.
7.	Warden allowance and Proctor Allowance	These allowances are given in educational institutions for working as Warden of the hostel and/or working as Proctor in the institution. These allowances are fully taxable.
8.	Deputation Allowance	When an employee is sent from his permanent place of service to some other place or institution or organisation on deputation for a temporary period, he is given this allowance. It is fully taxable.
9.	Overtime Allowance	When an employee works for extra hours over and above his normal hours of duty he is given overtime allowance as extra wages. It is fully taxable.
10.	Other Allowances	Like family allowance, Project allowance, Marriage allowance, City Compensatory allowance, Dinner allowance, Telephone allowance etc. These are fully taxable.

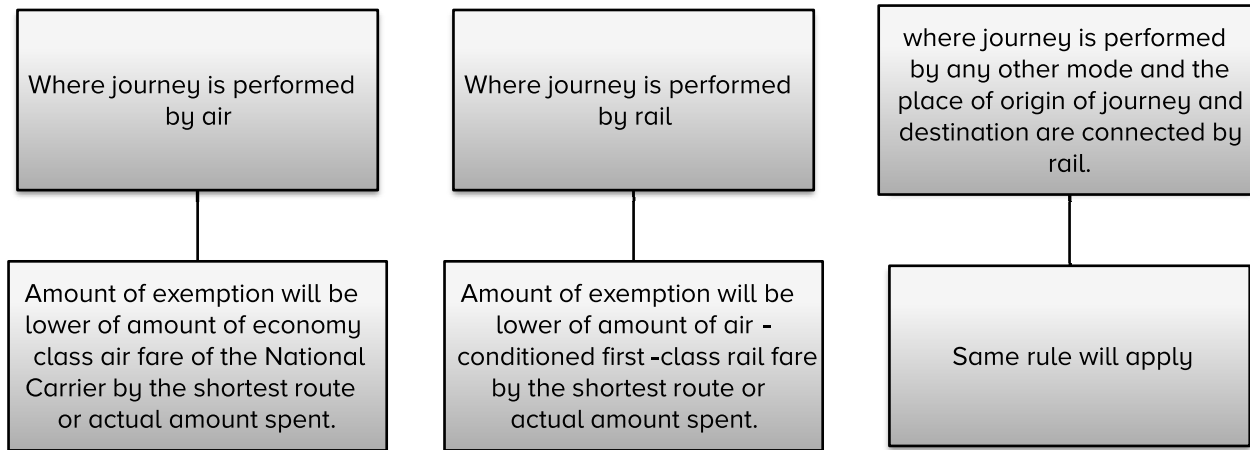
### PARTLY TAXABLE ALLOWANCES

#### Leave Travel Concession [Section 10(5)]

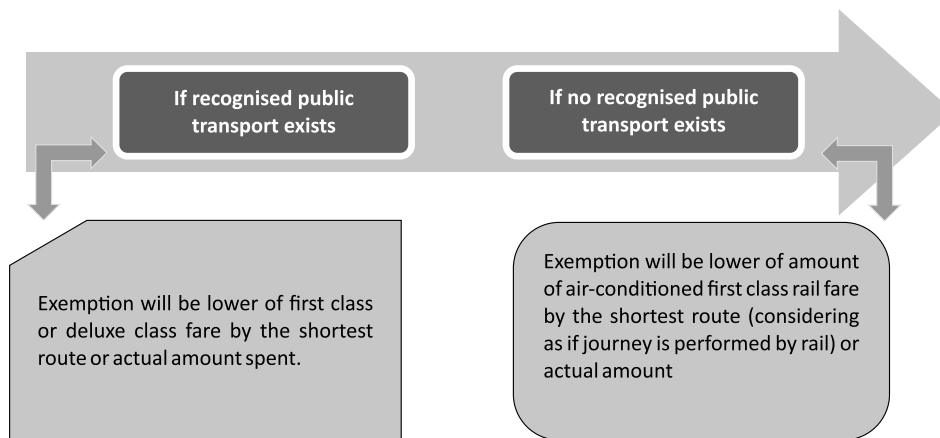
An employee can claim exemption under section 10(5) in respect of Leave Travel Concession. Exemption under section 10(5) is available to all employees (i.e., Indian as well as foreign citizens). Exemption is available in respect of value of any travel concession or assistance received or due to the employee from his employer

(including former employer) for himself and his family members in connection with his proceeding on leave to any place in India.

Other provisions to be kept in mind in this regard are as follows:



Where the place of origin and destination are not connected by rail and journey is performed by any mode of transport other than by air. The exemption will be as follows:



**Block:** Exemption is available for 2 journeys in a block of 4 years. The block applicable for current period is calendar year 2022-25. The previous block was of calendar year 2018-21.

**Carry over:** If an employee has not availed of travel concession or assistance in respect of one or two permitted journeys in a particular block of 4 years, then he is entitled to carry over one journey to the next block. In this situation, exemption will be available for 3 journeys in the next block. However, to avail of this benefit, exemption in respect of journey should be utilised in the first calendar year of the next block. In other words, in case of carry over, exemption is available in respect of 3 journeys in a block, provided exemption in respect of at least 1 journey is claimed in the first year of the next block. Exemption is in respect of actual expenditure on fare, hence, if no journey is performed, then no exemption is available.

**Family:** Family will include spouse and children of the individual, whether dependent or not and parents, brothers, sisters of the individual or any of them who are wholly or mainly dependent on him. Exemption is restricted to only 2 surviving children born after October 1, 1998 (multiple births after first single child will be considered as one child only), however, such restriction is not applicable to children born before October 1, 1998.

**CASE LAW**

21.01.2009

*Commissioner of Income tax & ANR v. M/s Larsen & Toubro Ltd.*

Supreme Court

**Whether the assessee(s) was under statutory obligation under Income Tax Act, 1961, and/or the Rules to collect evidence to show that its employee(s) had actually utilized the amount(s) paid towards Leave Travel Concession(s)/Conveyance Allowance?**

**Judgement:** The Honourable Supreme Court of India has considered the question whether the employer has any obligation under the Act/Rules to collect evidence to show that the employee had actually utilized the amount paid towards LTA. The Hon'ble Supreme Court of India observed that the beneficiary of exemption under Section 10(5) is the individual employee. It also referred to the annual circular issued by the CBDT under Section 192 where under guidance is given to employers on the manner in which tax is required to be deducted from salary paid to employees. The Court has held that the said Circular did not require an employer to examine the supporting evidence to the declaration submitted by an employee as far as LTA is concerned. Based on this, the Court has held that the employer has no obligation to collect such evidence or to verify the claim.

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

House Rent Allowance (HRA) received by any employee is exempt to the extent of least of the following:

- 50% of Salary for Metro Cities (Delhi, Mumbai, Kolkata and Chennai), else 40% of Salary
- HRA actually received
- Rent paid minus 10% of Salary

**Note:**

- Salary for the purposes of HRA = Basic + DA (if forming part of salary/retirement benefit) + Commission as a fixed % of Turnover.

**Illustration 1:**

VVir is employed with happiness Solutions Ltd. and during the FY 2025-26. He had a Basic Pay of INR 75000 per month. Owing to his good performance at workplace, he was given an annual increment in his Salary of 20% effective Feb 2026. He also received during the year, a Dearness Allowance of 100% of Basic (however only 50% of which was included as per his terms of employment). The Company also gave him HRA of INR 30000 per month, which was increased to INR 35000 per month effective Jan 2026. He stayed at his parental home in Ahmedabad for Apr and May 2025, post which he took up a Rented Accommodation at Surat at a monthly rental of INR 26000. Effective Nov 2025, he was moved to Mumbai to the Corporate office, and he took up an accommodation at Mumbai at a monthly rental of INR 36000. You are required to compute the HRA exempt from Tax and the Gross Salary.

**Solution:**

The computation of HRA exempt from tax would have to be done on a monthly basis as the salary and rental figures changed during the year, in the manner provided below.

Item	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Basic	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	90,000	90,000	9,30,000

D.A.	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	45,000	45,000	-
Salary for HRA	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,35,000	1,35,000	-
Accommodation	Own	Own	Surat	Surat	Surat	Surat	Surat	Mumbai	Mumbai	Mumbai	Mumbai	Mumbai	-
40% or 50% of Salary	-	-	45,000	45,000	45,000	45,000	45,000	56,250	56,250	56,250	67,500	67,500	-
HRA Actually Recd	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	35,000	35,000	35,000	3,75,000
Rent - 10% Salary	-	-	14,750	14,750	14,750	14,750	14,750	24,750	24,750	24,750	22,500	22,500	-
Min	-	-	14,750	14,750	14,750	14,750	14,750	24,750	24,750	24,750	22,500	22,500	1,93,000

**Note:**

- (1) For the stay at Surat, 40% of Salary and for stay at Mumbai, 50% of Salary is considered for one of the parameters for exemption.
- (2) DA, only to the extent of it being included per terms of employment, is included in Salary for the purposes of HRA.

Please note: Computation of Gross Salary for the PY 2025-26

<i>Particulars</i>	<i>(Rs.)</i>	<i>(Rs.)</i>
Basic Salary (75000 x 10 + 90000 x 2)		9,30,000
Dearness Allowance (100% of Basic)		9,30,000
HRA	3,75,000	
Less: exempt u/s 10(13A)	(1,93,000)	1,82,000
<b>Gross Salary</b>		<b>20,42,000</b>

**Note:** It is assumed that assessee has not opted u/s 115BAC, otherwise exemption u/s 10(13A) of Rs.1,93,000 will not be available. In that case, gross Salary would be Rs.22,35,000

**Special Allowances [Section 10(14) read with rule 2BB]**

- i) All special allowances specifically granted to meet expenses, incurred, for the purposes of performance of duties
  - a) Wholly
  - b) Exclusively &
  - c) Necessarily

These are exempt to the extent such expenses are actually incurred or the amount received whichever is less. *Examples include, Travelling & Conveyance, Relocation, Helper & Uniform Allowances. (no cap or upper limit)*

- ii) Special allowances granted to an assessee either to meet his personal expenses at the place of duty or to compensate for increased cost of living. Allowances which are granted to meet personal expenses are exempt to the extent of amount received or the limits specified whichever is less.

Examples include,

- a) Tribal Area Allowance capped to INR 200 per month is exempt.
- b) Children Education Allowance capped to INR 100 per month (per child, max 2 children) is exempt.
- c) Hostel Expenditure Allowance capped to INR 300 per month (per child, max 2 children) is exempt.
- d) Transport Allowance for handicapped capped at INR 3200 per month is exempt.

Besides the above there are compensatory allowances for hilly areas, and for work in difficult conditions too.

