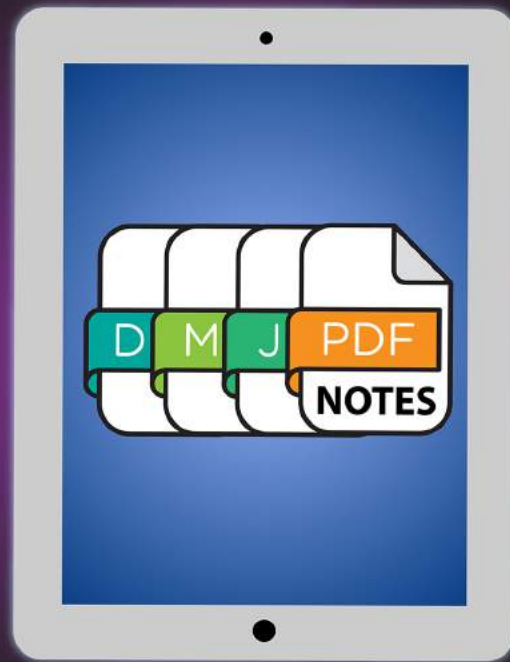




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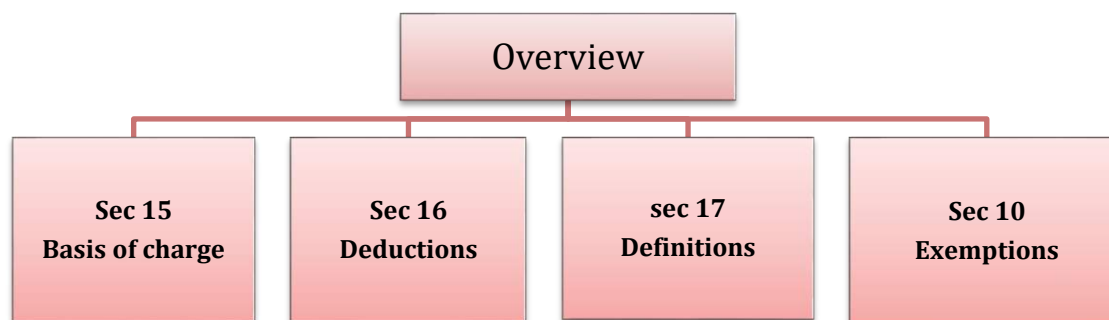
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Direct Taxes

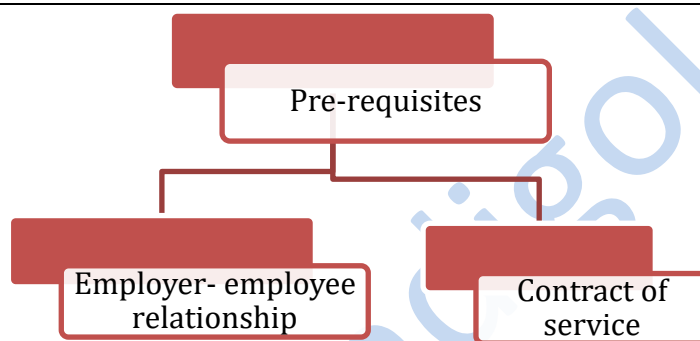


Paper-4A

Income from salaries



General provisions



- A payment can be construed as salary only if the payer is the employer and payee is the employee.
- The payment is in pursuance of a contract of service and not contract for service.
- Cases where income is taxed under other heads
 - (i) **Salary received by a partner** – Taxed under PGBP
 - (ii) **Remuneration of agent** – taxed under PGBP
 - (iii) **Salary received by sole proprietor** - is not an income.
 - (iv) **Payment to a non-executive director** – Taxed under other sources
 - (v) **Pension received by the widow** or legal heir of deceased employee - Taxed under other sources
 - (vi) Remuneration of an **official liquidator** – Taxed under salaries
 - (vii) Salaries of **MPs and MLAs** – Taxed under other sources
- Once salary has been earned by an employee, its **subsequent waiver does not make it exempt** from tax liability.
- Salary from **former, present or prospective employer** is chargeable to tax under the head “Salaries”.
- Salary **surrendered to central government** under the provisions of voluntary surrender of salaries (exempt from taxation act 1961, is exempt from taxation)
- **Place of accrual** – Where services are rendered.
 - Exceptions to the above rule is Sec 9(1)(iii) – Salaries paid by Government of India to a citizen of India for services rendered outside India is deemed to accrue or arise in India.

