INCOME UNDER THE HEAD “SALARIES”

AND IT’S COMPUTATION

1. BASIS FOR CHARGE:-
   For charging tax under income under the salary the foremost requirement is that the relationship of employer and employee must subsist between the payer and payee. Even if the person is in employment with more than one employer, all kinds of benefits extracted from such kind of contract would be taxable under income under the head salaries. The basic difference one must remember between forgone and surrender of salary is that even if forgone, salary is taxable but when salary is voluntarily transferred to the central government, such salary is not taxable.

   SALARY IS TAXABLE ON DUE OR RECEIPT BASIS WHICHERVER IS EARLIER. ACCOUNTING METHOD OF EMPLOYEE IS NOT RELEVANT.

   EMPLOYER INCLUDES FORMER EMPLOYER.

2. Salary under section 17(1):- It means any kind of:-
   - Wages,
   - Annuity,
   - Gratuity, fees, bonus, commission, perk or profit in lieu of salary or wages,
   - Any advance of salary,
   - Any amount on account of leave encashment,
   - Any contribution to RPF to the extent it is taxable,
   - Any interest on RPF to the extent it is taxable,
   - Any contribution under section 80CCD under scheme framed by CG.

3. PLACE OF ACCRUAL:- Salary is Deemed to accrue at place where service is rendered, however there is an exception to the same:- Where an Indian National is rendering service outside on behalf of government of India outside India such salary is deemed to accrue and arise in India itself and allowances and Perks to such person are also
exempt from tax. And on the principle of reciprocity any salary or wages paid in India to a foreign national in this behalf shall also not be taxable in India.
Also Salary received from UNO would not be taxable in India.

4. **TAXATION OF ADVANCE SALARY And ARREARS OF SALARY**: -
Any advance salary received would be taxable in the previous year in which it is received on receipt basis and any arrears of salary received which is not taxed earlier would be taxable in the year in which they are allowed, however recipient would be entitled to claim relief under section 89 in respect of such arrears.

   **However It is to be noted that Advance salary is different from advance against salary and such advance against salary is taxable when salary becomes due.**

5. **ALLOWANCES**: - Any Kind of Fixed Amount granted To an employee to meet some specific expenditure is termed as an allowance.
Allowances are fully taxable however in case of certain allowances, exemptions are granted by the income tax authorities, for this purpose, allowances are classified into 2 parts:

   **a) Allowances in connection with official duties**: - These allowances are exempt to the minimum of the following two limits:-
   1. Amount actually received or,
   2. Amount actually spent, whichever is lower.
   These allowances can be in nature of Daily allowance, helper allowance, uniform allowance, academic allowance, conveyance allowance, travelling allowance.

   **b) Allowances paid For Personal Purposes**: - These are the allowances which are exempt to the minimum of limit specified or amount spent whichever is less and as per explanations provided in the following table:-

<table>
<thead>
<tr>
<th>DEARNESS ALLOWANCE</th>
<th>FULLY TAXABLE REGARDLESS OF EXPENDITURE INCURRED</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHILDREN EDUCATION ALLOWANCE</td>
<td>Rs. 100 per month per child for a maximum of 2 children</td>
</tr>
<tr>
<td>HOSTEL EXPENDITURE ALLOWANCE</td>
<td>Rs. 300 per month per child for a maximum of 2 children</td>
</tr>
</tbody>
</table>
TRANSPORT ALLOWANCE | Rs. 800 per month (Rs. 1600 per month for blind and lower handicapped persons) REGARDLESS OF EXPENDITURE
---|---
TRIBAL AREA ALLOWANCE | Rs. 200 per month
UNDERGROUND ALLOWANCES | Rs. 800 per month
HIGH ALTITUDE ALLOWANCE | From 9000-15000 ft –Rs. 1060 p.m. More than 15000 ft Rs. 1600 p.m.

**c) Some specific allowances:**

A) **House rent allowance:**

This allowance is granted to employee to meet the expenditure in connection with of house rent of the employee.