As per section 10(14), read with rule 2BB following allowances granted to an employee are exempt from tax subject to certain limit:

<b>Allowances</b>	<b>Exemption Limit</b>
Children Education Allowance	Up to Rs. 100 per month per child up to a maximum of 2 children is exempt
Hostel Expenditure Allowance	Up to Rs. 300 per month per child up to a maximum of 2 children is exempt
Transport Allowance granted to an employee to meet expenditure on commuting between place of residence and place of duty.	Only Rs. 3,200 per month for blind, handicapped, deaf and dumb employees is exempt
Allowance granted to an employee working in any 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: <ol style="list-style-type: none"> <li>a) 70% of such allowance; or</li> <li>b) Rs. 10,000 per month</li> </ol>
Conveyance Allowance granted to meet the expenditure on conveyance in performance of duties of an office	Exempt to the extent of expenditure incurred for official purposes
Travelling Allowance to meet the cost of travel on tour or on transfer for official purpose	Exempt to the extent of expenditure incurred for official purposes
Daily Allowance to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty	Exempt to the extent of expenditure incurred for official purposes

<b>Allowances</b>	<b>Exemption Limit</b>
Helper/Assistant Allowance	Exempt to the extent of expenditure incurred for official purposes
Research Allowance granted for encouraging the academic research and other professional pursuits	Exempt to the extent of expenditure incurred for official purposes
Uniform Allowance	Exempt to the extent of expenditure incurred for official purposes
Special compensatory Allowance (Hilly Areas) (Subject to certain conditions and locations)	Amount exempt from tax varies from Rs. 300 to Rs. 7,000 per month
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.
Tribal 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
Compensatory Field Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations)	Up to Rs. 2,600 per month
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)	Up to Rs. 1,000 per month
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 (Subject to certain conditions and locations)	Up to Rs. 3,900 per month
Underground Allowance to employees working in uncongenial, unnatural climate in underground mines	Up to Rs. 800 per month
High Altitude Allowance granted to armed forces operating in high altitude areas (Subject to certain conditions and locations)	a) Up to Rs. 1,060 per month (for altitude of 9,000 to 15,000 feet) b) Up to Rs. 1,600 per month (for altitude above 15,000 feet)

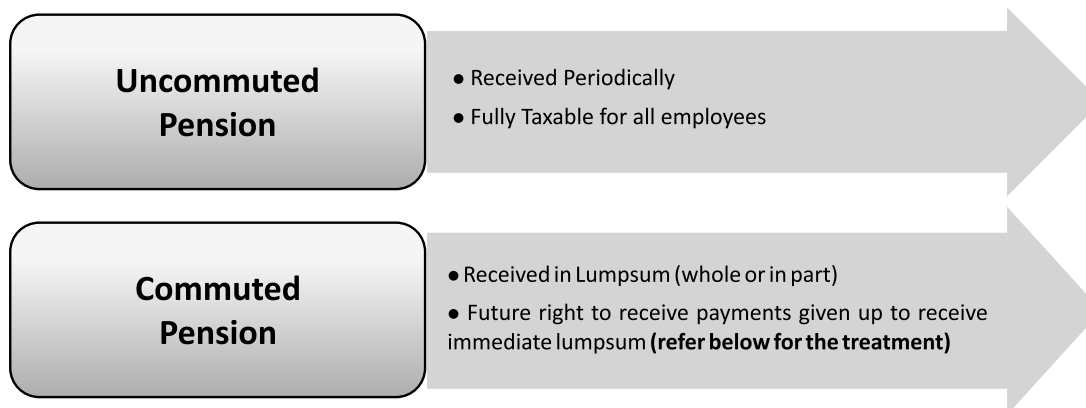
**Note: Allowances**

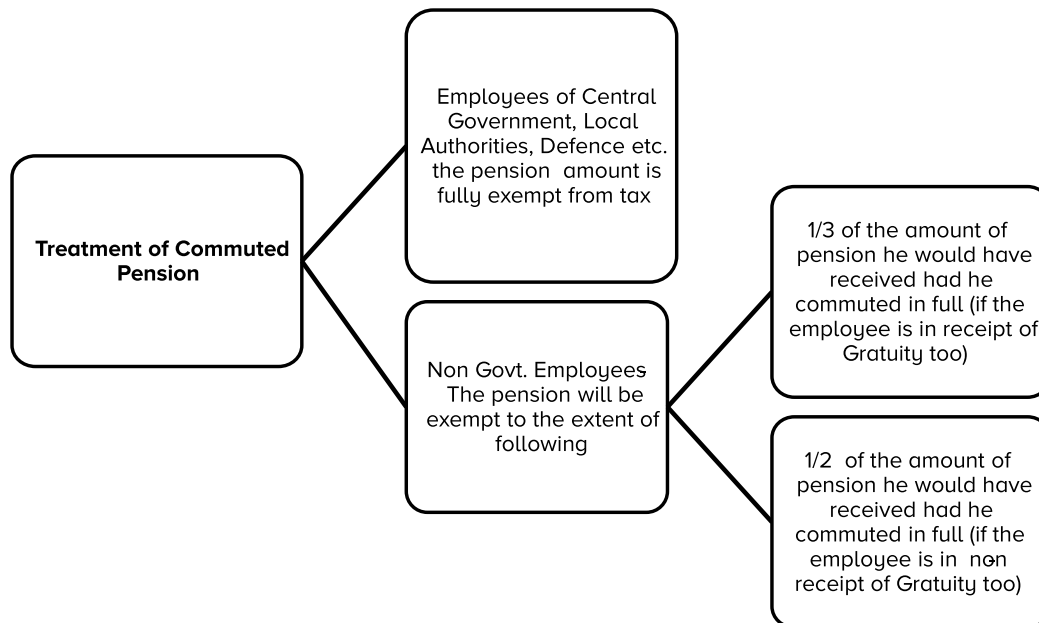
1. **Fully Taxable under both regimes:** Entertainment, Transport, City Compensatory Allowance
2. **Partially Taxable/Exempt under both regimes:** Daily; Travelling; Conveyance Allowance u/s 10(14)(i) and Transport Allowance u/s 10(14)(ii)
3. **Fully Exempt under both regimes:** Section 10(7) Allowances payable outside India to Citizens of India by Government of India
4. **Fully Exempt under Optional Regime (Fully Taxable under Default Regime):**
  - Allowance received from UNO to its employees (as per provisions of United Nations (Privileges & Immunities) Act, 1947
  - Allowances/Sumptuary Allowance to Judges of SC and HC (as per Section 22A(2) of the High Court Judges (Condition of Service) Act, 1954 and Section 23(1A) of the Supreme Court Judges (Salaries and conditions of services) Act, 1958 (*Exemption as per Respective Acts and not the Income Tax Act*)
5. **Partially Exempt under Optional Regime (Fully Taxable under Default Regime):**
  - Section 10(13A) - HRA exemption
  - Section 10(14)(i) – Uniform; Helper; Research Allowance
  - Section 10(14)(ii) – Children Education; Hostel Expenditure; Underground; Island Duty; High Altitude; Counter Insurgency; Compensatory Allowances & Allowance given to EE's working in Transport System

**Annuity / Pension**

Annuity is a yearly payment to an employee post his retirement on account of the funds that were saved by him by way of subscription to the annuity fund vide his salary when he was in employment. Annuity received from the *present employer is chargeable to tax as Salary and any amount received from the past employer is chargeable to tax as Profits In lieu of Salary.*

Pension however is generally paid by the Government or a Company to the employee for his past service and this too is payable after the retirement. This pension so received could be commuted / uncommuted, explained as under:

**Treatment of Commuted Pension u/s 10(10A)**

**Illustration 2:**

Arjun retired on 15-4-2025 from X Company Ltd. He was entitled to a pension of Rs. 20,000 p.m. At the time of retirement, he got 75% of the pension commuted and received Rs. 4,50,000 as commuted pension. Compute the taxable portion of the commuted pension if:

1. He is also entitled to gratuity.
2. He is not entitled to gratuity.

**Solution :**

1. 75% of commuted pension is equal to Rs. 4,50,000. Hence commuted value of 1/3 of the pension would amount to Rs.  $4,50,000 \times 100 / 75 \times 1/3 = \text{Rs. } 2,00,000$ ; Rs. 2,00,000 would, therefore be exempt and balance Rs. 2,50,000 would be taxable.
2. 75% of commuted pension is equal to Rs. 4,50,000 hence commuted value of 50% of pension amount to  $4,50,000 \times 100 / 75 \times 1/2 = \text{Rs. } 3,00,000$ . Therefore, Rs. 3,00,000 would be exempt and Rs. 1,50,000 would be taxable.

**Gratuity [Section 10(10)]**

Gratuity is normally paid in lieu of the long-term service of an employee (usually > 5 years). Gratuity is received by any employee while in employment then it is fully taxable in the hands of employee. While if gratuity is received in case of death or retirement or resignation, then exemption is available up to the following limits.

- a) for the Central / State government employees and for the members of the Defence Services, any amount received as gratuity at the time of retirement/death is fully exempt.
- b) for all other employees in the private sector:
  - In case the employee is covered under the Payment of gratuity Act, 1972, any death-cum-retirement gratuity is exempt to the extent of least of the following:
    - i. INR 20,00,000
    - ii. Gratuity actually received

- iii. 15 days' salary based on salary last drawn for each year of service or part thereof in excess of 6 months.

**For example** – If you have put in 11 years and seven months in an organization, your service period will be taken to be 12 years. But if your service tenure is 11 years and five months, then for the purpose of this calculation your tenure will be taken to be 11 years only.

*Note:* Here Salary would mean (Basic + DA) and number of days in the month to be assumed to be 26.

- In case the employee is not covered under the Payment of gratuity Act, 1972, any death-cum-retirement gratuity is exempt to the extent of least of the following:
  - i. INR 20,00,000
  - ii. Gratuity actually received
  - iii. Half months' Salary based on last 10 months' average salary drawn immediately preceding the month of retirement / death, for each completed year of service (fraction of year to be ignored).

*Note :* Here Salary would mean Basic + DA (only to the extent of forming part of the retirement benefits) + Commission as a % of Turnover and number of days in the month to be taken at 30.

#### Important Points:

1. If employee has received gratuity from any of his past employer, then the amount of gratuity exempted earlier shall be reduced from Rs. 20,00,000.
2. If employee has not received gratuity from any of his past employer, then the period of past employment shall also be considered for calculating years of service.
3. In case of death of the employee, it has to be paid to the nominee or the legal heir of the employee. In this case, the exemption is calculated in the same manner as above and is taxed for the receiver under the head "Income from Other Sources".

#### **Illustration 3:**

A pensioner from Maharashtra State government retired in December 2015 receiving an amount of Rs. 10,00,000 as gratuity. But thereafter, he received a further amount of Rs. 1.20 lakhs in April 2018 consequent on revision of pay. At the time of his retirement the exemption limit was Rs. 10 lakh. Is he eligible for the higher exemption limit under Section 10(10) available at the time of receipt. The higher limit of Rs. 20 lakhs is raised by dated 29.03.2018 S.O. 1420(E) notification.

#### **Solution:**

Every time the limit has been raised, such limit has only referred to the retirement on or after the date on which it was raised. Hence the limit on the date of retirement time would alone have to be considered, so exemption with reference to the enhanced limit will not apply in this case. Since the assessee is a government pensioner. There is no ceiling for Central or State pensioners. If assessee is a retiree from the civil service of a State or held a civil post under a State or had even been an employee of a local authority, the gratuity amount, that is received, is totally exempt vide Section 10(10)(i) of the Income-tax Act irrespective of the date of retirement or the notification.

Further for government pensioners maximum gratuity amount was increased to Rs. 20 lakh with effect from 01/01/2016 under 7th Pay Recommendations as one of the employees Welfare Measures to compensate rising inflation over the period. Please note that this is Maximum amount which they can receive as gratuity but there is no ceiling on Tax exemption for gratuity for Central or State pensioners.

**Illustration 4:**

Ms. Twinkle, an employee of Little Stars Ltd., receives Rs. 8,00,000 as gratuity under the Payment of Gratuity Act, 1972. He retires on 10th September, 2025 after rendering service for 34 years and 9 months. The last drawn salary was Rs. 35,000 p.m. Calculate the amount of Gratuity chargeable to tax in hands of Ms. Twinkle.

