**Basic Concept**

Any amount received by an individual shall be treated as salary only if the relationship between payer and payee is that of an employer and employee. The employee may be a full time employee or part-time employee.

### Salary Sheet

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>XXX</td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>XXX</td>
</tr>
<tr>
<td>Advance Salary</td>
<td>XXX</td>
</tr>
<tr>
<td>Arrears of Salary, bonus, commission etc. (if not taxed earlier)</td>
<td>XXX</td>
</tr>
<tr>
<td>Bonus</td>
<td>XXX</td>
</tr>
<tr>
<td>Commission</td>
<td>XXX</td>
</tr>
<tr>
<td>Other Allowances</td>
<td>XXX</td>
</tr>
<tr>
<td>Less: Exemption (if any)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Value of perquisites</td>
<td>XXX</td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>XXX</td>
</tr>
<tr>
<td>Less: Exemption (if any)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Other benefits</td>
<td>XXX</td>
</tr>
<tr>
<td>Less: Exemption (if any)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>XXX</td>
</tr>
<tr>
<td>Less: Deduction u/s 16</td>
<td>(XX)</td>
</tr>
<tr>
<td>Income from Salary/Taxable Salary</td>
<td>XXX</td>
</tr>
</tbody>
</table>

### ALLOWANCE

- **Fully Taxable Allowances**
- **Allowances exempt with conditions**
- **Allowance exempt without condition but up to certain limits**
- **House rent Allowance**
- **Fully exempt Allowances**
Income from Salary

FCA Ranjeet Kunwar

Fully Taxable Allowances

<table>
<thead>
<tr>
<th>Allowance</th>
<th>Medical Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dearness Allowance</td>
<td></td>
</tr>
<tr>
<td>City Compensation Allowance</td>
<td>Lunch Allowance</td>
</tr>
<tr>
<td>Split duty Allowance</td>
<td>Overtime Allowance</td>
</tr>
<tr>
<td>Tiffin Allowance</td>
<td>Servant &amp; Warden Allowance</td>
</tr>
<tr>
<td>Deputation Allowance</td>
<td>Non Practicing allowance</td>
</tr>
</tbody>
</table>

Allowances Exempt with Condition

<table>
<thead>
<tr>
<th>Allowance</th>
<th>Conditions:</th>
<th>Academic allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traveling allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daily Allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conveyance Allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Helper allowance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Conditions:

Above allowances are exempt to the extent of actual amount spent, if it is incurred for the specified and official purpose.

Allowances exempt to the extent of amount limit specified without any condition

<table>
<thead>
<tr>
<th>Name of Allowances</th>
<th>Maximum limit of Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children Education Allowance</td>
<td>₹ 100 p.m per child up to 2 children</td>
</tr>
<tr>
<td>Hostel Expenditure</td>
<td>₹ 300 p.m per child up to 2 children</td>
</tr>
<tr>
<td>Tribal Area Allowance</td>
<td>₹ 200 p.m</td>
</tr>
<tr>
<td>Transport Allowance (between office to home)</td>
<td>₹ 800 p.m / 1,600 p.m.</td>
</tr>
<tr>
<td>Outstation allowance (under Transport Undertaking)</td>
<td>Least of 70% or 10,000 p.m.</td>
</tr>
</tbody>
</table>

House Rent Allowance Sec 10(13A)

The least of the following will be exempted

⇒ Amount received
⇒ 50% or 40% of Salary
⇒ Rent paid less 10% of Salary

Salary means = Basic salary + forming part of D.A. + turnover based commission. (GOLDEN RULE)

Mode of computation depends upon followings:

⇒ Salary
⇒ House Rent Allowance
⇒ Rent paid
⇒ City where rent is paid

Note: - When these four are the same throughout the P/Y, the exemption should be calculated on “annual basis”. When however there is a change in respect of any of the aforesaid factors, then the exemption shall be calculated on “monthly” basis.

Fully Exempt allowances

Any ALLOWANCE and PERQUISITE are exempted from tax for following categories of Employees

Judges of High Court or Supreme Court
Employees of United Nation of India
Employees of Indian Embassy located outside India
Tax Treatments of Provident Funds:

1) Recognised Provident Funds:

⇒ **During the Employment:**

- Employer’s contribution into RPF = It is taxable as salary during the employment after giving exemption @ 12% of salary.
- Interest on the balance of RPF = It is taxable as salary during the employment after giving exemption @ 9.5% p.a.
- While computing Total Taxable Income, Employee’s contribution will be allowed as deduction under section 80C from Gross Total Income of Employee.

⇒ **Upon Retirement:**

- Full amount received from RPF account will be exempt from tax if the total year of service rendered is 5 years or more and subject to other conditions.