This is exempt to the minimum of Following 3 limits:

a) Amount Actually received
b) Rent Paid Less 10% of salary
c) 40% (or 50% in case of residence in Delhi, Chennai, Kolkata, Mumbai) of salary

*Here the Term Salary Means:* Basic Salary + D.A. (Forming part for retirement benefits) + commission as a fixed % of turnover.

B) **Allowances to employees in transport system:**

Allowances allowed to employees in transport system are exempt to the minimum of following 2 limits provided these employees are not in receipt of any daily allowance, limits are:

1. Rs. 10000 or,
2. 70% of such allowance

**d) Fully Exempt Allowances:**

a) Foreign government employees in receipt of any allowance
b) High court or supreme court judges in receipt of any allowance
c) Allowances received from UNO
d) Allowances received by an Indian Govt. Servant Serving Outside India.
6. **PERQUISITE**: - A perquisite may be defined as a casual emolument or benefit attached to an official position in addition to salary or wages. There are various kinds of Perks, on the basis of taxability they can be classified into:

a) Perks taxable in hands of all employees
b) Perks taxable in hands of specified employees
c) Tax free Perks

For greater understanding first of all let’s understand who is a specified employee??

A) He is director of the employer company
B) He has substantial interest in the employer company. Substantial interest means he holds 20% or more of total voting power in the company
C) A person whose income under the head salaries (excluding benefits not provided by way of monetary payments) exceeds Rs.50000. When salary is received from more than one employer aggregate salary from both the employers is taken into account.

6.1 **Perk In respect of rent free accommodation**:-
Provisions with regard to Central govt. and state govt. employees:
For unfurnished accommodation, it would be taken as License fee as determined by Government.

Provisions with regard to non government employees:– Perk would be valued as under:

<table>
<thead>
<tr>
<th>POPULATION AS PER 2001 CENSUS</th>
<th>WHEN ACCOMODATION IS OWNED BY EMPLOYER</th>
<th>WHEN ACCOMODATION IS TAKEN ON RENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXCEEDING 25 LAKHS</td>
<td>15% OF SALARY</td>
<td>15% OF SALARY OR ACTUAL RENTAL CHARGES WHICHEVER IS LOWER</td>
</tr>
<tr>
<td>FROM 10 LAKHS TO 25 LAKHS</td>
<td>10% OF SALARY</td>
<td>15% OF SALARY OR ACTUAL RENTAL CHARGES WHICHEVER IS LOWER</td>
</tr>
<tr>
<td>LESS THAN 10 LAKHS</td>
<td>7.5% OF SALARY</td>
<td>15% OF SALARY OR ACTUAL RENTAL CHARGES WHICHEVER IS LOWER</td>
</tr>
</tbody>
</table>
SOME IMPORTANT NOTES:-

- When such a facility is provided to high court or Supreme Court judges, it is exempt from taxation.
- When accommodation is provided to a govt. employee deputed with some organization on behalf of govt. the perk would be calculated as if such a place is owned by employer.
- When 2 accommodations are provided by the employer on account of transfer from one place to another the perk would be calculated for only one place for first 90 days and thereafter if employee still holds 2 places perk would be calculated for both the places.
- Any kind of Accommodation provided in a remote area (at least 40 km’s away from town having population not exceeding 20000) or accommodation of temporary nature having plinth area not exceeding 800 sq. feet’s and at least 8 km’s away from local limits would be exempt.
- When accommodation is provided in a hotel or motel to the employee on account of transfer from one place to another and such accommodation is provided for a period not exceeding 15 days such a perk would be Exempt, in all other cases for accommodation in a hotel or motel it would be valued as lower of actual hire charges or 24% of salary.
- If any amount recovered from employee by the employer such amount would be deducted from the value of perk as calculated.

SALARY MEANS:-
Basic salary + D.A. (part for retirement benefits) + bonus or commission + taxable allowances.
It would be taken as salary for the period for which accommodation is provided.