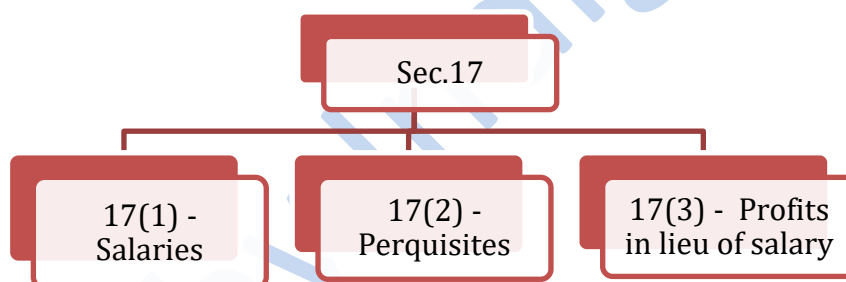
- However any perquisites or allowances paid to such a person is exempt u/s 10(7)
- **Salary paid tax-free:** the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer.
- The income-tax paid by the employer on non- monetary perquisites on behalf of the employee would be exempt in the hands of the employee - Sec(10(10CC)

Sec 15- Basis of Charge

Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.

- Advance salary – Taxed on Receipt basis
(‘Advance salary’ is different from ‘Advance against salary’ which is treated as loan)
- Advance against salary – Treated as loan.
- Outstanding salary – Taxed on due basis.
- Arrear salary – Taxed on Receipt basis