2) Unrecognised Provident Funds:

⇒ **During the Employment:**

- Employer’s contribution into URPF = It is NOT considered as income of employee.
- Interest on the balance of URPF = It is NOT considered as income of employee
- NO Deduction will be allowed u/s 80C from Gross Total Income.

⇒ **Upon Retirement:**

Amount received from URPF account will be taxable as under:

- Employee’s contribution = It will not be treated as income since it has already been included in his salary during the job.
- Employer’s contribution = It will be fully taxable as salary income.
- Interest on employer’s contribution = It will be fully taxable as salary income.
- Interest on employee’s contribution = It will be fully taxable as Income from other sources.
3) Statutory Provident Funds:

⇒ *During the Employment:*

- Employer’s contribution into SPF = It is exempt from tax in the hand of employee.
- Interest on the balance of SPF = It is exempt from tax in the hand of employee.
- While computing Total Taxable Income, Employee’s contribution will be allowed as deduction under section 80C from Gross Total Income of Employee.

⇒ *Upon Retirement:*

- Full amount received from SPF account will be exempt from tax.

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**Gratuity**

*Gratuity received for all kind of employee upon DEATH* = It will be fully exempt from tax in the hand of legal heir.

*Gratuity received by Employee upon Retirement:*

⇒ *For Employee of Central Government, State Government or Local Authority:*

It will be fully exempt from tax u/s 10(10).
Income from Salary

⇒ For other employee: (including employee of statutory corporation)

- If Employee is covered under Gratuity Act, 1972:

  Least of following will be exempted:

  - Actual amount received of Gratuity;
  - Maximum limit prescribed i.e. ₹ 10,00,000;
  - Half month salary for every completed year of service.

- If Employee is NOT covered under Gratuity Act, 1972:

  Least of following will be exempted:

  - Actual amount received of Gratuity;
  - Maximum limit prescribed i.e. ₹ 10,00,000;
  - Half month salary for every completed year of service.

Last Salary: Last Month Salary Drawn (Salary means Basic + DA (both))

Average Salary: Average Salary for 10 Month immediately preceding the month in which such event occurs. (Golden rule salary)

Special Notes:

1) Exemption (fully or partly) will be available even in case of resignation

[Manish Chhabra Vs. CIT (2011)]

2) If retired employee had been worked with former employer also:

   In computing exemption of gratuity with current employment following shall also be considered

   If Gratuity was also received from former employer ⇒ ₹ 10 lacs shall be reduced by exemption availed earlier.

   If Gratuity was not received from former employer ⇒ Completed year service includes the period of service under former employer.

3) Employee of seasonal establishment and covered under Gratuity Act:

   In the case of an employee who is employed in a seasonal establishment and who is not so employed throughout the year, in computing exemption 7 days salary will be used instead of 15 days.

4) Example of Statutory Corporation in India:

<table>
<thead>
<tr>
<th>Airports Authority of India</th>
<th>Inland Waterways Authority of India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Damodar Valley corporation</td>
<td>Food Corporation of India</td>
</tr>
<tr>
<td>National Highways Authority of India</td>
<td>National Human Rights Commission</td>
</tr>
<tr>
<td>Central Warehousing Corporation</td>
<td></td>
</tr>
</tbody>
</table>
Amount received by Legal Heir on death of Employee (Family Pension):

“Family pension will be taxable after standard deduction under the head “Income from other sources”.

Standard Deduction u/s 57:– 1/3 of Pension received during the year or Rs.15000, whichever is lower.

Amount received by Employee after retirement:

Un-commuted Pension: - It is monthly pension received after retirement, and Fully TAXABLE in the hand of ALL KIND of employee.

Commited Pension: - It is Lump sum amount of Pension which is commuted by employee in lieu of future pension.

⇒ Commuted pension received by Employee of Central Government, State Government, Local Authorities or Statutory Corporation:

   It will be Fully Exempt from tax u/s 10(10A).

Note: Commuted pension received by Judge of Supreme Court or High Court is also fully exempt from tax.

⇒ Commuted pension received by Other Employee:

   ▶ If Employee receives Gratuity also: 1/3 of FULL VALUE of Commuted Pension shall be exempted u/s 10(10A).

   ▶ If Employee receives Pension alone (without Gratuity): ½ of FULL VALUE of Commuted pension shall be exempted u/s 10(10A).

FULLL VALUE of commuted pension:

If employee commutes pension in full: - Commuted pension received is FULL VALUE

If employee commutes pension in part:-

 e.g. employee commuted 60% of his pension and received ₹ 2,40,000.