WHEN ACCOMODATION IS FURNISHED:-
Add to the value of unfurnished accommodation 10% of cost of assets provided or actual hire charges (if asset is taken on rent)

6.2 PERK IN RESPECT OF FREE DOMESTIC SERVANTS:-

<table>
<thead>
<tr>
<th>When such servants are engaged by employer</th>
<th>When such servants are engaged by employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable only in hands of specified employees</td>
<td>Taxable in hands of all employees</td>
</tr>
</tbody>
</table>

VALUE: ACTUAL EXPENDITURE

6.3 PERK IN RESPECT OF GAS, ELECTRICITY OR WATER SUPPLY :

<table>
<thead>
<tr>
<th>MODE OF VALUATION</th>
<th>MADE AVAILABLE FROM OUTSIDE AGENCY</th>
<th>MANUFACTURED BY EMPLOYER</th>
</tr>
</thead>
<tbody>
<tr>
<td>COST-AMOUNT RECEIVED</td>
<td>COST PROCUREMENT COST FROM OUTSIDE AGENCY</td>
<td>COST IS ACTUAL COST PER UNIT TO EMPLOYER</td>
</tr>
</tbody>
</table>

6.4 PERK IN RESPECT OF FREE EDUCATION : Free education to children and member of household

- TRAINING OF EMPLOYEES: NOT TAXABLE
- SCHOOL FEES PAID BY EMPLOYER OR REIMBURSEMENT:
  It would be amount incurred and such amount would be taxable in hands of all employees.
- EDUCATION FACILITY BY REASON OF EMPLOYEMENT:
  such would be taxable in hands of specified employees and for children it would be exempt to the extent to the extent of Rs. 1000 p.m. per child. (This amount is calculated as cost of education in similar institution in near locality)

6.5 PERK IN RESPECT OF CREDIT CARD AND CLUB FACILITY :-
It would be actual expenditure incurred by employer in this respect less amount recovered from employee. The amount would include amount paid as initial fee paid by employer. However corporate membership fee paid for by the employer in case of club facility would not be included.

**EXPENDITURE FOR OFFICIAL USE:** Such amount would not be counted as a perquisite taxable in hands of employee. In case of expenditure for official use in this respect, employer has to maintain certain documents:

1. Complete details of expenditure including date, amount and nature of expenditure including its expediency
2. Employer's certificate that amount was incurred for business use.

**6.6 GIFT FROM EMPLOYER:** Any kind of cash gift received from employer would be fully taxable. But any kind of gift received in kind from the employer would be exempt up to Rs. 5000.

**6.7 PERK IN RESPECT OF LUNCH/ REFRESHMENT:**

- Food or non-alcoholic beverages provided in working hours in remote area or off shore location would be exempt.
- Any tea or snacks provided in working hours to employee would be exempt.
- Any kind of food or non-alcoholic beverages provided at office or through non-transferable vouchers usable at eating joints only would be exempt to the extent of Rs. 50 per meal.

**6.8 PERK IN RESPECT OF FREE TRANSPORT TO EMPLOYEES IN TRANSPORT SYSTEM:**

- Any transport facility to employees in railway/airlines is exempted from taxation.
• Transport facility to employees in any other transport system would be taxable as:-
   Value at which such benefit is recovered from any other employer less amount recovered from employee.

6.9 VALUATION IN RESPECT OF TOURING, TRAVELLING, ACCOMMODATION:
Perk is in respect of touring travelling, accommodation for holiday availed by employee or his member of household.
When such facility is uniformly provided to all employees:-
It would be actual expenditure incurred by employer less amount recovered from employee.
When such facility is not uniformly provided to all employees:-
It would be amount at which such facility is provided by similar agencies in the market less the amount recovered from employee.
NOTE: It is to be noted that amount would be confined to expenditure incurred for personal purposes and not for official purposes.

6.10 PERK IN RESPECT OF USE OF MOVABLE ASSET:
• Free use of computer, laptops:- amount of perk would be NIL
• For any other asset, it would be 10%p.a (or actual hire charges, if taken on rent by the employer) of actual cost less amount recovered from employee.