Sec -17 - Definitions

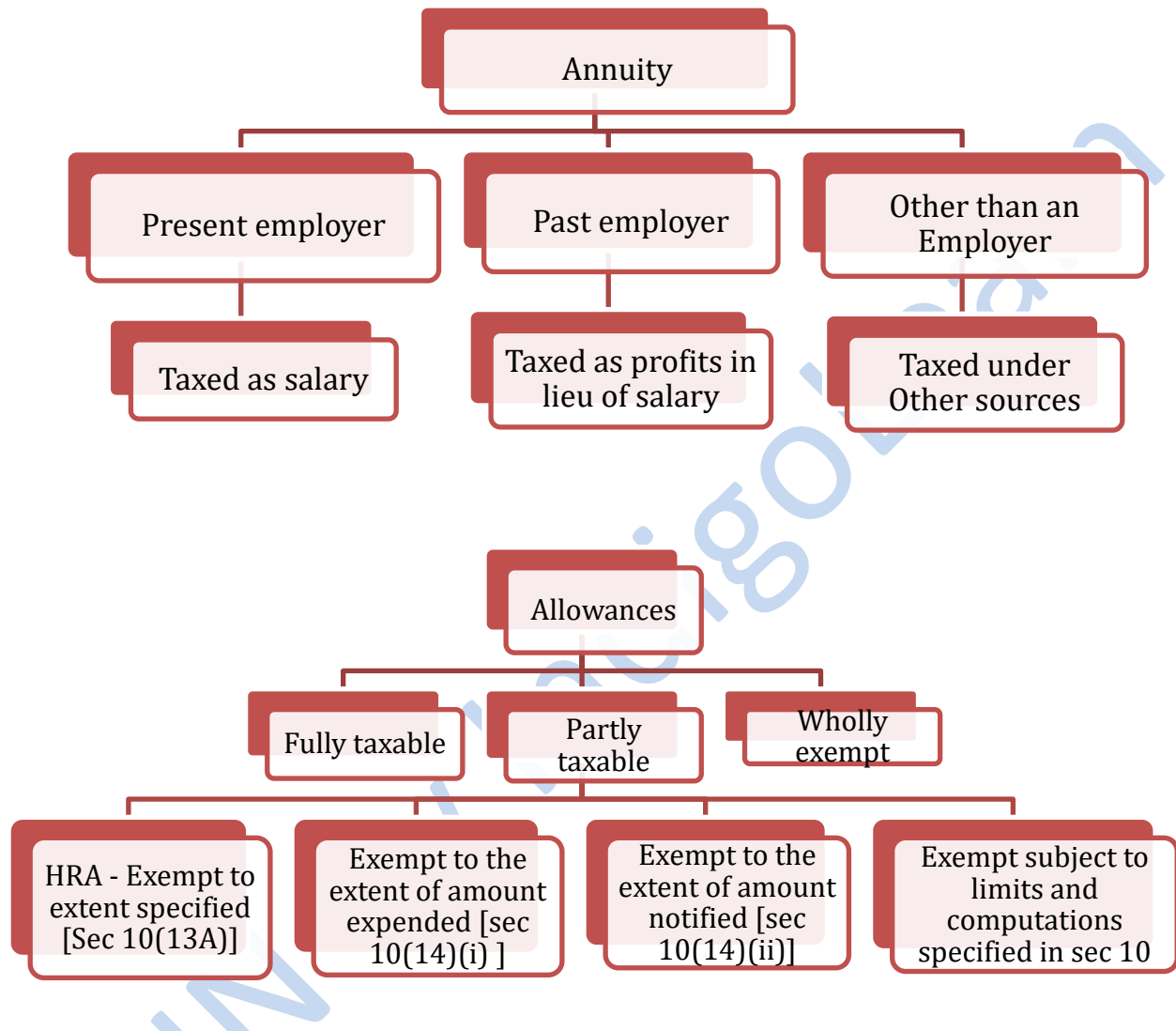


Salaries –

- Wages
- Any annuity or pension;
- Any gratuity;
- Any fees, commission, perquisite or profits in lieu of or in addition to any salary or wages;
- Any advance of salary;
- Any payment received in respect of any period of leave not availed of by the assessee;
- The portion of the annual accretion in any previous year to the balance at the credit of an employee, participating in recognised provident fund, to the extent it is taxable;
- Transferred balance in a Recognised Provident Fund to the extent it is taxable.
- Contribution made by the employer in the previous year, to the account of an employee under a pension scheme referred to in sec. 80CCD [National Pension Scheme and Atal Pension Yojana].

Note: National Pension scheme is a scheme approved by the Government for Indian citizen aged between 18-60 years. When an employee, is a subscriber of the NPS account, employer

may also contribute into the employee's account. However, while computing total income of the employee-assessee, a deduction under section 80CCD is allowed to the assessee in respect of the employer's as well as employee's contribution under a pension scheme referred therein. The deduction u/s 80CCD is subject to a maximum of 10% of salary.



Fully taxable allowances

1. Entertainment Allowance – Given to meet the expenses towards hospitality in receiving customers etc.
Government employees a deduction u/s 16(ii)
2. Dearness Allowance
3. Overtime Allowance
4. Fixed Medical Allowance
5. City Compensatory Allowance (to meet increased cost of living in cities)
6. Interim Allowance

7. Servant Allowance
8. Project Allowance
9. Tiffin/Lunch/Dinner Allowance
10. Any other cash allowance
11. Warden Allowance
12. Non-practicing Allowance – given to a professional to refrain from practicing his profession
13. Transport allowance to employee other than blind/ deaf and dumb/ orthopedically handicapped employee. – (paid for the purpose of commuting between the place of his residence and the place of his duty)

<u>Wholly exempt allowances</u>
i) Allowances to Supreme court/ High Court Judges
ii) Allowance paid by the United Nations Organization <u>Note</u> - Section 2 of the United Nations (Privileges and Immunities) Act, 1947 grants exemption from income-tax to salaries and emoluments paid by the United Nations to its officials.
iii) Compensatory Allowance received by a judge under Article 222(2) of the constitution
iv) Sumptuary allowance granted to High Court or Supreme Court Judges
v) Allowance granted to Government employees outside India. [Sec 10(7)]
vi) Compensatory allowance under Article 222(2) of the Constitution
vii) Allowance or Perquisite to member of Union Public Service Commission [Sec. 10(45)]
viii) Tax exemption is also available in respect of certain specified perquisites enjoyed by Chief Election Commissioner/ Election Commissioner and judges of Supreme Court on account of the enabling provisions in the respective Acts which govern their service conditions.

<u>Partly exempt allowances</u>
<u>Exempt to the extent of amount expended [sec 10(14)(i)]</u>
<ul style="list-style-type: none"> ➤ These are paid to meet expenses incurred exclusively in the performance of the duties. ➤ For the allowances under this category, there is <u>no limit on the amount</u> which the employee can receive from the employer. ➤ Whatever amount is received should be fully utilized for the purpose for which it was given to him.
i) Travelling Allowance - allowance granted to meet the cost of travel on transfer
ii) Tour allowance - allowance granted to meet the cost of travel on transfer
iii) Conveyance Allowance - allowance granted to meet the cost of commuting from one place to another within the city

iv)	Helper Allowance - granted to meet the expenditure incurred on a helper
v)	Research allowance/ Academic allowance - any allowance granted for encouraging the academic, research and training pursuits in educational and research institutions
vi)	Uniform allowance - any allowance granted to meet the expenditure on the purchase or maintenance of uniform
vii)	Daily allowance - allowance granted to meet the cost of living in a place which is not the usual place of business for the employee ie while he is travelling.