**Solution:**

Computation of Taxable Gratuity of Ms. Twinkle for the P.Y. 2025-26:

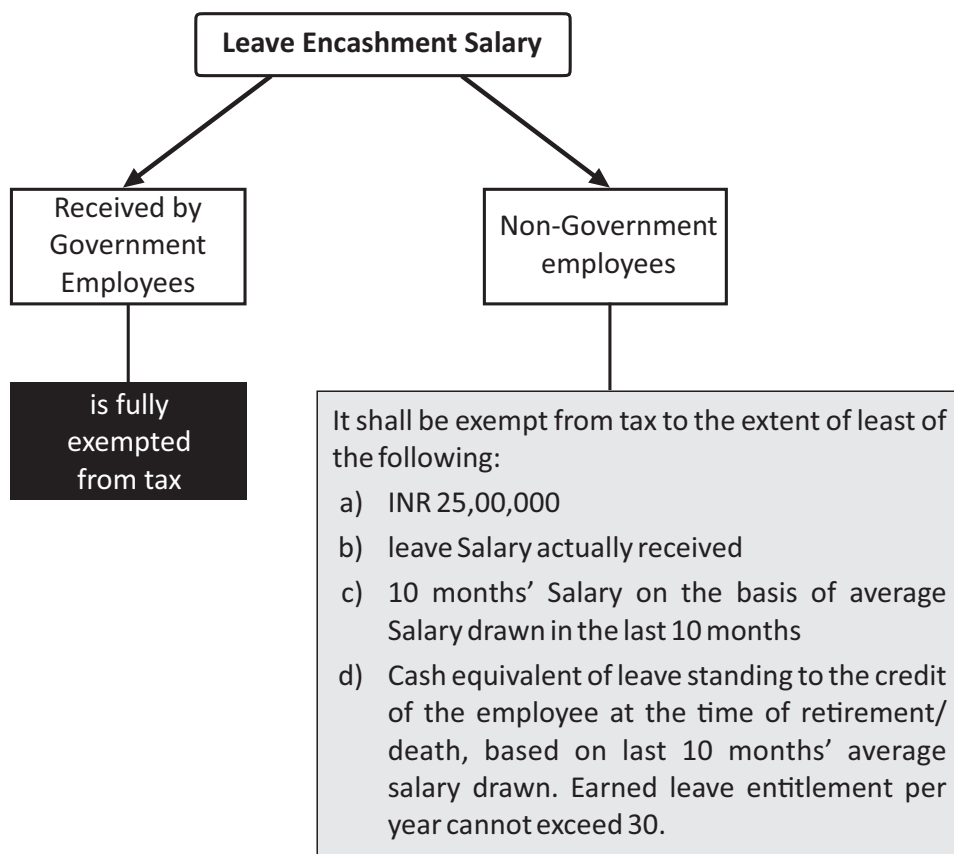
Particulars		Amount (INR)
Gratuity Received		8,00,000
Less: Exempt u/s 10(10)(ii)		(7,06,731)
(a) Maximum Statutory Limit	20,00,000	
(b) Actual Gratuity Received	8,00,000	
(c) $15/26 \times 35 \times 35,000$	7,06,731	
<b>Taxable Gratuity</b>		<b>93,269</b>

**Leave Encashment [Section 10(10AA)]**

Leave encashment means getting salary equivalent to the number of leaves which were entitled to an employee but not availed (i.e. earned). Leave encashment taken during employment is fully taxable for all employees. Leave encashment taken at the time of retirement is exempted as follows:

- Leave encashment Salary received by employees of the government, is fully exempt from tax.
- For the non-government employees, the leave encashment Salary so received is exempt from tax to the extent of least of the following:
  - a) INR 25,00,000
  - b) leave Salary actually received
  - c) 10 month's Salary on the basis of average Salary drawn in the last 10 months
  - d) Cash equivalent of leave standing to the credit of the employee at the time of retirement / death, based on last 10 month's average salary drawn. Earned leave entitlement per year cannot exceed 30.

**Note:** Here Salary would mean Basic + DA (only to the extent of forming part of the retirement benefits) + Commission as a % of Turnover and number of days in the month to be taken at 30.

**Illustration 5:**

Mrs. Bhanu retired on March 31<sup>st</sup>, 2026. At the time of retirement, 18 months leave was lying to the credit of her account. She received leave encashment equivalent to 18 months Basic salary Rs 1,44,000.

The employer allows her 2 months leave for every completed year of service. During her tenure, she availed of 12 months leave. At the time of retirement, she also gets D.A. Rs. 4,000. Her last increment of Rs. 1,000 in basic was on 01/02/2025. Find taxable leave encashment.

**Solution:****Computation of taxable leave encashment of Mrs. Bhanu for the A.Y. 2026-27**

Particulars	Amount (INR)	
Leave Encashment received	1,44,000	
Less: Minimum of the following is exempt u/s 10(10AA)	(36,000)	
a) Maximum Statutory Amount	25,00,000	
b) Actual amount received	1,44,000	
c) 10 months × Av. Salary p.m. (10 × 12,000) (W,Note)	1,20,000	

d) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months (W. Note)	36,000	
Taxable Leave Encashment		10,8,000

**Working Notes**

Salary = Basic + DA + Commission, being last 10 months average from the date of retirement. There is no increment in last 10 months (last increment was on 1/4/2025) and there is no commission.

Average Salary = Rs. 8,000 (i.e. Rs. 1,44,000/18) + Rs. 4,000 = Rs. 12,000 p.m.

Cash equivalent of leave standing to the credit of the employee at the time of retirement / death, based on last 10 month's average salary drawn. Earned leave entitlement per year cannot exceed 30.

Leave Due = Leave allowed – Leave taken

Leave Due = [30 Days for each completed year of service (-) Leaves taken in days]

i.e., 30D x 15Y (-) 30D x 12M = 90D

Leaves Due / 30 x Average Salary p.m. (90/30 x 12,000 = 36,000).

**Compensation on Voluntary Retirement [Section 10(10C)]**

Refers to compensation received on voluntarily retirement or termination of service before the date of actual retirement. Voluntary retirement compensation to be included under the head Salary = Voluntary Retirement Compensation **Less** exemption **u/s 10(10C)**

**Exemption u/s 10(10C)**

Types of Employee	<ul style="list-style-type: none"> <li>● Employees of Central or State government or local Authority or Statutory Corporation</li> <li>● Company or Co-operative Society</li> <li>● Declared university, IIT, notified IIM or notified institutions</li> <li>● Public Sector Company or any other Company</li> </ul>
Conditions to be satisfied	<ul style="list-style-type: none"> <li>● Compensation received on Voluntary Retirement and</li> <li>● The scheme of Voluntary Retirement should be as per rule 2BA</li> </ul>
Amount of exemption- least of following	<ul style="list-style-type: none"> <li>● <b>Actual Compensation received/receivable</b></li> <li>● <b>Rs. 5,00,000</b></li> <li>● 3 months <b>Total Salary</b> * Completed years of service (Part of the service to be ignored)</li> <li>● Current Salary per month * Balance months of service left</li> </ul> <p><b>Salary = Basic + DA (retirement Benefits) + commission % of turnover</b></p>

**Special Points:**

[**Rule 2BA**]: Exemption under 10(10C) i.e. VRS can be claimed only **once in a life time** by the Assessee and the scheme of Voluntary Retirement should be framed in accordance with below guidelines.

- i. Employee should have completed **10 years of service or 40 years of age**. [This condition is not applicable in the case of an employee of a public sector company].
- ii. Scheme should be applicable to **all employees** (except Directors).
- iii. Scheme should be drawn to result in **overall reduction in existing strength of employees**.
- iv. **Vacancy** caused by voluntary retirement should not be **filled up**.
- v. Retiring employee shall not be employed in other concern of same management.

**If the guidelines are not followed, exemption shall not be available.**

**Illustration 6:**

Mr. X received voluntary retirement compensation of Rs. 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 20,000 p.m.; Dearness allowance (which forms part of pay) Rs. 5,000 p.m. Compute his taxable voluntary retirement compensation.

**Solution:**

Voluntary retirement compensation received Rs. 7,00,000

Less: Exemption under section 10(10C) [note 1] Rs. (5,00,000) Taxable voluntary retirement compensation Rs. 2,00,000

**Note 1:** Exemption is to the extent of least of the following:

- (i) Compensation actually received = Rs. 7,00,000
- (ii) Statutory limit = Rs. 5,00,000
- (iii) last drawn salary  $\times 3 \times$  completed years of service  
=  $(20,000 + 5,000) \times 3 \times 30$  years = Rs. 22,50,000
- (iv) last drawn salary  $\times$  remaining months of service  
=  $(20,000 + 5,000) \times 6 \times 12$  months = Rs. 18,00,000

**PERQUISITES [SECTION 17(2)]**

Perquisite may be defined as any casual emolument or benefit attached to an office or position in addition to salary or wages. It also denotes something that benefits a man by going into his own pocket. Perquisites may be provided in cash or in kind. However, perquisites are taxable under the head "Salaries" only if they are:

- a. allowed by an employer to his employee;
- b. allowed during the continuance of employment;
- c. directly dependent upon service;
- d. resulting in the nature of personal advantage to the employee; and
- e. derived by virtue of employer's authority.

It is not necessary that a recurring and regular receipt alone is a perquisite. Even a casual and non-recurring receipt can be perquisite if the aforesaid conditions are satisfied.

Any facility / benefit that is granted by the employer, the use of which is enjoyed by the employee or any member of the employee's household, is construed as a perquisite under the Income Tax Act, and hence attracts tax.

**TAXABLE PERQUISITES**

- Rent free Residential Accommodation
- Interest free / Concessional loan
- Use of movable assets by employee / any member of his household
- Transfer of movable assets
- Provision of gas / electricity / water
- Provision of free / concessional educational facilities
- Credit Card expenses
- Club expenditure
- Health Club, Sports, Similar facilities
- Sweat Equity
- Motor Car

**Taxable perquisites:** The Table appended below, summarizes the taxable value of various perquisites in the hands of the employee assessee.

<b>Sl. No.</b>	<b>Perquisite</b>	<b>Category of Employee</b>	<b>Value of perquisites</b>
1.	Rent free Residential Accommodation	Government employee	License fee determined as per the Government Rules, as reduced by rent actually paid by the employee for unfurnished accommodation.  <i>For a furnished accommodation, 10% p.a. of the furniture cost is added to the value obtained above for unfurnished.</i>  In case the <i>furniture is hired</i> , the actual hire charges would be added to the value obtained above for unfurnished.
		Non-Government Employee	<b>For a Unfurnished Accommodation</b>  a) If the accommodation is owned by the employer, the value would be based on the population, i.e.,  i. if in cities having a population of > 40 lacs (2011 Census) - 10% of Salary;  ii. if the population is between 15 lacs up to 40 lacs – 7.5% of Salary;  iii. else 5% of Salary.  b) If the accommodation is taken on lease by the employer, the actual value of lease rentals paid by the employer subject to a maximum of 10% of Salary is considered as Value.