6.11 PERK IN RESPECT OF SALE OF MOVABLE ASSET:
Any amount of benefit extracted by employee from sale of movable asset by employer to the employee would be taxable as follows:-
STEP 1:- The asset would be valued as under:-
### ASSET VALUATION

<table>
<thead>
<tr>
<th>ASSET</th>
<th>VALUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELECTRONIC ASSET/COMPUTERS</td>
<td>Actual cost less 50% on wdv basis for each completed year</td>
</tr>
<tr>
<td>MOTOR CAR</td>
<td>Actual cost less 20% on wdv basis for each completed year</td>
</tr>
<tr>
<td>ANY OTHER ASSET</td>
<td>Actual cost less 10% on SLM basis for each completed year</td>
</tr>
</tbody>
</table>

**STEP 2:** From this valuation of asset deduct the amount recovered from employee; the rest would be taxable as a perquisite.

### 6.12 PERK IN RESPECT OF INTEREST FREE LOAN OR CONCESSIONAL LOAN:

The interest on such loan would be taxable as follows:

**Step 1:** Find out the maximum outstanding balance at end of each month.

**Step 2:** Find out the interest charged by employer on 1 April of the previous year.

**Step 3:** From his rate deduct the rate charges by employer.

**Step 4:** Calculate the interest on maximum outstanding balance at rate calculated in step 3.

**WHEN SUCH A LOAN IS TAX FREE:**

1. When such a loan is granted to meet expenditure incurred for any disease or ailment specified in rule 3A, however if any amount in this respect is recovered from insurance company such amount received from insurance co. would be treated as a loan from the month in which it is received.

2. When original loan (or loans) in aggregate during the previous year do not exceed Rs. 20000.

### 6.13 VALUATION IN RESPECT OF MEDICAL FACILITIES:

Medical facilities provided by employer for employee or his family member are taxable as follows:

A) **MEDICAL FACILITIES IN INDIA:** Any kind of medical facilities provided in following nature would be exempt as under:

- Treatment in a government hospital
- Treatment in a hospital maintained by the employer
- Any health insurance premium paid by employer for employee or his family member would be exempt
• Treatment of a specified ailment in a hospital approved by chief commissioner of income tax
• Any other expenditure would be exempt up to Rs. 15000 a year and rest is taxable.

B) MEDICAL FACILITIES OUTSIDE INDIA:- Any medical expenditure incurred by the employer or reimbursed to the employee for treatment outside India would be taxable as under:

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>TAXATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on Treatment</td>
<td>Exempt up to amount specified by RBI guidelines</td>
</tr>
<tr>
<td>Expenditure on Stay</td>
<td>Expenditure on stay of the person who is undergoing treatment and one attendant would be exempt up to amount permitted by RBI guidelines.</td>
</tr>
<tr>
<td>Expenditure on Travelling</td>
<td>Expenditure would be exempt only if GTI of individual before including this perk is less than Rs. 200000 otherwise fully taxable.</td>
</tr>
</tbody>
</table>

6.14 PERK IN RESPECT OF MOTOR CAR :-
• Where such car is owned or hired by Employer and expenditure on Running and maintenance are met by employer:-

<table>
<thead>
<tr>
<th>ONLY FOR OFFICIAL USE</th>
<th>EXEMPTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>ONLY FOR PERSONAL PURPOSES</td>
<td>10% of cost or actual hire charges + Running and maintenance exp. Incurred by employer-AMOUNT RECOVERED</td>
</tr>
<tr>
<td>Partly official Partly private</td>
<td>Rs. 1800 p.m. if cubic capacity of car do not exceed 1.6 liters and thereafter 2400</td>
</tr>
</tbody>
</table>
Where Such Car is owned By Employer And Running And Maintenance Exp. Incurred by employee:-