Partly exempt allowances

Exempt to the extent of amount notified in Rule 2BB [sec 10(14)(ii)] -

- Allowances granted either to meet his personal expenses at the place where the duties of his office are ordinarily performed by him or at the place where he ordinarily resides or to compensate him for the increased cost of living
- There is a limit on the amount which the employee can receive from the employer. Any amount received by the employee in excess of these specified limits will be taxable in his hands .
- It does not matter whether the amount which is received is actually spent or not by the employee for the purpose for which it was given to him.

1.	Special allowance – Special Compensatory Hilly area/ High altitude allowance/ uncongenial climate allowance/snow bound area allowance or avalanche allowance.	Rs.800 per month or Rs.300 per month depending upon the specified locations. Rs. 7,000 per month in Siachen area of Jammu and Kashmir
2.	Any Special Compensatory Allowance in the nature of border area allowance or remote locality allowance or difficult area allowance or disturbed area allowance	Rs. 1,300 or 1,100 or 1,050 or 750 or 300 or 200 per month depending upon the specified locations
3.	Special Compensatory (Tribal area/Schedule areas/ Agency areas) allowance [Specified states]	Rs.200 per month for specified location
4	Transport allowance granted to an employee working in Transport system provided that such employee is not in receipt of daily allowance	70 % of such allowance upto a maximum of Rs. 10,000 per month
5	Children education allowance	Rs.100 per month, per child up to a maximum of two children
6	Hostel expenditure for employee's children	Rs.300 Per month, per child up to a maximum of two children
7	Compensatory field area allowance [Specified area in specified states]	Rs.2,600 per month for specified location
8	Compensatory Modified field area allowance [Specified area in specified states]	Rs.1,000 per month for specified location

9	Special allowance in the nature of counter insurgency allowance granted to the member of armed forces operating in areas away from their permanent locations for a period of more than 30 days.	Rs.3,900 per month whole of India
10	Special compensatory highly active field area allowance granted for armed forces	Rs.4,200 per month
11	High altitude allowance granted to members of armed forces operating in high altitude areas	Rs.1,060 per month for 9k to 15k feet Rs.1,600 per month for above 15K feet
12	Island duty allowance granted to armed forces in Andaman, Nicobar and Lakshadweep islands	Rs.3,250 per month.
13	Underground allowance	Rs. 800 p.m.
14	Transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty. (Also exempt to employee opting Section 115BAC)	Rs. 3,200 per month in case of blind or orthopedically handicapped employees

➤ Any assessee claiming exemption in respect of allowances mentioned at serial numbers 7, 8 and 9 shall not be entitled to exemption in respect of the allowance referred at serial number 2.

<u>Partly exempt allowances</u>	
<u>Exempt to the extent of limits specified under various clauses of sec 10</u>	
<u>House rent allowance [sec 10(13A)] - Least of the following is exempt</u>	
In Mumbai, Delhi, Chennai and Kolkata	In other cities
1. Actual HRA received	Actual HRA received
2. 50% of Salary	40% of Salary
3. Rent paid (Less) 10% of salary	Rent paid (Less) 10% of salary

