INCOME FROM SALARIES

* The rememaration which are paid by an employer to his employees monthly or time to time in return of his service is called **Salary**.

Gross Salaries

- Salary
- Allowances
- Perquisities
- Profits in Lieu of Salary

* **Allowances** :- The sum is payable by an employer to his employees to meet some special types of expenses and these special types of expenses may be his personal or to perform his official duties is known as allowances.

Allowances is also a part of salary & it is included in ascertaining total salary. Allowances are of three types :-

(A.) Fully Exempted Allowances :- The allowance which are not included in gross salary of an employee. A list of these allowances are :-

(1) Foreign or Overseas allowance - The allowance which are paid by an Indian Government to an employees who are citizen of India for their service outside India.

(II) Reimbursement of expenses spent for official duties :-

i) Travelling allowance
ii) Daily allowance
iii) Conveyence allowance (car allowance)
iv) Helper allowance
v) Academic allowance
vi) Uniform allowance

(B.) **Partially Exempted Allowances :-**

1. **House Rent Allowance** - [Sect. 10 (13 & A)]

The allowance gets from an employer to his employees in cash. If the employee living in his own house, then the house rent allowance shall be fully taxable & if the employee living in a rented house, then the least of following amount should be exempted:-

* **Calculation of House Rent Allowance :-**

a.)	Actual amount received of HRA	xxx
b.)	Rent paid - 10% of salary	xxx
c.)	50% of salary (metro city) or 40% of salary (other city)	xxx

(Least of above three shall be exempted)

Taxable = Actual received of HRA - exempted amount.

Salary = Basic Salary + Dearness allowance + Dearness Pay + Commission at fixed rate on Sale.

2. **Entertainment Allowance** - [Ded. U/s - 16 (ii)]

Government employee

Non - Government employee. (All amount taxable)

* **Calculation of entertainment allowance for govt. employee**

i)	Actual receiver entertainment allowance	xxx
ii)	20% of basic salary	xxx
iii)	Maximum amount (income tax act under exempted)	5000

Whichever is least it is tax free

Taxable = Actual receiver - tax free

* $\boxed{\text{Salary = Basic Salary.}}$

3. **Transport Allowance** - The allowance given to employee from his employer to meeting the expenses paid for attending the official duties from his residence to his office & back to his residence from office.

₹1600/month is ~~exp~~ exempted under this allowance in case of normal employee & ₹3200/month in case of handicap employee.

4. <u>Education Allowance</u> - Under this allowance ₹100/month per child is exempted upto maximum of two children.

5. <u>Hostel Allowance</u> - Under this allowance ₹300/month per child upto maximum of two children is exempted.

6. <u>Underground Allowance</u> - Under this allowance upto a maximum of ₹800/month is exempted for the employees who are working in underground of coal mines.

(C) <u>Fully Taxable Allowance</u>:- The allowance which are fully taxable and their whole amount is included in Salary. The list of these allowances are:-

i) Dearness allowance
ii) Dearness Pay
iii) Additional Dearness allowance
iv) City compensatory allowance
v) Rural allowance
vi.) Non-practising allowance
vii) Medical allowance
viii) Servant allowance
ix.) Proctor allowance
x.) Wardenship allowance
xi) Tiffin allowance.
xii) Dog allowance
xiii) Overtime allowance
xiv.) Deputation allowance
xv.) Night allowance
xvi.) Other taxable allowance.

* **Perquisites** :- A personal benefit given to employees alongwith his salary and allowance due to his service or designation. The facilities provided by the employer to his employees without charging any sum or at concessional value.

⇒ **Types of perquisites** :-

(A) Taxable perquisites for all employees - The perquisites are provided by the employer to any type of employee. The value of these facilities shall be taxable for all types of employees to whom these facilities have been provided. These perquisites are :-

(1) Rent - Free House Valuation :-

⇒ for government employees :-

amount determined as per govt. regul.	x x x
(Add) 10% of cost of fixed assets (अगर employer का खुद का हो तो) Or rent of fixed assets (अगर employer किराया पर लेकर दिया हो तो)	x x x
	x x x

⇒ for non-government employees :-

(a.) Accomodation owned by employer :

(I) population exceeding 25,00,000 - 15% of salary

(II) exceding 10 lacs but upto 25 lacs - 10% of salary

(III) upto 10 lacs - 7.5% of salary.