Sl. No.	Perquisite	Category of Employee	Value of perquisites
			<p><b>For a furnished accommodation</b></p> <p>10% p.a. of the furniture cost is added to the value obtained as above for unfurnished.</p> <p><b>In case the furniture is hired</b>, the actual hire charges would be added to the value obtained above for unfurnished.</p> <p>In all cases, any amount recovered from the employee should be reduced to arrive at the taxable value of the perquisite.</p> <p>Where the accommodation is provided by the employer in a hotel (except where the employee is provided such accommodation for a period not exceeding in aggregate 15 days on the transfer from one place to another).</p> <p>Provided that where the accommodation is owned by the employer and the same accommodation is continued to be provided to the same employee for more than one previous year, the amount calculated above shall not exceed the amount so calculated for the first previous year, as multiplied by the amount which is a ratio of the Cost Inflation Index for the previous year for which the amount is calculated and the Cost Inflation Index for the previous year in which the accommodation was initially provided to the employee.</p> <p>The perquisites value would be 24% of salary paid or payable for the previous year or the actual charges paid or payable to such hotel, which is lower, for the period during which such accommodation is provided as reduced by the rent, if any, actually paid or payable by the employees.</p>
2.	Interest free / Concessional Loan	All employees	Where the employer grants a loan to an employee, exceeding INR 20000, the interest at the rate charged by SBI, as on the first date of the relevant PY, at maximum outstanding monthly balance as reduced by the Interest actually charged to the employee; would be the taxable value of the perquisite. Known for medical purpose is exempted.
3.	Use of movable assets by employee / any member of his household	All employees	<p>10% p.a. of the actual cost of the asset, if it is owned by the employer OR the actual hire charges incurred by the employer if the asset is hired as reduced by the amount, if any, paid or recovered from the employee for such use would be the taxable value of the perquisite.</p> <p><b>Note:</b> Use of laptops and computers wouldn't attract taxability as perquisites.</p>

<b>Sl. No.</b>	<b>Perquisite</b>	<b>Category of Employee</b>	<b>Value of perquisites</b>
4.	Transfer of movable assets	All employees	If Computers/electronic items are transferred, 50% Depreciation p.a. (WDV) for every completed year of usage; if Motor cars are transferred, 20% Depreciation p.a. (WDV) for every completed year of usage; and for all other assets transferred, 10% Depreciation p.a. (SIM) for every completed year of usage would be treated as the taxable value of perquisite net of any amount so recovered from the employee.
5.	Provision of gas/ electricity/ water	All employees	The value of benefit to the employee resulting from the supply of gas, electric energy or water for his household consumption shall be determined as the sum equal to the amount paid on that account by the employer to the agency supplying the gas, electric energy or water. Where such supply is made from the sources owned by the employer, without purchasing them from any other outside agency, the value of perquisites would be the manufacturing cost per unit incurred by the employer. Where the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value so arrived at.
6.	Provision of free/ concessional educational facilities	All employees	Amount actually expended by the employer net of the amount so recovered, however, if the educational institution is owned by the employer, and free educational facilities are provided to the employee's children, there wouldn't be any perquisite as long as the value of benefit in a month is < INR 1000. Any amount recovered from the employee would be reduced.
7.	Credit Card expenses	All employees	Membership fees/Annual fees incurred by the employer, on a card provided to the employee, would be the taxable value of perquisite net of the amount, if any, recovered from him.
8.	Club expenditure	All employees	Cost incurred by the employer at actual, net of recovery from the employee would be the taxable value of perquisite. However, in case the employee enjoys Corporate Membership in a club, the value of benefit wouldn't include the initial membership paid by the employer to acquire the corporate membership.
9.	Health Club, Sports, Similar facilities	All employees	No perquisite if provided uniformly by the employer to all employees.

<b>Sl. No.</b>	<b>Perquisite</b>	<b>Category of Employee</b>	<b>Value of perquisites</b>
10.	Sweat equity	All employees	<p><b><i>In case where, on the date of exercising the option, the share of the company is listed on a recognised stock exchange</i></b>, the fair market value (FMV) would be the average of the opening and closing price of the share on that date on the said stock exchange. If the shares of the company are listed on more than one stock exchange, the FMV would be the average of the opening and closing prices of the share on the recognised stock exchange which records the highest volume of trading in the share. In case, on the date of the exercising of the option, if there was no trading in the share, the FMV would be the closing price on the recognised stock exchange, on a date closest to exercising the option, immediately before that date, and if the shares of the company are listed on more than one stock exchange, the FMV would be the closing price of the share on the recognised stock exchange which records the highest volume of trading in the share.</p> <p>In case the shares of the company are not listed on any recognized stock exchange, the FMV would be that as determined by the Merchant Banker on the specific date, i.e., the date of exercising the option or any date earlier not exceeding 180 days prior to the date of exercise of the option.</p>
11.	Motor Car	All Employee	The taxable value of perquisites is appended below separately in case of different scenario:

**Valuation of Taxable Value of Perquisites in case of Motor Car**

***Where the Expenses are met by the employer***

<b>S. No.</b>	<b>Car is Owned / Hired</b>	<b>Used by the employee</b>	<b>Value of Perquisites</b>
1.	Car is owned/ hired by the employer	Wholly for Official Purposes	No Perquisites provided that the document as specified in the rules are maintained by employer.
2.	Car is owned/ hired by the employer	Wholly for Personal Purposes	The running and maintenance charges / wear & tear / hire charges / driver's salary would be treated as the taxable value of the perquisite net of the amount so recovered from the employee. (Including Depreciation @ 10% p.a. on SLM basis)

3.	Car is owned/ hired by the employer	Partly for Official and partly for Personal purposes	The taxable value of the perquisite would be based on the cc (cubic capacity) of the engine, as under: a) up to 1.6 litres, the taxable value of the perquisite would be INR 1800 pm b) > 1.6 litres, the taxable value of the perquisite would be INR 2400 pm  if chauffer is also provided, INR 900 pm is to be added to either of the above, depending on the engine capacity. (In this case recovery is not deductible).
4.	Car is owned/ hired by the employee	Wholly for Official Purposes	No Perquisites provided that the document as specified in the rules are maintained by employer.
5.	Car is owned/ hired by the employee	Wholly for Personal Purposes	The actual expenditure so incurred would be treated as the taxable value of the perquisite.
6.	Car is owned/ hired by the employee	Partly for Official and partly for Personal purposes	The taxable value of the perquisite would be the actual expenditure incurred by the employer as reduced by the taxable value of the perquisite determined at point No. 3 above basis the engine capacity.

#### Valuation of Taxable Value of Perquisites in case of Motor Car

##### *Where the Expenses are met by the employee*

Situation	Used by the employee	Value of Perquisites
Car is owned/ hired by the employer	Wholly for Official Purposes	No Perquisites provided that the document as specified in the rules are maintained by employer.
Car is owned/ hired by the employer	Wholly for Personal Purposes	The wear & tear / hire charges / driver's salary would be treated as the taxable value of the perquisite. (Including Depreciation @ 10% p.a. on SLM basis)
Car is owned/ hired by the employer	Partly for Official and partly for Personal purposes	The taxable value of the perquisite would be based on the cc of the engine, as under: a) up to 1.6 litres, the taxable value of the perquisite would be INR 600 pm b) > 1.6 litres, the taxable value of the perquisite would be INR 900 pm  If chauffer is also provided, INR 900 pm is to be added to either of the above, depending on the engine capacity. (In this case recovery is not deductible).

**Illustration 7:**

ABC Ltd. provided the following perquisites to its employee Srinivasan, for the FY 2025-26.

- 1) Leased accommodation provided to the employee. hire Charges INR 50000 pm; recovered from employee INR 20000 pm
- 2) Accommodation was furnished and the actual hire charges paid by the employer was INR 4050 pm
- 3) He was also provided a VW Polo (1.2 Ltr) with Chauffer and a gift Voucher worth INR 9000.

Salary for the purposes of valuation of perquisites is INR 25,00,000. Compute the taxable value of the perquisites assuming assessee had not opted for section 115BAC of the Income Tax Act, 1961.

**Solution:**

<b>Accommodation on lease</b>	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>
Salary for the purposes of Valuation of Perquisites	25,00,000	
Actual lease Charges	6,00,000	
15% of the above (Maximum Taxable)	3,75,000	
Hence, Gross Taxable Value of the Perquisite		3,75,000
Less: Amount recovered from the employee		(2,40,000)
Taxable value of unfurnished leased accommodation		1,35,000
Add: Actual hire charges of furniture hired		48,600
Less: Amount recovered from employees		Nil
<b>Taxable value of Furnished Accommodation</b>		<b>1,83,600</b>
<b>Car used partly for Official &amp; partly for Personal</b>		
Engine Capacity is within 1.6 (VW Polo)		
Taxable Value of Perquisite @ 1800 pm		21,600
Chauffer @ 900 pm		10,800
Taxable value of Motor Car provided		32,400
Gift Voucher		9,000
<b>Total Value of perquisites</b>		<b>2,25,000</b>

**Note:**

1. Refer to the valuation rules for perquisites – taxable value of perquisite for a hired accommodation is the actual hire charges incurred by the employer subject to max. 25% of salary reduced by the amount recovered from the employee.
2. Since the accommodation is furnished, the actual hire charges are added to the above.
3. Gift Vouchers are taxable as perquisites too if received by the employer and more than 5000.

**Tax-free perquisites (in all cases)**

- Medical facilities
- Refreshment
- Subsidized lunch or dinner
- Recreational facilities
- Telephone facility
- Transport facility
- Personal accident insurance
- Refresher Course
- Free rations
- Computer/laptops
- Employer's Contribution to Group Insurance Scheme

<b>Medical Facilities in India</b> ( Provided by Employer to Employees/Family Members)			
Hospital maintained by Employer	In Government Hospital or local authority hospital or Government approved hospital or Hospital approved by CCIT (for <i>prescribed disease</i> only)	Premium paid for Health Insurance under approved scheme	Other case
Fully Exempt	Fully Exempt	Fully Exempt	Fully Taxable
<b>Medical Facilities outside India</b> ( Provided by Employer to Employees/Family Members)			
Medical Expenses of Patient	Stay Expenses of Patient and One attendant ( <i>total two persons</i> )	Travel Expenses of Patient with One attendant ( <i>total two persons</i> )	
Tax free to the extent permitted by RBI	Tax free to the extent permitted by RBI	Tax free if employee's Gross Total Income upto Rs. 2,00,000 ( <i>before including such travel expenses</i> )	

<b>Sr. No.</b>	<b>Other Tax Free Perquisites</b>	<b>Details</b>
1.	Refreshment	The value of refreshment provided by the employer during office hours and in office premises is fully exempt. [Not available for assessee opted for section 115BAC].
2.	Subsidized lunch or dinner	Subsidized lunch or dinner provided by employer is exempt.
3.	Recreational facilities	The value of recreational facilities provided is exempt. However, the facility should not be restricted to a selected few.

<b>Sr. No.</b>	<b>Other Tax Free Perquisites</b>	<b>Details</b>
4.	Telephone facility	Telephone facility provided at the residence of the employee is exempt to the extent of the amount of telephone bills paid by the employer when it is used for official and personal purposes of the employee.
5.	Transport facility	Transport provided by the employer to the employees for the journey between office and residence and back at free of charge or at concessional rate.
6.	Personal Accident Insurance	Personal accident insurance, i.e., payment of annual premium by employer on personal accident policy effected by him to his employee.
7.	Refresher Course	Where the employee attends any refresher course in management and the fees are paid by the employer, the amount spent by employer for the purpose.
8.	Free Rations	The value of free rations given to the armed forces personnel.
9.	Computer / Laptops	Computer/laptops provided only for use, ownership is retained by the employer.
10.	Rent free houses/ conveyance	Rent free houses/conveyance to high Court & Supreme Court Judges.
11.	Employers' Contribution to group Insurance Schemes	Employers' Contribution to group Insurance Schemes, to recognized Provident funds [Subject to Amendment by Finance Act, 2020].