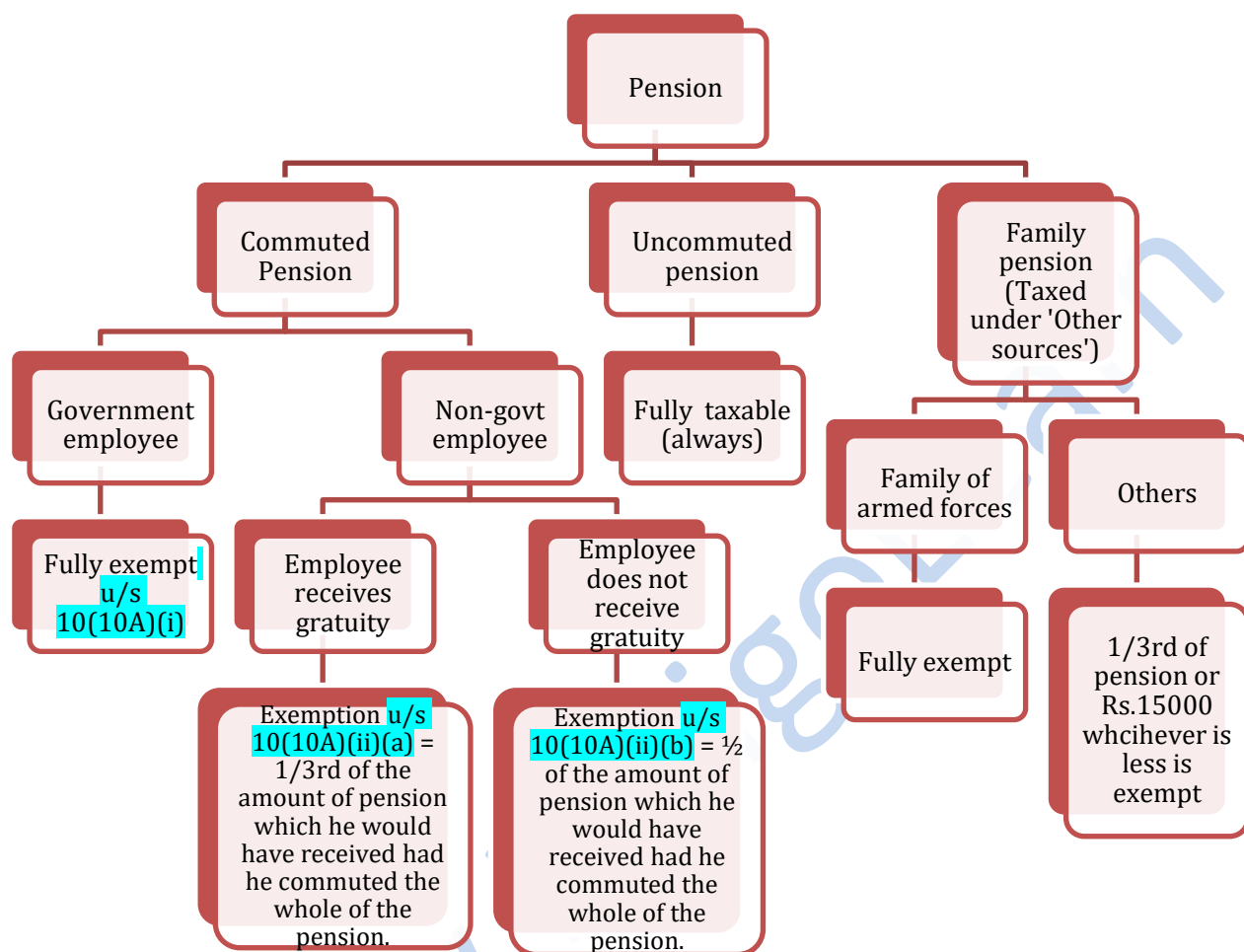
➤ Salary = Basic + DA (if forms part of retirement benefit) + Turnover based Commission

➤ Fully taxable, if HRA is received by an employee who is living in his own house or if he does not pay any rent

➤ It is mandatory for employee to report PAN of the landlord to the employer if rent paid is more than Rs. 1,00,000

<u>Pension – sec 17(1)(ii). Commuted pension [sec 10(10A) and Family Pension (Sec 57)]</u>
➤ Pension is a periodic payment made to the employee in consideration of past service payable after his retirement.
➤ Uncommuted pension refers to pension received periodically.
➤ Commutation means inter-change. Commuted pension means lump sum amount taken by