<table>
<thead>
<tr>
<th>ONLY FOR OFFICIAL USE</th>
<th>NIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ONLY FOR PERSONAL PURPOSES</td>
<td>10% OF COST OF CAR OR HIRE CHARGES-AMOUNT RECOVERED</td>
</tr>
<tr>
<td>PARTLY OFFICIAL PARTLY PRIVATE</td>
<td>Rs. 600 p.m. IF CUBIC CAPACITY IS UP TO 1.6 LITRES AND THEREAFTER Rs. 900 p.m. NOTHING DEDUCTABLE ON ACCOUNT OF AMOUNT RECOVERED. +Rs. 900 p.m. IF CHAUFFER IS ALSO PROVIDED.</td>
</tr>
</tbody>
</table>

Where car is owned by employee and running expenses also incurred by employee:- Nothing is Taxable

Where such car is owned by employer and running expenses met by employer:-

<table>
<thead>
<tr>
<th>FOR OFFICIAL USE</th>
<th>NIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOR PERSONAL PURPOSES</td>
<td>AMOUNT OF EXPENDITURE</td>
</tr>
<tr>
<td>PARTLY OFF. PARTLY PRIVATE</td>
<td>EXPENDITURE – Rs. 1800(for capacity up to 1.6 liters, thereafter Rs. 2400 p.m.) – Rs900 p.m. is chauffer is also there. HOWEVER GREATER DEDUCTION CAN BE ALLOWED IF AS PER OFFICIAL RECORDS IT IS ESTABLISHED THAT EXPENDITURE WAS FOR OFFICIAL USE)</td>
</tr>
</tbody>
</table>
• When employee owns any other automotive:

<table>
<thead>
<tr>
<th>FOR OFFICIAL USE ONLY</th>
<th>NIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOR PERSONAL PURPOSES</td>
<td>EXPENDITURE INCURRED</td>
</tr>
<tr>
<td>PARTLY OFF. PARTLY PRIVATE</td>
<td>Expenditure incurred- Rs. 900 p.m. (GREATER AMOUNT ALLOWED IF THROUGH RECORDS ESTD. THAT EXP. WAS FOR OFFICIAL USE)</td>
</tr>
</tbody>
</table>

• When such a facility is provided to high court or supreme court judges, it is exempt from taxation

• When such a facility is provided for commuting between residence to office, it is exempt from taxation.

• DOCUMENTS TO BE MAINTAINED BY EMPLOYER:
1. Complete details of journey undertaken for official purposes
2. Employer’s certificate that expenditure was incurred wholly for official use.

NOTE: - WHEN 2 OR MORE CARS ARE PROVIDED, THE VALUE FOR ONE CAR WOULD BE AS PROVIDED FOR PARTLY OFFICIAL PARTLY PRIVATE AND FOR OTHER CARS AS PURELY FOR PERSONAL PURPOSES.

6.15 VALUATION OF LEAVE TRAVEL CONCESSION IN INDIA:

Leave travel concession provided by employer to the employee or any of his family members is taxed as per the provisions stated in the following table:

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>EXEMPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>JOURNEY PERFORMED BY AIR</td>
<td>AMOUNT OF ECONOMY CLASS FAIR BY NATIONAL CARRIER BY SHORTEST DISTANCE OR AMOUNT SPENT WHICHEVER IS LESS</td>
</tr>
<tr>
<td>JOURNEY PERFORMED BY RAIL</td>
<td>AMOUNT OF FIRST CLASS AIR CONDITIONED RAIL TRAVEL OR AMOUNT SPENT WHICHEVER IS LESS</td>
</tr>
<tr>
<td>WHERE PLACES CONNECTED</td>
<td>AMOUNT OF FIRST CLASS AIR</td>
</tr>
<tr>
<td>BY RAIL AND JOURNEY BY ANY OTHER MODE</td>
<td>CONDITIONED RAIL TRAVEL OR AMOUNT SPENT WHICHEVER IS LESS</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>------------------------------------------------------------</td>
</tr>
<tr>
<td>WHERE PLACES ARE NOT CONNECTED BY RAIL AND JOURNEY BY ANY MODE OTHER THAN AIR</td>
<td>WHERE RECOGNISED PUBLIC TRANSPORT SYSTEM EXISTS:— First class deluxe fare by shortest route or amount spent whichever is less</td>
</tr>
<tr>
<td></td>
<td>WHERE NO PUBLIC TRANSPORT EXISTS:— Amount of railway fare if rail would have existed there or amount spent whichever is less</td>
</tr>
</tbody>
</table>