### PROFITS IN LIEU OF SALARY [SECTION 17(3)]

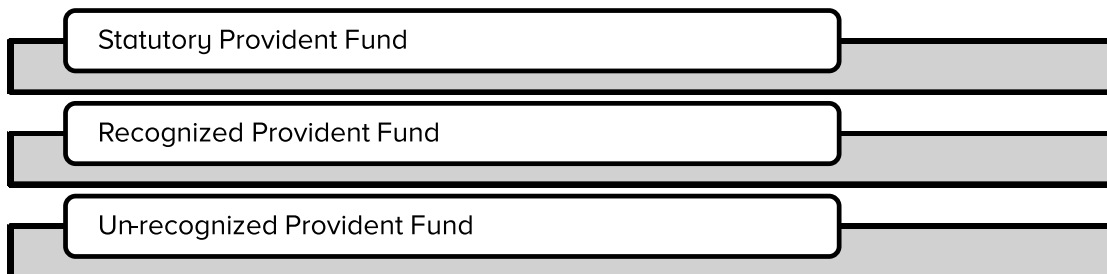
Section 17(3) of the Income tax Act, 1961 gives an inclusive definition of "Profits in lieu of salary". As the name suggests, these payments are received by the employee in lieu of or in addition to salary or wages. These payments include the following:

<b>Sr. No.</b>	<b>Heading</b>	<b>Details</b>
1.	Compensation received on termination of employment	The amount of any compensation due to or received by an assessee from the employer or former employer at or in connection with the termination of his employment. The termination of employment means retirement, premature termination of employment, termination by death or voluntary resignation. Generally, under the Income- tax Act, the income that is chargeable to tax is only a receipt which is revenue in nature; receipts of a capital nature are not chargeable to tax but this provision constitutes an exception to this rule because compensation received by an employee for termination of his employment would be a capital receipt since it is received in replacement of the sources of income itself. Still it is chargeable to tax because of the specific provision in the Act. However, relief under Section 89(1) would be available to the assessee in cases where he gets money which represents a profit in lieu of salary.

<b>Sr. No.</b>	<b>Heading</b>	<b>Details</b>
2.	Compensation received on modification of terms of employment	The amount of any compensation due to or received by any assessee from his employer in connection with the modification of the terms and conditions relating to employment. For example, where an employer wants to cut down the salary payable to the employee, the lump sum paid to compensate the employee shall be treated as profit in lieu of salary. In the same way, where the remuneration for services is paid at the end of the period of employment or a lump sum remuneration is paid at the beginning of employment for a number of years, such payment shall be treated as profit in lieu of salary.
3.	Amount received before joining / after cessation of employment	Any amount due to or received, whether in lump sum or otherwise, by any assessee from any person – (a) before his joining any employment with that person; or (b) after cessation of his employment with that person.
4.	Payment received by employee from Provident fund or other fund	Any payment other than the following payment due to or received by assessee from an employer or a former employer or from a provident or other fund, <b>other than</b> gratuity [Section 10(10)], Pension [Section 10(10A)], HRA [Section 10(13A)], Provident fund / Public Provident fund/ Recognised Provident fund.
5.	Compensation received under Keyman insurance policy	Any sum received under Keyman Insurance Policy including Bonus from such policy.
6.	Any other sum	Any other sum received by the employee from the employer

### PROVIDENT FUNDS - TREATMENT OF CONTRIBUTIONS TO AND MONEY RECEIVED FROM THE PROVIDENT FUND

For purposes of Income-tax, provident funds are grouped under three heads as follow:



<i>Fund</i>	<i>Meaning</i>	<i>Tax Treatment</i>
<b>Statutory Provident Fund</b>	All provident funds which are set up under the Provident funds Act, 1925 are called Statutory Provident funds. Provident funds of institutions such as universities, Colleges or other educational Institutions, Reserve Bank of India, State Bank of India, the Central government and State government would constitute Statutory Provident funds.	In case of Statutory Provident fund, the entire amount of employer's contribution without any limit or restriction whatsoever and the interest thereon received by the employee shall not be includible in the total income of the employee both at the time when the contribution is made and at the time when the money is received by or on behalf of the employee on his retirement, death or otherwise. This exemption is specifically conferred by Sub-section (11) of Section 10 of the Income-tax Act.
<b>Recognised Provident Fund</b>	All Provident funds recognised by the Commissioner of Income-tax under Rule 3 of Part 'A' of the fourth Schedule to the Income-tax Act, 1961 and also Provident funds established under a scheme framed under the employees Provident funds Act, 1952 are known under the Income-tax Act as Recognised Provident funds. For the purposes of being treated as Recognised Provident fund, the fund in question must be recognised by the Commissioner of Income-tax at the time of its setting up and must continue to be so recognised even subsequently. The moment the recognition is withdrawn by the Commissioner, the fund ceases to be a Recognised Provident fund. The Provident funds of various Public Sector undertakings, Semi- government bodies and other institutions and organisations including companies which are recognised by the Commissioner for income-tax purposes, would be treated as Recognised Provident funds.	<p><b>Employer Contribution &amp; Interest</b></p> <p><b>Tax Treatment upto 31.03.2020:</b> In the case of a Recognised Provident fund, the employer's contribution to the Provident fund is not treated as the employee's income so long as the contribution by the employer does not exceed 12% of the salary of the employee.</p> <p>But if the contribution of the employer exceeds 12% of the employee's salary, the excess of the contribution over 12% of the salary of the employee is to be treated as part of the taxable income from salaries in the hands of the employee.</p> <p>Interest on the contributions to the Provident fund, only an amount exceeding a sum calculated at 12% per annum on the balance standing to the credit of the employee would be treated as part of the taxable income of the employee. In other words, so long as the amount of interest does not exceed this limit, the interest does not become chargeable to tax in the hands of the employee.</p> <p><b>Tax Treatment w.e.f. 01.04.2020 [Amendment vide Finance Act, 2020]:</b> Apart from the limit of 12% for employer contribution and 9.5% p.a. for Interest, there was no monetary limit above which such amount was taxable. Now these</p>

<i>Fund</i>	<i>Meaning</i>	<i>Tax Treatment</i>
		<p>two have been combined with employer contribution to Approved Superannuation fund and NPS along with annual interest thereon within ceiling of Rs.7,50,000. If total exceeds Rs.7,50,000, then excess will also be taxable under the head Salary.</p> <p><b>Tax Treatment of Employee Contribution</b></p> <p>Employee's own contribution qualifies for deduction under Section 80C of the Income-tax Act. [Salary for this purpose, includes basic salary; dearness allowance/pay (if the terms of employment so provide) and commission (if based on a fixed percentage of turnover achieved by the employee)].</p>
<b>Un-Recognised Provident Fund</b>	The Provident fund which is neither Statutory nor recognised by the Commissioner of Income-tax nor Public Provident fund, would be an unrecognised Provident fund for income-tax purposes.	In the case of an unrecognised Provident fund, the employee's own contribution to the fund would not be allowed as a deduction. The employer's contribution and the interest thereon would, however, be exempt from tax as and when the contributions are being made. But when the money in lump sum is received back by the employee, that part of the amount attributable to the employer's contribution would be taxable as income from salaries and the interest on the employer's contribution would also be taxable as salary income in the hands of the employee. The employee's own contributions when received back would not be taxable because they do not contain an element of income. However, the interest thereon would be chargeable to tax as income from other sources and not as income from salaries.

Section 17(2)(vii), the amount or the aggregate of amounts of any contribution made to the account of the assessee by the employer

- a) in a recognised provident fund;

- b) in the scheme referred to in sub-section (1) of section 80CCD; and
- c) in an approved superannuation fund, to the extent it exceeds seven lakh and fifty thousand rupees in a previous year;

Section 17(2)(viiia), 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 to in sub-clause (vii) to the extent it relates to the contribution referred to in the said sub-clause which is included in total income under the said sub-clause in any previous year computed in such manner as may be prescribed.

For the purposes of sub-clause (viiia) of clause (2) of section 17 of the Act, the CBDT has notified vide Rule 3B the manner to compute annual accretion by way of interest, dividend or any other amount of similar nature during the previous year (hereinafter in this rule referred to as the current previous year) to balance to the credit of the fund or scheme referred to in sub-clause (vii) of clause (2) of section 17 of the Act shall be the amount or aggregate of amounts computed in accordance with the following formula, namely:

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

Where,

TP	Taxable perquisite under sub-clause (viiia) of clause (2) of section 17 of the Act for the current previous year.
TP1	Aggregate of taxable perquisite under sub-clause (viiia) of clause (2) of section 17 of the Act for the previous year or years commencing on or after 1st day of April, 2020 other than the current previous year.
PC	Amount or aggregate of amounts of principal contribution made by the employer in excess of Rs. 7.5 lakhs to the specified fund or scheme during the previous year.
PC1	Amount or aggregate of amounts of principal contribution made by the employer in excess of Rs. 7.5 lakhs to the specified fund or scheme for the previous year or years commencing on or after 1st day of April, 2020 other than the current previous year.
R	I/ Favg.
I	Amount or aggregate of amounts of income accrued during the current previous year in the specified fund or scheme account.
Favg	(Amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the first day of the current previous year + Amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the last day of the current previous year)/2.
Where the amount or aggregate of amounts of TP1 and PC1 exceeds the amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the first day of the current previous year, 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.	

**RELIEF WHEN SALARY IS PAID IN ARREARS OR ADVANCE [SECTION 89]**

Tax is calculated on total income earned or received during the year. If any portion received 'salary in arrears or in advance', or have received a family pension in arrears, assessee is allowed some tax relief under section 89(1) of the Income Tax Act, 1961.

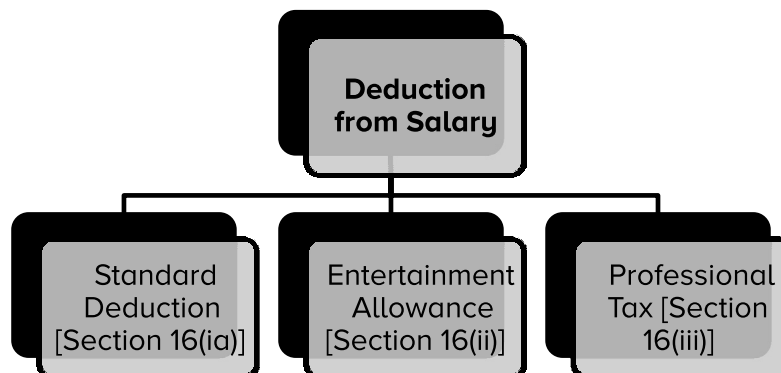
Relief under section 89(1) for arrears of salary are available in the following cases:

- Salary received in advance or as arrears
- Gratuity
- Compensation on Termination of employment
- Commutation of Pension

Steps to be followed to calculate relief under section 89(1)

<b>Step 1</b>	Calculate the tax payable on his total income including arrears of the relevant previous year in which the same is received. (ex: X)
<b>Step 2</b>	Calculate the tax payable on his total income excluding arrears. (ex: Y)
<b>Step 3</b>	Subtract the value obtained in step 1 from the value obtained in step 2. (e., A-B) and keep the result value as Z.
<b>Step 4</b>	Calculate the tax payable on the total income (including arrears) of the year to which the arrears are related. (ex: "A")
<b>Step 5</b>	Calculate tax payable on the total income (excluding arrears) of the year to which the arrears are related. (ex: "B")
<b>Step 6</b>	Subtract the value obtained in step 5 from the value obtained in step 4 (i.e., A – B). (ex: "C").
<b>Step 7</b>	Excess of tax computed at step 3 over tax computed at step 7 is the amount of relief allowable under section 89. If tax computed at step 3 is less than tax computed at step 7 the taxpayer will not be eligible for any relief.