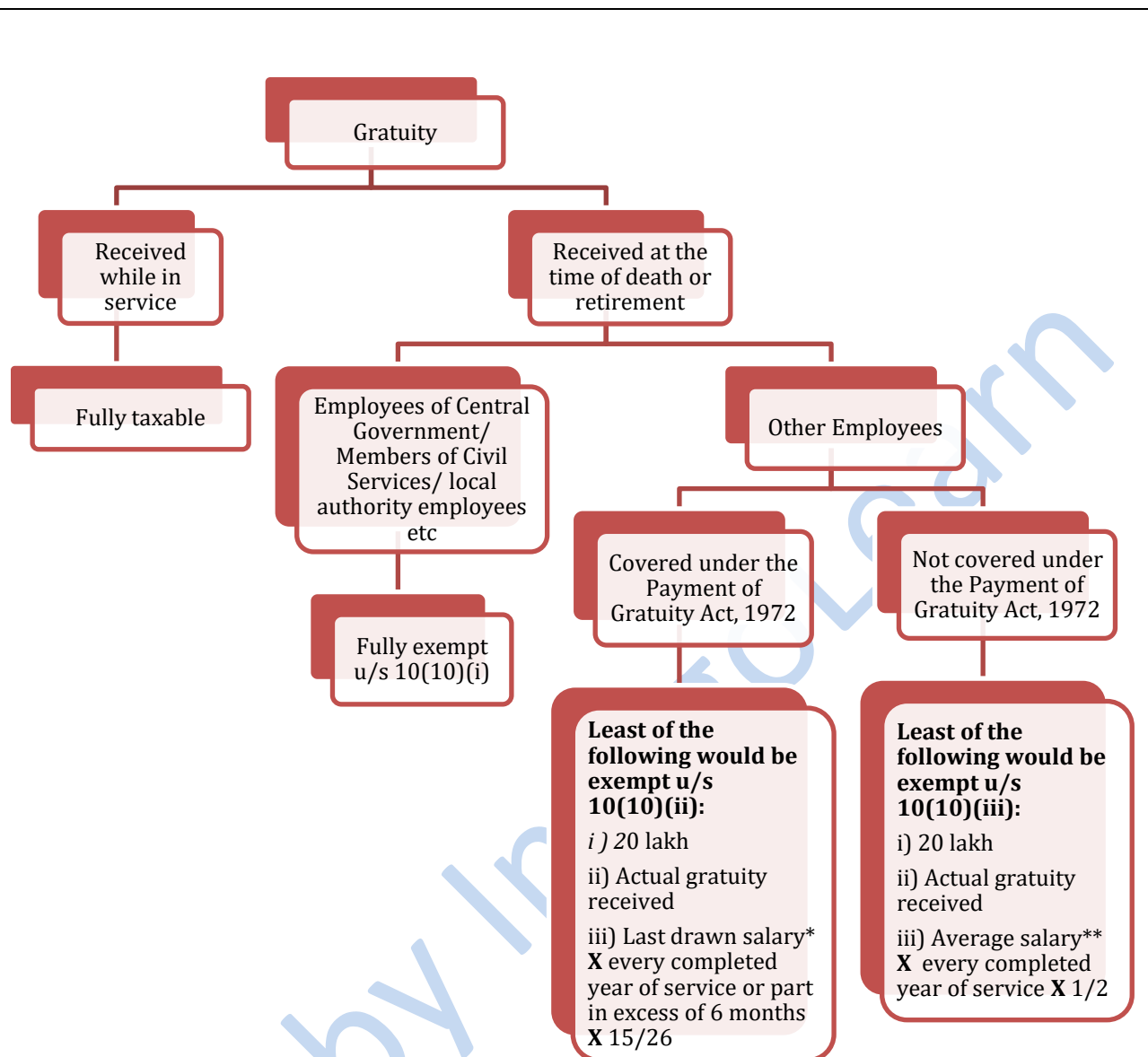
commuting the whole or part of the pension.



- Judges of the Supreme Court and High Court will be entitled to exemption of the commuted portion.
- Any commuted pension received by an individual out of annuity plan of the Life Insurance Corporation of India (LIC) from a fund set up by that Corporation will be exempted.

Gratuity [Sec 17(1) and Sec 10(10)]

- Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee.
- Retirement gratuity received under the Pension Code or Regulations applicable to members of the Defence Service is fully exempt.



* Salary (generally) = Basic salary + D.A

** Average salary - 10 months average salary [i.e., Basic salary + dearness allowance, (if forms part of retirement benefits) + Commission which is expressed as a fixed percentage of turnover.]