**NOTES:**

- Only 2 journey’s allowed in a block of 4 years:— The current block going on is calendar year 2010-13
- Carry forward of journey:— If the employee has not performed any journey or performed only 1 journey in the current block then only 1 journey can be carried forward to the next block and that too has to be performed in the first year in the succeeding block and that would be the first journey performed during that year.
- The Amount of exemption is limited in respect of fare only and not for other expenses like boarding, lodging, etc.
- The amount of exemption is limited to cost of journey performed by the shortest route from the relevant mode of transport.
- exemption admissible only in respect of 2 children:— The amount of exemption would be admissible only in respect of 2 surviving children, however the following are exceptions to the same:—
  1. Children born on or before 1-10-1998
  2. Exemption is available for more than one child in case of multiple birth after 1 child.

---

**6.16 GRANT OF SPECIFIED SECURITIES TO EMPLOYEES:**

- When such a security is a equity share in a company:—
The value would be computed taking into account whether it is a listed security or not.

1. **For listed Equity shares:** The value of perk would be average of buying and selling price on Stock exchange date of exercise of option. If share is listed on more than one stock exchange, the value would be taken of the stock exchange which records highest volume of trading on date of exercise of option. 
   - If there is no trading on any stock exchange, the value would be taken as closing price on the nearest date preceding the date of exercise of option and that too would be taken on stock exchange which records highest volume of trading on that date. 
   - However it must be remembered that such date cannot be more than 180 days preceding the date of exercise of option, if there is no trading for last 180 days preceding the date of exercise of option, then value would be determined by merchant banker.

2. **For non listed equity shares:** The value would be such as determined by the merchant banker.
   - When such security is any other security other than being an equity share in the company: The value would be such that as determined by the merchant banker.

### 6.17 CONTRIBUTION TO SUPER ANNUATION FUND

- Any contribution to superannuation fund exceeding a sum of 1 lakh rupees during the previous year would be taxable in the year in which it is made.

### 6.18 ANY OTHER FRINGE BENEFITS:

- Any other fringe benefit when provided to employee by way of facility would be taxable only in hands of specified employees
- However when such fringe benefit is provided in nature of discharge of monetary obligation of employee or by way of reimbursement to employee then it is taxable in hands of all employees.
6.19 **EMPLOYER PAYS LIFE INSURANCE PREMIUM OF EMPLOYEE OF MEMBER OF HOUSEHOLD:**
- Actual expenditure by employer is the value of perquisite
- Employee entitled to deduction under section 80C or such Life insurance premium paid by employer.
- IF EMPLOYER PAYS AMOUNT UNDER CERTAIN SCHEMES LIKE EMPLOYEE’S STATE INSURANCE SCHEME OR FIDELITY GUARANTEE SCHEME, IT IS EXEMPT AS IT IS FO BENEFIT OF EMPLOYER.

6.20 **TAX FREE PERKS:**
- Telephone or mobile facility at residence or at office
- Accident insurance facility of employee
- Training of employees
- Any other perk provided which is wholly in nature for discharge of official duties.
- Perks provided to High court or supreme court judges
- Perks to employees serving Govt. of India outside India
- Perks provided to employees of UNO.

7. **TREATMENT OF RETIREMENT BENEFITS:**
Various KINDS OF RETIREMENT BENEFITS ARE:
- Gratuity
- Leave salary
- Pension

7.1 **GRATUITY:**
Gratuity is a kind of ex gratia payment granted to employee or his family member by the employer on his retirement or death or superannuation as the case may be.