<b><i>Tax Liability in the PY in which adv / arrears are received</i></b>	
a) Incl. adv / arrears	A
b) excl. adv / arrears	B
Differential	A-B
<b><i>Tax Liability of the PY to which such addl salary relates</i></b>	
a) Incl. adv / arrears	C
b) excl. adv / arrears	D
Differential	C-D
<b>Relief u/s 89</b>	<b>(A-B)-(C-D)</b>

**DEDUCTIONS FROM SALARY**

<b>Standard Deduction [Section 16(i)]</b>	<b>Entertainment Allowance [Section 16(ii)]</b>	<b>Profession Tax [Section 16(iii)]</b>
<p>Standard deduction of Rs. 50,000 (fifty thousand) or the amount of the salary, whichever is less is allowed as deduction in computing the Income under the head Salary.</p> <p>However, in case of an assessee paying tax u/s 115BAC, Standard Deduction of Rs. 75,000 or the amount of salary which ever is less is allowed as deduction in computing the Income under the head Salary. <b>[Amendment vide Finance Act, 2024]</b></p>	<p>Fully taxable in case of Non-Govt. Employees.</p> <p>In case of Government Employees, the deduction is available, which would be lower of:</p> <ol style="list-style-type: none"> <li>1/5th of Basic Salary or</li> <li>INR 5000 or</li> <li>Actual entertainment Allowance received.</li> </ol>	<p>Allowed as a deduction when paid by the employee (recovered from salary) during the previous year</p> <p>[If paid by employer, it is firstly added to salary and then deducted]</p>
<p><b>Note: The deduction u/s 16(ii), 16(iii) are not available for assesses opted for section 115BAC of the Income tax Act 1961.</b></p>		

**COMPUTATION OF SALARY INCOME**

<b>Particulars</b>	<b>(Rs.)</b>
Income from Salary	
Salary	xxxxx
Allowances received (taxable allowances)	xxxxx

Taxable value of perquisite	xxxxx
Gross Salary	xxxxx
Less: Deduction under section 16	
Standard Deduction	(xxxxx)
Professional Tax	(xxxxx)
Entertainment allowance	(xxxxx)
Income from Salary	xxxxxxx

**Illustration 8:**

Nitin is an employee of XYZ Ltd. he was appointed on 1st Mar 2025 at a scale of 50000 – 5000 – 70000. He is paid DA (which forms part of retirement benefits) @ 15% of Basic Pay and Bonus equivalent to 2 month's salary at end of FY. He contributes 18% of his Basic + DA to a recognised provident fund, and the contribution is matched by the employer.

He is provided rent free accommodation, hired by the employer, @ 25000 pm. He is also provided the following benefits / amenities:

- Medical Treatment of his dependant spouse INR 40000. (Reimbursement)
- Monthly salary to housekeeper INR 4000.
- Telephone Allowance INR 1200 pm.
- Gift Voucher of INR 4500 on account of his marriage anniversary.
- Medical Insurance Premium for Nitin, paid by his employer INR 15000.
- Motor Car owned and driven by Nitin, and engine capacity within 1.6 liters; used partly for official and partly for personal purposes. Running & maintenance expenses borne by the employer INR 36,600.
- Lunch during office hours valued at INR 2200.

He was also allotted 2000 sweat equity shares in September 2025. The shares were allotted @ INR 227 per share against the FMV of INR 377 per share as on the date of exercise of the option

Compute the Salary income chargeable to tax.

*Option 1* : Assessee paying tax under normal Tax Regime

*Option 2* : Assessee paying tax under section 115BAC

**Solution:****Option 1 : Assessee paying tax under normal Tax Regime**

<i>Particulars</i>	<i>Amount INR</i>
Basic (50,000 x 11 + 55,000 x 1)	6,05,000
DA	90,750

<i>Particulars</i>	<i>Amount INR</i>
Bonus	1,10,000
Employers' Contribution to PF > 12% (6% of 6,95,750)	41,745
Taxable Allowances	
Telephone (1200 x 12)	14,400
Taxable Perquisites	
Medical Reimbursement (fully Taxable)	40,000
Housekeeper	48,000
Motor Car	15,000
Rent free Accommodation	82,015
Sweat equity [200 Shares x (377 - 227)]	3,00,000
Gross Salary	13,46,910
Less: Standard Deduction under section 16(ia)	(50,000)
Taxable Salary	12,96,910

**Note:**

- 1) Employer's Contribution to Provident fund in excess of 12% is chargeable to Income Tax.
- 2) Rent free Accommodation is valued as under:
  - a. Since the accommodation is hired, the actual hire charges subject to a cap of 10% of "salary" is considered;
  - b. "Salary" for this purpose is Basic + DA + Bonus + all Taxable Allowances = INR 8,20,150.
- 3) Medical Treatment is chargeable to Tax, as no more tax free perquisite.
- 4) Since the value of the gift voucher is below INR 5000, it is not taxable as perquisite.
- 5) Lunch during office hours is also not taxable as perquisite assuming cost of meal upto Rs.50 per meal.
- 6) Medical Insurance Premium paid by the employer on behalf of Nitin is also not taxable as perquisite.
- 7) The motor car is chargeable as under:

If the Car is owned / hired by the employee; expenses met by the employer & is used by the employee partly for official and partly for Personal purposes, the taxable value of the perquisite would be the actual expenditure incurred by the employer as reduced by the taxable value of the perquisite determined basis the engine capacity, i.e., INR 36600 – INR (1800\*12) = INR 15000.

**Option 2 : Assessee paying tax under section 115BAC**

<i>Particulars</i>	<i>Amount (INR)</i>
Basic	6,05,000
DA	90,750
Bonus	1,10,000
Employers' Contribution to PF > 12%	41,745
Taxable Allowances Telephone	14,400
Taxable Perquisites Medical Reimbursement (fully Taxable)	40,000
Housekeeper	48,000
Motor Car	15,000
Rent free Accommodation	82,015
Sweat equity	3,00,000
Lunch	2,200
Gross Salary	13,49,110
Less: Standard Deduction under section 16(ia)	(75,000)
Taxable Salary	12,74,110

**Note:**

- Employer's Contribution to Provident fund in excess of 12% is chargeable to Income Tax.
- Rent free Accommodation is valued as under:
  - a) Since the accommodation is hired, the actual hire charges subject to a cap of 10% of "salary" is considered;
  - b) "Salary" for this purpose is Basic + DA + Bonus + all Taxable Allowances = INR 8,20,150.
- Medical Treatment is chargeable to Tax, as no more tax free perquisite.
- Since the value of the gift voucher is below INR 5000, it is not taxable as perquisite.
- Lunch during office hours is taxable as perquisite.
- Medical Insurance Premium paid by the employer on behalf of Nitin is also not taxable as perquisite.
- The motor car is chargeable as under:

If the Car is owned / hired by the employee; expenses met by the employer & is used by the employee partly for official and partly for Personal purposes, the taxable value of the perquisite would be the actual expenditure incurred by the employer as reduced by the taxable value of the perquisites determined basis the engine capacity i.e. INR 36600 - INR (1800X12) = INR 15000.

**Illustration 9:**

Mr. Ram is employed at Mumbai. His basic Salary is Rs. 5,000 per month. He receives Rs. 5,000 p.a. as house rent allowance. Rent paid by him is Rs. 12,000 p.a. find out the amount of taxable house rent allowance. Assuming assessee has not opted u/s 115BAC.

**Solution:**

As per Rule 2A, the least of the following is exempt from tax:

- (i) the actual house rent allowance;
- (ii) excess of rent paid over 10% of salary;
- (iii) where the accommodation is situated at Mumbai, Delhi, Kolkata or Chennai, one-half of the amount of salary due to the assessee for the relevant period;

Accordingly, Mr. Ram would be entitled to the least of:

- (i) Rs. 5,000; or
- (ii) Rs. 6,000 being excess of rent over 1/10th of salary; or
- (iii) Rs. 30,000 (being 50% of the salary of the assessee).

Rs. 5,000, being the least, would not be included in the total income of Mr. Ram. So the entire amount of HRA would be exempt from tax.

Salary for this purpose includes basic salary as well as dearness allowance if the terms of employment so provide. It also includes commission based on a fixed percentage of turnover achieved by an employee as per terms of contract of employment but excludes all other allowances and perquisites and these are determined on due basis for the period during which rental accommodation is occupied by the employee in the previous year.

**Illustration 10:**

Mr. Shyam, employed at Mumbai, receives the following from his employer during the previous year:

<i>Particulars</i>	<i>Rs.</i>
Basic Salary	60,000
Bonus	1,800
Entertainment allowance (taxable)	6,000
Electricity expenses	2,000
Professional tax paid by the employer	2,000
Rent free house (owned by Employer):	
Fair rent	48,000
Salary of gardener	2,400

Garden Maintenance	1,200
Salary of watchman	1,800

Determine the value of taxable perquisites in respect of rent free house assuming

- Mr. Shyam is a government officer and the fair rent as arrived at by the government is Rs. 6,000 p.a.
- Mr. Shyam is a semi-government employee, and
- Mr. Shyam is employed by a private company.

**Solution:**

**(a) If Mr. Shyam is a Government Officer:** As per Rule 3(1) of Income-tax Rules, Rs. 6,000 p.a. being the rent of the house as per government rules, will be the taxable value of the perquisite.

**(b) If Mr. Shyam is a semi-Government employee:** As per Rule 3(1) of the Income-tax Rules, the value of the perquisite in respect of rent free accommodation is taken at 10% of salary of the employee (as the house is owned by the employer and provided in Mumbai).

Salary = Rs. 67,800 (Rs. 60,000 + 1,800 + 6,000)

10% of salary = Rs. 6,780 and

Therefore, Rs. 6,780 is taxable value of the perquisite.

Further, the value of electricity expenses and Professional Tax paid by the employer, being perquisites, are not included in the salary for valuation of Rent free house Accommodation.

**(c) If Mr. Shyam is employed in Private Company:** The value of perquisite in this case shall also be Rs. 6,780. Under the new rules there is no difference between the semi-govt. and other employees.

**Note:** The Solution is provided assuming assessee has not opted for section 115BAC. However, even if he would have opted for section 115BAC, the solution would be same.

**Illustration 11:**

Mr. Ramamoorthy, an employee of M/s. Gopal Krishnan & Co. of Chennai receives during the previous year ended March 31, 2026 the following payments:

<i>Particulars</i>	<i>(Rs.)</i>
Basic Salary	40,000
Dearness allowance	3,000
Leave Salary	5,400
Professional tax paid by employer	1,000
Fair rent of the flat provided by employer	6,000

Rent paid for furniture	1,000
Rent recovered by employer	3,000
Contribution to Statutory Provident fund	4,000
Employer's contribution to Statutory Provident fund	4,000

Compute his taxable income for the Assessment Year 2026-27.

**Option 1:** Assessee paying tax under normal Tax Regime

**Option 2 :** Assessee paying tax under section 115BAC

**Solution:**

**Option 1: Assessee paying tax under normal Tax Regime**

**Computation of taxable income of Mr. Ramamoorthy for the Assessment Year 2026-27**

<i>Particulars</i>	<i>Amount (Rs.)</i>
Basic Pay	40,000
Dearness allowance	3,000
Leave salary	5,400
Professional tax paid by employer	1,000
Perquisite for house :	
10% of salary (Rs. 40,000 + 3,000 + 5,400) 4,840	2,840
Add: furniture rent 1,000	
Less: Rent recovered (-) 3,000	
	52,240
Less: Standard Deduction under section 16(ia)	(50,000)
Less: Professional tax u/s 16	1,000
Gross Total Income	1,240
Less: Deduction under Section 80C	(1,240)
Total income	Nil
Total tax payable	Nil

**Note:** Assumed that dearness allowance forms part of the salary for the purpose of computation of superannuation or retirement benefits.

**Option 2: Assessee paying tax under section 115BAC**

**Computation of taxable income of Mr. Ramamoorthy for the Assessment Year 2026-27**

<i>Particulars</i>	<i>Amount (Rs.)</i>
Basic Pay	40,000
Dearness allowance	3,000
Leave salary	5,400
Professional tax paid by employer	1,000
Perquisite for house :	
10% of salary (Rs. 40,000 + 3,000 + 5,400) 4,840	
Add: furniture rent 1,000 less: Rent recovered (-) 3,000	2,840
	52,240
Less: Standard Deduction under section 16(ia)	(52,240)
Less: Professional tax u/s 16	(NA)
Gross Total Income	Nil
Less: Deduction under Section 80C	(NA)
Total income	Nil
Total tax payable	Nil

**Note:**

- (i) Assumed that dearness allowance forms part of the salary for the purpose of computation of superannuation or retirement benefits.
- (ii) Deduction u/s 16 & 80C is not allowed as the assessee has opted for section 115BAC

**Illustration 12:**

Raman, an employee of the Gas Supply Ltd., Agra, receives the following emoluments during the previous year 2026-27.