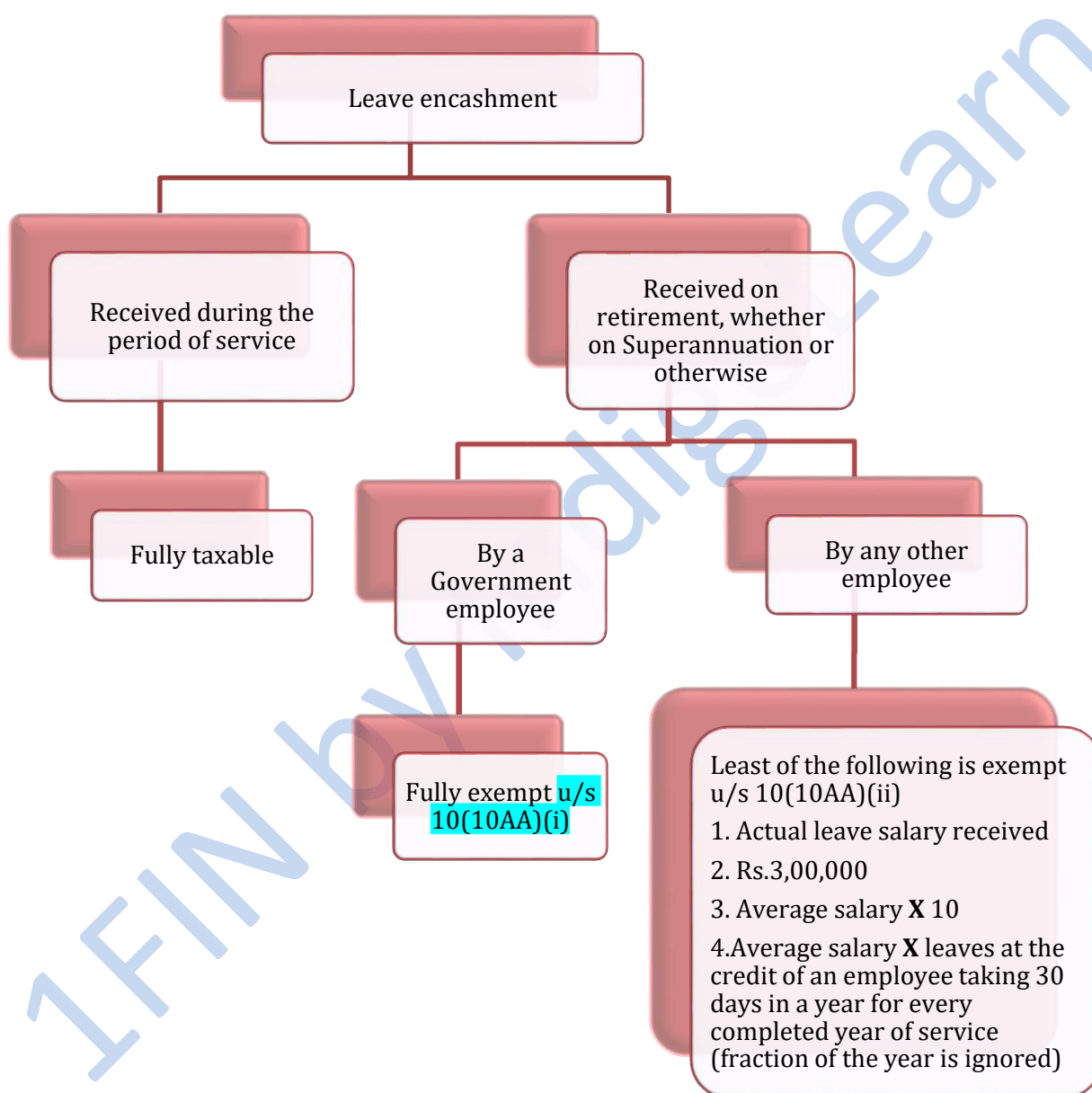
- Retirement gratuity received under Pension code or Regulations applicable to members of the Defence Service is fully exempt.
- Where gratuity is received from 2 or more employers in the same year then aggregate amount of gratuity exempt from tax cannot exceed Rs. 20,00,000/Rs. 10,00,000, as the case may be..
- Where gratuity is received in any earlier year from former employer and again received from another employer in a later year, the limit of Rs. 20,00,000/Rs. 10,00,000, as the case may be, will be reduced by the amount of gratuity exempt earlier.
- The exemption in respect of gratuities would be available even if the gratuity is received

by the widow, children or dependents of a deceased employee.

Leave encashment [sec 10(10AA)]

The payment received on account of encashment of unavailed leave would form part of salary.

- However, section 10(10AA) provides exemption in respect of amount received by way of encashment of unutilised earned leave by an employee at the time of his retirement, whether on superannuation or otherwise.



- Where leave salary is received from two or more employers in the same year, then the aggregate amount of leave salary exempt from tax cannot exceed Rs. 3,00,000.
- Where leave salary is received in any earlier year from a former employer and again received from another employer in a later year, the limit of Rs. 3,00,000 will be reduced by the amount of leave salary exempt earlier.
- Salary = Basic salary + dearness allowance, (if forms part of retirement benefits) +

commission which is expressed as a fixed percentage of turnover.