In such case FULL VALUE = \( \frac{2,40,000 \times 100}{60} = ₹ 4,00,000 \)

Leave Encashment

⇒ Leave Encashment received during employment shall be Fully TAXABLE in the hand of ALL kind of Employee.

⇒ Leave Encashment received upon DEATH of employee: It will be Fully EXEMPT in the hand of Legal Heir.
Income from Salary

⇒ Leave Encashment received upon Retirement by Employee:

- In case of Central Government or State Government Employee:
  It shall be Fully EXEMPT.

- In case of other Employee (including local authorities or statutory corporation)
  Least of following will be exempted:
  - Actual amount received as Leave Encashment
  - Maximum limit prescribed; i.e. ₹ 3,00,000
  - (Leave Entitled or 30 days)

  \[
  [(Lower \times CYS) - \text{total leave availed during the job}] \times \text{Avg. Salary} \div 30
  \]

LE: Leave Entitled as per employment rule
LA: total leave availed during employment (by encashment or physically both)
AS: Average Salary of 10 months immediately preceding the DATE of retirement. (Golden rule salary)

Retrenchment Compensation [Sec. 10 (10B)]

Least of the followings will be Exempt

- Amount Received
- Amount Calculated under “Industrial Dispute Act”
- ₹ 5,00,000

Compensation on Voluntary Retirement [Sec. 10 (10C)]

Least of the followings will be Exempt

- Amount Received
- ₹ 5,00,000

Conditions:

1. It applies to an employee who has completed 10 years of service or completed 40 years of age. (This condition would not be applicable to employee of Public Sector Company).
2. It applies to all employees except the director of company.
3. The scheme of voluntary retirement has been drawn to result in overall reduction in the existing strength of the employees;
4. The retiring employee shall not be employed in another company or concern belonging to the same management.
5. The amount receivable on account of VRS does not exceed
   a. Three months’ salary for each completed years of service, or
   b. Salary of the balance months of service left before his normal retirement.
PERQUISITES

1) Rent-free Accommodation
2) Education Facility
3) Car Facility
4) Gas, Electricity and Water Facility [CTC]
5) Servant Facility [CTC]
6) Medical Facility
7) Premium Paid for Life Insurance of Employee [CTC]
8) Re-imbursement of Income tax, Employment tax or Penalty of Employee [CTC]
9) Sweat equity shares allotted to employee under ESOP (Market Value – Issued Price)
10) Employer’s Contribution to Approved Superannuation Fund, in excess of ₹1,00,000
11) Other Facilities
   a. Lunch Facility (Refreshment tax-free; Lunch in office = in excess of ₹ 50 per meal)
   b. Interest free Loan
   c. Transport Facility (Rail or Aircraft exempt; otherwise = Market Value)
   d. Holiday Facility [CTC]
   e. Credit cart Facility [CTC]
   f. Club Facility [CTC]
   g. Free Voucher Facility (Market Value is exceeds ₹ 5,000)
   h. Use of Movable Assets (10% P.A. of Original Cost or Rent except computer or mobile)
   i. Movable Asset sold at Concessional rate

VALUATION OF PERQUISITES

Rent Free Accommodation

For Employee of Central Government or State Government:

Value will be equal to the License fees, which would have been determined by the CG/SG in accordance With the Govt. Rules.
Income from Salary

For other Employee:

⇒ If Accommodation is owned by Employer:
  
  ❖ 7.5% or 10% or 15% of Salary

| City having population up to 10 Lacs | 7.5% of Salary |
| City having population exceeds 10 Lacs but up to 25 Lacs | 10% of Salary |
| City having population exceed 25 Lacs | 15% of Salary. |

⇒ If Accommodation is taken on lease rent by Employer:
  
  ❖ 15% of Salary or Lease Rent Payable by Employer; whichever is lower.

Note 1:- Where House is owned by Employer then valuation will be done as under:

Note 2:- The value determined as above, shall be reduced by the rent, if any actually paid by the employee.

Note 3:- When the accommodation is provided by the employer (Govt. as well as other) in a hotel:
  
  The Value is:
  24% of Salary or actual charges paid or payable to such hotel, whichever is lower.
  [Note 2 is also applicable in this case.]

Exception to Note 3:-

There will be no perquisite value if the accommodation is provided in a hotel if the following conditions are fulfilled:-

(i) Such accommodation is provided for a period 15 days or less, and

(ii) It has been provided on the transfer of the employee from one place to another.