7.1.1 Gratuity for Central Govt., State Govt. and employees of local authority:- Any death cum retirement gratuity to these employees is fully exempt from taxation.

7.1.2 Gratuity to employees covered under payments of gratuity act:-
Such a gratuity would be exempt to the minimum of following 3 limits:-
- Actually received
- \((15/26)\) last drawn salary * completed year of service plus part of the year in excess of 6 months,
- Rs. 10,00,000
Here the term salary means: \(\text{Basic Salary} + \text{Dearness Allowance}\)

- IN CASE OF SEASONAL EMPLOYEES IT WOULD BE 7 DAYS GRATUITY FOR EACH SEASON.
- FOR PIECE RATED EMPLOYEES:- SALARY WOULD BE AVERAGE WAGES OF 3 MONTHS IMMEDIATELY PRECEDING THE RETIREMENT.

7.1.3 Gratuity to any other employee:-
Such a Gratuity would be exempt to the minimum of following 3 limits:-
- Actually received
- Half months average wages for each completed year of service
- Rs. 10,00,000

\textbf{Average wages}: - 10 months average wages from month preceding the month in which employee retires.

\textbf{Salary}: - Here the term salary means Basic salary + D.A. (part for R.B.) + commission as a fixed % of turnover

\textbf{NOTES ON GRATUITY}:-

- Gratuity would be taxable under salary if received by employee himself otherwise it would be taxable under income under the head “income from other sources”
- In case of gratuity, employee can claim relief under section 89

7.2 \textbf{PENSION}:-
For taxability pension has been classified into
- Uncommuted pension
- Commuted pension
7.2.1 UNCOMMUTED PENSION: - Any kind of uncommuted pension is fully taxable in hands of all employees.

7.2.2 COMMUTED PENSION: -

- For CG, SG, Employees of local authority, Employees of statutory corporations: - It is Fully Exempt from Tax
- For rest of employees: -
  - If the employee receives gratuity also: - 1/3 of value of uncommuted pension so commuted is exempt from tax.
  - If the employee don’t receives Gratuity: - 1/2 of value of uncommuted pension so commuted is exempt from tax.

IT IS TO BE NOTED THAT IF PENSION IS PAID TO LEGAL HIERS IT IS TAXED UNDER INCOME UNDER THE HEAD INCOME FROM OTHER SOURCES.

7.3 LEAVE SALARY: -

For Central and state government employees: - It is fully exempt from tax
For any other employee: - It would be exempt to the minimum of following 4 limits:-

- Actually received
- Average salary of last 10 months computed on basis of 30 days leave a year
- 10 months average salary
- Rs. 3,00,000

**Average salary**: - Average salary of 10 months immediately preceding date of retirement

**SALARY MEANS**: - Basic salary + D.A. (Part for R.B.) + Commission as a fixed % of turnover

➢ LEAVE SALARY RECEIVED BY LEGAL HIERS IS EXEMPT.

8. TAX TREATMENT OF PROVIDENT FUND:-

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>SPF</th>
<th>RPF</th>
<th>URPF</th>
<th>PPF</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>EMPLOYERS CONTRIBUTION</th>
<th>EXEMPT</th>
<th>EXEMPT UPTO 12% OF SALARY</th>
<th>TAXABLE AT CERTAIN POINT OF TIME (See Last Row)</th>
<th>Not possible</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMPLOYEE'S CONTRIBUTION</td>
<td>EXEMPT AND DEDUCTION UNDER 80C IS ALLOWED</td>
<td>EXEMPT AND DEDUCTION UNDER 80C IS ALLOWED</td>
<td>EXEMPT AND NO DEDUCTION IS ALLOWED</td>
<td>EXEMPT AND DEDUCTION UNDER 80C IS ALLOWED</td>
</tr>
<tr>
<td>INTERST ON P.F.</td>
<td>EXEMPT</td>
<td>EXEMPT UP TO 9.5 %</td>
<td>Taxable (see last row)</td>
<td>EXEMPT</td>
</tr>
<tr>
<td>ON LUMP SUM AMOUNT BEING RECIEVED</td>
<td>EXEMPT</td>
<td>EXEMPT (SEE CONDITIONS BELOW)</td>
<td>• EMPLOYER’S CONT. + INTERST THEREON:- Taxable under salaries • INTERST ON EMPLOYEE’S CONT - taxable under income from other sources</td>
<td>EXEMPT</td>
</tr>
</tbody>
</table>