<i>Particulars</i>	<i>(Rs.)</i>
Basic pay	10,000
Project allowance	1,800

Arrears of project allowance of May, 2019	150
Professional tax paid by the employer	200
Rent free furnished house	
- Fair rent of the house	2,000
- Rent of furniture	500
Free gas supply	400
Service of sweeper	600
Services of gardener	1,000
Service of cook	800
Free lunch	2,400

Free use of chauffeur driven car which is used partly for official and partly for private purposes.

He is a member of recognized provident fund to which he contributes Rs.1,500. His employer also contributes an equal amount. He deposits Rs. 600 per month in 10 year account under the Post office Savings Bank (CTD) Rules.

Determine his taxable income and tax payable thereon for the assessment year 2026-27.

- (a) If Raman is a director in the employer company and the rent-free house is owned by it,  
 (b) If Raman is neither a director nor a shareholder in the employer company and the rent-free house is not owned by it.

**Option 1:** Assessee paying tax under normal Tax Regime

**Option 2 :** Assessee paying tax under section 115BAC

**Solution:**

**Option 1: Assessee paying tax under normal Tax Regime**

His taxable income will be computed as under:

<i>Particulars</i>	<i>If Raman is a director and rent-free house is owned by the company 'A'</i>	<i>If Raman is neither a director nor a shareholder and rent-free house is not owned by the company 'B'</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
	<i>Rs.</i>	<i>Rs.</i>
Basic Pay	10,000	10,000

Project allowance	1,800	1,800
Arrears of project allowance of May, 2019	150	150
Professional tax paid by the employer	200	200
Rent free furnished house:		
– 10% of Salary	1,180	1,180
– Rent of furniture	500	500
Free gas supply	400	Nil
Service of sweeper	600	Nil
Service of gardener	1,000	Nil
Service of cook	800	Nil
Free lunch	Nil	Nil
Excess of employer's contribution towards provident fund over 12% of salary (1,500 - 12% of Rs. 10,000)	300	300
Gross salary	16,930	14,130
Deduction : Standard Deduction (Maximum Rs. 50,000)	(16,930)	(14,130)
Net Salary Income	Nil	Nil
Tax on total income	Nil	Nil

**Notes:**

- (1) It is assumed that the arrears of project allowance are taxable on receipt basis.
- (2) Perquisite in respect of Rent free house is taxable in the hands of all the assesseees. In this case fair market value has no relevancy and assumed that the house is owned by the employer. Since the house is provided in Agra, population is assumed as exceeding 40 lakhs. Salary for valuation of perquisite is (10,000 + 1,800).
- (3) The free sweeper, gardener, cook, lunch, car etc. are not taxable in the second case, because Raman does not fall in the category of specified employee under Section 17(2)(iii) of the Act i.e., he is neither a director nor his salary is Rs. 50,000 p.a. or more.
- (4) Free lunch provided is not taxable to the extent of Rs. 50 per day per meal.
- (5) Since Raman is employed in a gas supply company, the value of gas supplied is taxable as cost to the employer. And it is assumed that the cost of supply is same as Rs. 400 as given.

**Option 2:** Assessee paying tax under section 115BAC, his taxable income will be computed as under:

<i>Particulars</i>	<i>If Raman is a director and rent-free house is owned by the company 'A'</i>	<i>If Raman is neither a director nor a shareholder and rent-free house is not owned by the company 'B'</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
	<i>Rs.</i>	<i>Rs.</i>
Basic Pay	10,000	10,000
Project allowance	1,800	1,800
Arrears of project allowance of May, 2019	150	150
Professional tax paid by the employer	200	200
Rent free furnished house:		
– 10% of Salary	1,180	1,180
– Rent of furniture	500	500
Free gas supply	400	Nil
Service of sweeper	600	Nil
Service of gardener	1,000	Nil
Service of cook	800	Nil
Free lunch	2400	2400
Excess of employer's contribution towards provident fund over 12% of salary (1,500 - 12% of Rs. 10,000)	300	300
Gross salary	19,330	16,530
Deduction : Standard Deduction (Maximum Rs.75,000)	(19,330)	(16,530)
Net Salary Income	Nil	Nil
Tax on total income	Nil	Nil

**Notes:**

- (1) It is assumed that the arrears of project allowance are taxable on receipt basis.
- (2) Perquisite in respect of Rent free house is taxable in the hands of all the assessees. In this case fair market value has no relevancy and it is assumed that the house is owned by the employer. Since the house is provided in Agra, population is assumed as exceeding 40 lakhs. Salary for valuation of perquisite is (10,000 + 1,800).
- (3) The free sweeper, gardener, cook, lunch, car etc. are not taxable in the second case, because Raman does not fall in the category of specified employee under Section 17(2)(iii) of the Act i.e., he is neither a director nor his salary is Rs. 50,000 p.a. or more.
- (4) Free lunch provided is taxable as the assessee is opted for Section 115BAC.
- (5) Since Raman is employed in a gas supply company, the value of gas supplied is taxable as cost to the employer. And it is assumed that the cost of supply is same as Rs. 400 as given.

**Illustration 13:**

For the financial year 2025-26, 'A', a Central government officer receives salary of Rs. 77,000 (including dearness allowance of Rs. 42,000) and entertainment allowance of Rs.18,000. his contribution to provident fund during this period is Rs. 7,200. In addition, he has purchased national Savings Certificates (VIII Issue) for Rs. 6,000. he has been provided with accommodation by the government for which the rent determined is Rs. 375 per month and this is recovered from A's salary. Compute A's tax liability for the assessment year 2026-27 assuming that he has no other income.

**Option 1:** Assessee paying tax under normal Tax Regime

**Option 2 :** Assessee paying tax under section 115BAC

**Solution:**

**Option 1: Assessee paying tax under normal Tax Regime**

**Mr. A**

**Assessment Year: 2026-27**

**Status: Resident Individual**

**Statement of Assessable Income**

<i>Particulars</i>	<i>(Rs.)</i>	<i>(Rs.)</i>
Salary from Central government		77,000
Entertainment allowance	18,000	
Less: Entertainment Allowance u/s 16(ii) Rs. 5,000 or [1/5th of salary exclusive of any allowance, benefit or perquisite]	(5,000)	13,000
Less: Standard Deduction u/s 16(ia)		(50,000)
Gross Total Income		40,000

Less: Deduction u/s 80C (7,200 + 6,000)		(13,200)
Total Income		26,800
Tax liability		Nil
Net tax payable		Nil

**Option 2: Assessee paying tax under section 115BAC**

Name of Assessee: Mr. A Assessment Year : 2026-27

Status: Resident Individual

**Statement of assessable income**

<i>Particulars</i>	<i>(Rs.)</i>
Salary from Central government	77,000
Entertainment allowance	18,000
Less: Deduction u/s 16	(75,000)
Gross Total Income	20,000
Less : Deduction u/s 80C	Nil
Total Income	20,000
Tax liability	Nil
Net tax payable	Nil

**Illustration 14:**

Mr. X is employed in ABC Ltd. getting basic pay Rs. 60,000 p.m. and dearness allowance Rs. 10,000 p.m. (forming part of salary). Employer has paid bonus Rs. 20,000 during the year. Commission was allowed @ 2% of sales turnover of Rs. 50,00,000. The employer and employee both are contributing Rs. 11,000 (each per month) to the recognised provident fund. During the year interest of Rs. 1,00,000 was credited to the RPF @ 10% p.a.

Compute tax liability of Mr. X for A.Y. 2026-27.

**Option 1:** Assessee paying tax under normal Tax Regime

**Option 2 :** Assessee paying tax under section 115BAC

**Solution:**

**Option 1: Assessee paying tax under normal Tax Regime**

<i>Particulars</i>	<i>Amount (INR)</i>
Basic Pay (60,000 x 12)	7,20,000
Dearness allowance (10,000 x 12)	1,20,000

Bonus	20,000
Commission (50,00,000 x 2%)	1,00,000
Employer's contribution to RPF >12% Salary	19,200
Interest credited in excess of 9.5% p.a. (1,00,000 / 10% x 0.5%)	5,000
Gross Salary	9,84,200
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	9,34,200
Gross Total Income	9,34,200
Less: Deduction u/s 80C	(1,32,000)
Total Income	8,02,200
Computation of Tax liability	
Tax on Rs. 8,02,200 at slab rate	72,940
Add: HEC @ 4%	2,918
Tax liability Rs. 75,860 (rounded off u/s 288B)	75,858

**Option 2 : Assessee paying tax under section 115BAC**

<i>Particulars</i>	<i>Amount (INR)</i>
Basic Pay (60,000 x 12)	7,20,000
Dearness allowance (10,000 x 12)	1,20,000
Bonus	20,000
Commission (50,00,000 x 2%)	1,00,000
Employer's contribution to RPF >12% Salary	19,200
Interest credited in excess of 9.5% p.a. (1,00,000 / 10% x 0.5%)	5,000
Gross Salary	9,84,200
Less: Standard Deduction u/s 16 (ia)	(75,000)
Income under the head Salary	9,09,200
Gross Total Income	9,09,200
Less: Deduction u/s 80C	(Nil)
Total Income	9,09,200
Computation of Tax liability	
Tax on Rs. 9,09,200 at slab rate	30,920

Less: Rebate u/s 87A	(30,920)
Add: HEC @ 4%	NIL
Tax liability	NIL

**Note:**

- Salary for RPF = 7,20,000 + 1,20,000 + 1,00,000 = 9,40,000 @12% = 1,12,800  
Employer's contribution = 11,000 x 12 = 1,32,000  
1,32,000 – 1,12,800 = 19,200

**CASE LAWS**

<b>2012</b>	<b><i>CIT v. Shankar Krishnan</i></b>	<b><i>Bombay High Court</i></b>
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**Issue:** Can notional interest on security deposit given to the landlord in respect of residential premises taken on rent by the employer and provided to the employee, be included in the perquisite value of rent- free accommodation given to the employee?

**Fact of the Case:** The taxpayer was provided with rent free accommodation facility by his employer which was taxed as perquisites in his hands. The return of income filed by the taxpayer taken up for scrutiny. The assessing officer assessed the income with an addition for notional interest @ 12% on security deposit paid by the employer to the landlord in respect of the accommodation provided to the taxpayer.

On an appeal by the taxpayer, the CIT (appeal) upheld the order of assessing officer. Aggrieved by the CIT(appeal) 's order, the taxpayer preferred an appeal before the tribunal that such notional interest would not be taxable.

**Judgement:** On appeal by the Revenue, the Bombay high Court held that the Assessing officer is not right in adding the notional interest on the security deposit given by the employer to the landlord in valuing the perquisite of rent- free accommodation, since the perquisite value has to be computed as per Rule 3 and Rule 3 does not require addition of such notional interest. Thus, the perquisite value of the residential accommodation provided by the employer would be the actual amount of lease rental paid or payable by the employer, since the same was lower than 10% (now 15%) of salary.