Note 4: “Salary” means

❖ Basic salary
❖ Dearness allowance, if terms of employment
❖ Bonus
❖ Commission (both)
❖ All other taxable allowances
❖ Leave Encashment (Current Year)
  ❖ Salary to be calculated on DUE basis
  ❖ Salary from ALL Employers will be taken
  ❖ Monetary payments, which are in the nature of perquisites, shall not be included
Income from Salary

Value of Rent Free Furnished Accommodation

Value of unfurnished accommodation

Add: 10% of original cost of furniture is owned by employer

OR

Actual hire charges payable, if furniture is hired by the employer

Value of RFA (furnished)

Education facility

Valuation:

1. If School is owned by Employer;
   Valuation = Fair fees in similar school in near locality.

2. If Employer has reserved sum seats in any School or Institution;
   Valuation = Fair fees in same school.

3. If education fees is paid by employee and later on reimbursed from employer;
   Valuation = Amount of reimbursement.

However, if education facilities are provided to the CHILDREN of the employee, in point no. (1) and (2) then value of perquisite will be exempted up to Rs. 1000/-p.m. per child.

Note: Where any amount is paid or recovered from the employee on that account, the value of benefit shall be reduced by the amount so paid or recovered.

Interest free Loan or Loan at Concessional rate

Valuation: - Rate as prescribed by State Bank of India as on 1st day of the relevant previous year in which loan has been given.

Note 1: The above valuation should be reduced by the interest, if any paid by employee or his family member.

Note 2: Value of perquisite shall not be charged to tax in following cases:-

(i) When the amount of loan not exceeding in the aggregate Rs.20,000; or

(ii) Where loan is for medical treatment under Rule 3A

TAXATION of IPCC

By

FCA Ranjeet Kunwar
Valuation of Car Facility

A. Car is owned by Employer:-

- Car is held for fully official use
  - No Value
  - Engine capacity up to 1600CC/1.6 liter
    - Car = 600 p.m.
    - Petrol = 1200 p.m. (always with car)
    - Driver = 900 p.m.
- Car is held for partly office and partly personal use (POPP)
  - Engine capacity more than 1600CC/1.6 liter
    - Car = 900 p.m.
    - Petrol = 1500 p.m. (always with car)
    - Driver = 900 p.m.
- Car is held for fully personal use
  - For car = 10% p.a. of Cost
  - For Running exp. = Actual incurred by employer
  - For driver = Actual incurred by employer
  - Reduced by any amount recovered from employee

B. Car is owned by Employee:-

- Car is held for fully official use
  - No Value
  - Logbook maintained
- Car is held for partly office and partly personal use
  - Other wise
  - Actual Expenses incurred by employer Less: proportionate amount for official use
- Car is held for fully personal use
  - Actual Expenses incurred by employer Less: presumptive rate as mentioned above for (POPP)
  - Actual Expenses incurred by employer Less: proportionate amount for official use

Movable Assets sold at Concessional rate

**Valuation:** WDV of such assets (-) Amount charged from employee

**WDV means**

\[
\text{Actual Cost of the Employer} - \text{Depreciation} = \text{WDV}
\]

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate of Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer</td>
<td>50% on WDV</td>
</tr>
<tr>
<td>Motor Car</td>
<td>20% on WDV</td>
</tr>
<tr>
<td>Other assets</td>
<td>10% on SLM</td>
</tr>
</tbody>
</table>

**Note:** While calculating depreciation part of the year will be ignored
Income from Salary

Medical facility

---

Leave Travel Concession

---

Notes:
1. Journey may be performed while in service or after retirement.
2. Only two journey in a block of 4 years is exempt
3. Exemption is available only in the case of fare.
4. Journey must be performed either by employee or his family.
Deduction from Salary

Sec 16(ii): Deduction for Entertainment allowance

- Government employee
  - Amount received lower than Rs. 5,000
  - 20% of Basic salary

- Private employee
  - Not allowed

Sec 16(iii): Deduction for Employment / Professional Tax

Deduction will be the amount of tax actually paid by employee or any person on behalf of employee.

Batch for Nov 2014 IPCC

<table>
<thead>
<tr>
<th>Batch Type</th>
<th>days</th>
<th>starting</th>
<th>Timing</th>
<th>Institutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face to Face</td>
<td>M, W, F</td>
<td>11th June</td>
<td>2 to 5 p.m.</td>
<td>IOCM (011-65671008)</td>
</tr>
<tr>
<td>Face to Face</td>
<td>M, W, F</td>
<td>6th June</td>
<td>7:30 am to 10:30 am</td>
<td>GAAP Bright (011-41404111)</td>
</tr>
<tr>
<td>Satellite (LIVE)</td>
<td>M, W, F</td>
<td>11th June</td>
<td>10:45 am to 1:45 pm</td>
<td>GAAP Bright (011-41404111)</td>
</tr>
</tbody>
</table>

TAXATION of IPCC

By

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