* Salary = Basic Salary + DA + Bonus + Commission + other all taxable allowance.

(b.) Accomodation hired by employer:

15% of Salary	x x x
Or	
Rent paid by employer	x x x

(whichever is less than)

(B.) Taxable perquisites for specified employees:-
The value of these non-monetary facilities shall be taxable only in the hands of specified employees under section 17(2)(iii). The value of facilities in the form of kind shall only be included when the employee getting those facilities belongs to the group of specified employees.

* Specified employee:- (i) Director in employer's company

ii) Employee has acquired at least 20% or more equity share

iii) Basic salary, bonus, commission, taxable allowance etc. should be more than ₹50,000 after deducting deduction u/s 16.

Various taxable perquisites for specified employees are:-

i) Facility of motor car.
ii) Domestic servant
iii) Free education of children.
iv) Gas, electricity and water.
v.) Any other benefit.

(C.) Tax-free perquisites for all employees - The facilities provided by employer to his employee shall not be ~~taxab~~ included in taxable salary of the employees. A list of these facilities are:-

(i) Medical facilities or reimbursement of medical expenses.
(ii) Facility of refreshment.
(iii) Recreational facilities
(iv) Telephone facility
(v) Conveyence ~~of~~ or transport facility.
(vi) Facility of refresher course or training.
(vii) Education facility for children of the employee.
(viii) Use of health club & sports facilities
(ix) Use of laptop or computer of employer.
(x) Accomodation in remote area.
(xi) Free concession facility in transport business.
(xii) Leave travel concession.

* Facility of Accomodation in hotel:-

i) less than 15 days
Perquisites value — Nil

ii) more than 15 days
24% of salary
Hotel fair paid by employee
(whichever is less)

* Facility of accomodation in medical:-

i) Government hospital
perquisites value — Nil

ii) Non-government hospital
⇒ Hospital bill upto ₹ 15000 — Nil
⇒ Hospital bill more than ₹ 15000 — taxable.

* Taxable value of perquisite of use of movable property:-

i.) Use of computer or laptop — Nil.

ii.) Any other movable assets
a.) if employer is owner — 10% of cost of assets
b.) if employer has hired the assets — Rent by employer.

* Taxable value of perquisite of Transfer of movable assets to employee

i) Computer & electronic items - WDV of assets used by employer - 50%.

ii) Motor car - Depr. 20% on the basis of diminishing balance method.

iii.) Any other movable assets - 10% Depr. on the basis of straight line method.

* Value of car perquisites for specified employees

(A) If the car belongs to the employee

I. fully office use
perquisites value — Nil

II. fully personal use

car running & maintenance exp.	xxx
Add:- Driver of the Salary	xxx
10% depr. of the car	xxx
	xxxx

(B.) If the car hired or leased by employer

car running & maintenance exp.	xxx
Add:- Driver's salary	xxx
	xxx

* Mixed use for personal & office use

(A) If the car is employer / hired :-

Small car - Engine capacity is not more than 1.6 l

₹ 1800/month

₹ 900/month - Driver's Salary.

Big car - Engine capacity more than 1.6 l

₹ 2400/month

(B.) If employee paid personal expenses

Small car - ₹ 600/month

- ₹ 900/month Driver's salary

Big car - ₹ 900/month.

* Provident Fund :- The amount saved for future and a fixed amount is deducted out of salary of the employee & is deposited in a fund known as provident fund. The whole amount of this fund is given to the employee on the retirement alongwith the interest.

⇒ Kinds of provident fund - Provident fund are of four types, out of them three types of funds are applicable in various services of the employees or the person who is in service, has to become the members of any one of these funds. Fourth type of fund does not apply in service.

1) Statutory provident fund

11) Recognised provident fund

iii) Unrecognised provident fund
iv) Public provident fund

Statutory provident fund :-

Contribution upto 12% by employer - Not added in Salary.
Contribution more than 12% by employer - Added in Salary.

Recognised provident fund :-

Interest deposit 9.5% - Not added in Salary
Interest deposit over 9.5% - added in salary by employer.

* Any allowances & perquisites given in foreign to Indian citizen & employees of Government of India are exempt.

* Cost of gift in excess of ₹5000 Shall be taxable & included in employee's Salary.