- **SALARY HERE MEANS:** - BASIC + D.A.( PART FOR R.B.) +COMMISSION AS FIXED % OF TURNOVER.
- **RPF IS NOT TAXABLE WHEN:** -
  - Amount is withdrawn after a period of service of 5 years or more
  - Amount is withdrawn on account of non fulfillment of conditions of service.
  - If amount has been withdrawn without any fault of employee.
• In any other case, amount withdrawn from RPF is taxable and such a fund would be treated as URPF from beginning.

9. SOME OTHER POINTS :-

9.1 RETIREMENT COMPENSATION: -
Retirement compensation would be exempt to the minimum of following 3 limits:
✓ Actually received
✓ Amount calculated in accordance with provisions of industrial disputes act, 1947
✓ Rs. 5,00,000

9.2 VOLUNTARY RETIREMENT :-
RULES: -
➢ Retirement After 10 years of service or 40 years of age
➢ Applicable for all employees (except directors of the company)
➢ On account of reduction in number of employees
➢ Position is not filled up
➢ No Employment under same management
➢ Compensation can be as specified in rule 2 BA :-
  ✓ Last drawn salary * 3 months * salary for competed year of service
  ✓ Last drawn salary * balance months of service left
➢ The amount exempt from taxation would be from minimum of the following : -
  ✓ Actually received
  ✓ Amount specified in rule 2BA
  ✓ Rs. 5,00,000
➢ SALARY MEANS: - Basic salary + D.A. (Forming Part for R.B.) + Commission as a fixed % of turnover.

10. DEDUCTIONS FROM SALARY: -
➢ DEDUCTION ON ACCOUNT OF ENTERTAINMENT ALLOWANCE (Section 16(ii)) : -
  ✓ This deduction is allowed only to central and state government employees
✓ It is first included in Gross salary for every employee and then deduction is allowed only to Govt. employees to the minimum of following 3 limits: -
  • Actual amount
  • 20% of basic salary
  • RS. 5000

➢ **DEDUCTION ON ACCOUNT OF PROFESSIONAL TAX (Section 16(iii))**: any professional tax would be allowed as a deduction.

If such tax is paid by employer, it would be first added to gross salary and then be allowed as a deduction

No state can levy a professional tax of more than Rs. 2500 a year, however deduction can be allowed under income tax act for an amount exceeding 2500 if tax is paid for more than one year as deduction is allowed on paid basis.

11. **MEANING OF FAMILY MEMBER** :-

✓ Spouse
✓ Children
✓ Parents, brothers, sisters of individual or any of them, wholly or mainly dependent on employee

➢ It is to be noted That The term Family Amber Has been used By law Only In case of medical facilities and in leave travel concession.

12. **MEANING OF MEMBER OF HOUSEHOLD**: -

✓ Spouse
✓ Children and their spouses (dependant or not)
✓ Parents (dependant or not)
✓ Servants and dependants

✓ And in almost all perks the term member of household has been used.

13. **PROFITS IN LIEU OF SALARY**: -

They are taxed as income under the head salary and include the following:-

✓ Retrenchment compensation
✓ Terminal compensation
✓ Amount converted from URPF to RPF, to the extent taxable
✓ Keyman insurance policy sum if received by employee, if received by legal heirs, taxed under income under the head “income from other sources”

14. FORMAT FOR COMPUTATION OF SALARY INCOME: -

   STEP 1:- GROSS SALARY       xxx
   STEP 2:- DEDUCTIONS u/s 16    xxx
   STEP 3:- This is Income u/h salaries