<b>2011</b>	<b><i>CIT (TDS) v. Director, Delhi Public School</i></b>	<b><i>Punjab and Haryana High Court</i></b>
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**Can the limit of INR 1,000 per month per child be allowed as standard deduction, while computing the perquisite value of free or concessional education facility provided to the employee by the employer?**

**Fact of the Case:** The assessee is running a public school and was liable to deduct tax at source from salary and remuneration paid to its teaching staff. The person responsible (the assessee herein) is the director of the School who filed the return of salaries on 28.11.2003. At the time of checking of form 12BA annexed along with form no.16 relating to various employees, it was found that the assessee had been providing free/concessional educational facilities to the wards of teachers and other staff members of the school. However, while calculating the amount of perquisite taxable in the hands of teachers/staff qua free/concessional educational facilities provided to their wards, the assessee had been allowing a deduction of Rs.1000 per month per child from the total amount of educational facilities provided free of cost to them.

The Assessing officer held that the assessee had wrongly allowed a deduction of Rs.1000 per month per child while calculating the amount of taxable perquisite and added an amount of Rs.12,000 per annum per child to the value of perquisites on account of free educational facilities provided to the wards of the employees/staff of the school and calculated short deduction to that extent and treated the assessee to be in default. The Assessing officer also charged interest. Accordingly, during the assessment year 2003- 04, the demand was raised at Rs.3,93,586 (i.e. short deduction of tax at Rs.2,97,606 plus Rs.95,980 as interest).

**Judgement:** The Punjab and Haryana high Court held that on a plain reading of Rule 3(5), it flows that, in case the value of perquisite for free/concessional educational facility arising to an employee exceeds Rs. 1,000 per month per child, the whole perquisite shall be taxable in the hands of the employee and no standard deduction of INR 1,000 per month per child can be provided from the same. It is only in case the perquisite value is less than INR 1,000 per month per child, the perquisite value shall be nil. Therefore, INR 1,000 per month per child is not a standard deduction to be provided while calculating such a perquisite.

<b>2018</b>	<b><i>Sun Outsourcing Solution (P.) Ltd v. CIT</i></b>	<b><i>T &amp; AP High Court</i></b>
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**Where lump sum payment made to deputed employee was by way of conferring additional advantage in order to make them to meet high cost towards accommodation and other personal expenditure, same would fall within definition of perquisite under section 17(2) of the Income tax act, 1961.**

**Fact of the Case:** The assessee was engaged in the business of software development, with office at Hyderabad and branch office at London. U.K. In the course of execution of software projects in the UK, the assessee had deputed some local persons of Hyderabad to London to work in its branch office and also employed local personnel (NRIs) in U.K. The assessee did not deduct tax on allowances paid to the staff deputed to U.K. and the salary payments made to the local personnel engaged in UK.

**Judgement:** It has been held that it was not doubtful that the lump sum payment made to the employees was by way of conferring additional advantage in order to make them to meet the high cost towards accommodation and other personal expenditure. Such expenditure could not be treated as having been incurred in connection with discharge of their duties within the meaning of section 10(14). further, as found by both the fora below, neither any break-up of the amounts payable to the employees in U.K. had been given nor was it envisaged that the expenses so incurred are reimbursable. Therefore, that amount in disputes attracted the definition of perquisite in section 17(2) and they did not fall within the exception of section 10(14).

<b>2008</b>	<b><i>CIT v. Shyam Sundar Chhaparia</i></b>	<b><i>High Court</i></b>
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**Whether the amount received by the employee on cessation of employment with his Employer will be exempted from tax under section 17(3)(i) of the Income-tax Act?**

**Facts of the Case:** The assessee after his retirement was granted an amount of Rs. 27,50,000 as a special Compensation in lieu of an agreement for refraining from taking up any employment activities Or consultation which would be prejudicial to the business/interest of his employer.

The assessee claimed that it was a non-taxable receipt being the compensation for not taking up any competitive employment under a restrictive covenant. The Assessing Officer did not accept the claim of the assessee on the grounds that (i) the decision of the Supreme Court relied on by the assessee was that of an agency whereas the case of the assessee was that of one who was in service, and (ii) section 17(3)(i) was squarely applicable to the case of the assessee.

The Commissioner (Appeals) held that as there was restriction for the assessee not to work in business of any type and anywhere, the compensation was received in lieu of loss of future work and was a capital receipt. The Tribunal held in favour of the assessee.

**Judgement:** The High Court held that the assessee retired from service on attaining the age of superannuation and hence there was severance of the master-servant relationship and there was no material to suggest that there existed a service contract providing therein a restrictive covenant preventing thereby the assessee from taking up any employment or activities on consultation which would be prejudicial to the business/ interest of his employer.

Therefore, it could not be termed as profit in lieu of salary because it was not compensation due to or received by the assessee from his employer or partner- employer at or in connection with the termination of his employment. Thus, the Commissioner (Appeals) and the Tribunal rightly held that the amount could not be added for the purpose of income-tax.

<b>2008</b>	<b><i>CIT v. Shiv Charan Mathur</i></b>	<b><i>High Court</i></b>
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**Can reimbursement of expenditure on medical treatment taken by the assessee, who was a member of the Legislative Assembly, be taxed as perquisite under section 17(2)(iv)?**

**Facts of the Case:** Notice under section 148 was issued to the assessee, at the relevant time a sitting MLA and former Chief Minister of the State, for the reason that he received a sum from the State Government as reimbursement of medical expenses which amount was liable to be taxed under section 17 but had not been offered for taxation. The contention of the assessee was that the amount received by MPs and MLAs was not taxable under the head “Salary” but under the head “Income from other sources”.

**Judgement:** The High Court held that MLAs and MPs are not employed by anybody rather they are elected by the public, their election constituencies and it is consequent upon such election that they acquire constitutional position and are in charge of constitutional functions and obligations. The remuneration received by them, after swearing in, cannot be said to be “salary” within the meaning of section 15 of the Income-tax Act, 1961.

The fundamental requirement for attracting section 15 is that there should be a relationship of employer and employee whether in existence or in the past. This basic ingredient is missing in the cases of MLAs and MPs. When the provisions of section 15 were not attracted to the remuneration received by the assessee, section 17 could not be attracted as section 17 only extends the definition of “Salary” by providing certain items mentioned therein to be included in salary.

Thus, the reimbursement of medical treatment taken by the assessee, who was a member of the Legislative Assembly for open heart surgery conducted abroad was not taxable as perquisite under section 17(2)(iv).

<b>2021</b>	<b><i>State Bank of India v. ACIT</i></b>	<b><i>ITAT Mumbai</i></b>
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**No denial of LTC exemption even if travel is not undertaken through shortest route**

The Mumbai ITAT held that a plain reading of Section 10(5) read with Rule 2B does not indicate any requirement of taking the shortest route for travelling to any place in India. It does not restrict the route to be adopted for going to such a destination. However, the statutory provisions do envisage the possibility of someone taking a route other than the shortest route. It is implicit in the restriction that only an amount not

exceeding the air economy fare of the national carrier by the shortest route to the place of destination is eligible for exemption under section 10(5).

There is no specific bar in the law on the travel, eligible for exemption under Section 10(5), involving a sector of overseas travel. In the absence of such a bar, the assessee couldn't be faulted for not inferring such a bar. The reimbursement was restricted to airfare, on the national carrier, by the shortest route, as was the mandate of Rule 2B. As part of that composite itinerary involving a foreign sector as well, the employee had travelled to the destination in India.

The guidance available to the assessee indicates that, in such a situation, the exemption under section 10(5) was available to the employee. Such exemption shall be available only to the extent of farthest Indian destination by the shortest route, and that was what assessee had allowed.

### LESSON ROUND-UP

- **Basis of Charge:** As per section 15, salary is taxable on due or receipt basis whichever is earlier. Under Section 15 the income chargeable to income tax under the head salaries would include any salary due to an employee from an employer or a former employer during the previous year irrespective of the fact whether it is paid or not.
- **Different forms of salary:**
  - (A) **Basic Salary:** Basic salary is taxable in the hands of an employee.
  - (B) **Allowance:** An allowance is defined as a fixed amount of money given periodically in addition to the salary for the purpose of meeting some specific requirements connected with the service rendered by the employee or by way of compensation for some unusual conditions of employment. It is taxable on due/accrued basis whether it is paid in addition to the salary or in lieu thereon.
  - (C) **Perquisites:** The term "perquisites" includes all benefits and amenities provided by the employer to the employee in addition to salary and wages either in cash or in kind which are convertible into money. These benefits or amenities may be provided either voluntarily or under service contract. for income-tax purposes, the perquisites are of three types:
    - (i) Tax-free perquisites
    - (ii) Taxable perquisites
    - (iii) Perquisites taxable under specified cases.
- **Valuation of perquisites:** The lesson covers the principles governing valuation of perquisites. The value of perquisite is included in the salary income only if the perquisite is actually provided to the employee. Perquisite which is not actually enjoyed by the employee (though the terms of employment provide for the same) cannot be valued and taxed in the employee's hands. Therefore, where the employee waives his right of perquisite, he cannot be taxed thereon.
- **Allowable deductions under the head Salaries:** The following amounts shall be deducted in order to arrive at the chargeable income under the head "Salaries" subject to certain conditions.
  - (A) Standard deduction: Rs.75,000/Rs. 50,000 or salary whichever is less.
  - (B) Entertainment Allowance
  - (C) Tax on employment or Professional Tax

**TEST YOURSELF****Multiple Choice Questions (MCQs)**

1. Uncommuted pension is always taxable irrespective of whether the assessee is a Private Sector or a Public-Sector employee?
  - a) Yes
  - b) Yes, like commuted pension
  - c) It depends on whether the person is in receipt of gratuity
  - d) false

Answer: (a)

2. For the purposes of taxability of Commuted Pension, this is independent of whether you have received gratuity or not as these are anyways taxed separately?
  - (a) Incorrect, it depends on whether you are a government employee or not
  - (b) Incorrect, it depends on whether you are in receipt of gratuity
  - (c) Both a & b
  - (d) none of the above

Answer: (c)

3. No. of days in a month for purposes of computing taxable gratuity in case the employee is covered under the Payment of gratuity Act, 1972, are?
  - a) 26
  - b) 25
  - c) 30
  - d) 31

Answer: (a)

4. .... allowance deduction is allowed only to Government employees.
  - a) Entertainment
  - b) House Rent
  - c) Travel
  - d) None of these

Answer: (a)

5. Arrears of salary are taxable in the year of .....
  - a) payment
  - b) Receipt
  - c) Accrual

d) None of the above

Answer: (b)

6. Telephone provided at the residence of an employee by employer is ..... perquisite.

a) Non-taxable

b) Taxable

c) Exempt

d) None of the above

Answer: (a)

7. An employer has paid medical insurance premium of Rs. 12,000 in respect of a salaried employee drawing annual salary of Rs. 6 lakhs. The amount of perquisite charged in the hands of employee towards medical insurance premium is:

(a) Nil

(b) Rs. 6,000

(c) Rs. 12,000

(d) None of the above

Answer: (a)

#### Descriptive Questions:

1. Illustrate with examples the difference between Allowances and Perquisites while computing Income under the head Salary.
2. Employer and Employee relationship is the pre-requisite between payer and payee for the income to be chargeable under the head Salary. Explain with reason.

#### Practical Questions

1. Mr. Ram resides in Chennai and gets Rs. 10,000 per month as basic salary Rs. 8,000 per month as DA (entering service benefits), Rs.12,000 per month as HRA. He pays Rs. 10,000 per month as rent. Calculate taxable HRA.

**Answer: Rs. 45,600**

2. The Following are the particulars of Mr. Priyan who is employed in Chennai.

- i. Basic Salary Rs.4000 p.m.
- ii. DA (60% of Basic Salary)
- iii. CCA Rs.250 p.m.
- iv. House Rent Allowance Rs.450 p.m. (Rent paid Rs.500 p.m)
- v. During the year he paid professional tax Rs.550
- vi. Education allowances Rs.150 p.m. (Per Child)

Calculate Salary Income.

**Answer: Rs. 35,250**