- 'Average salary' will be determined on the basis of the salary drawn during the period of ten months immediately preceding the date of his retirement whether on superannuation or otherwise.

Provident fund

Provident fund scheme is a scheme intended to give substantial benefits to an employee at the time of his retirement.

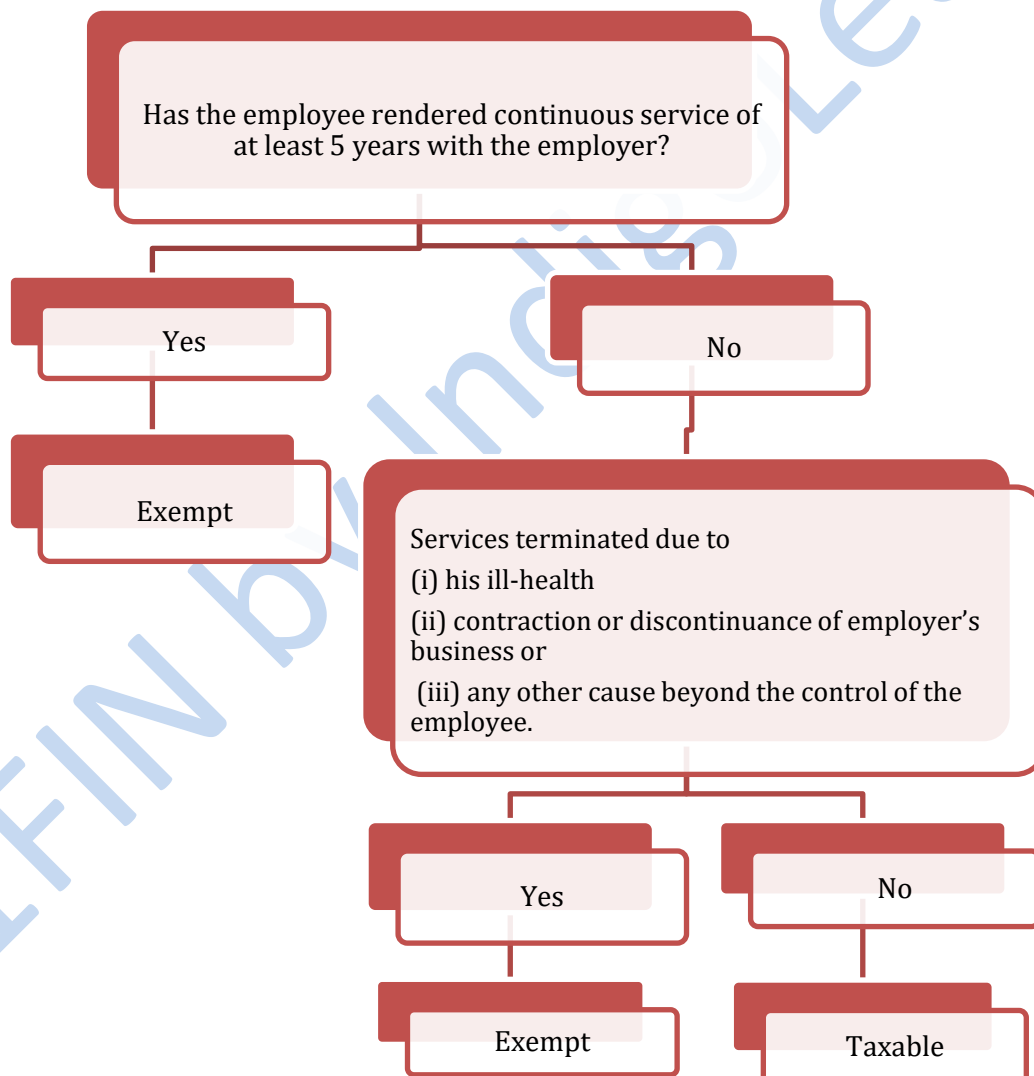
	Statutory PF	Public PF	Recognised PF	Unrecognised PF
	Governed by Provident fund Act 1925 Applies to employees of government, railways, semi-government institutions, local bodies, universities and all recog educational institutes	Governed by Provident fund Act 1968 Membership of the fund is open to every individual though it is ideally suited to self-employed people	Governed by Provident fund Act 1952 PF recognised by CIT	Governed by Provident fund Act 1952 PF not recognised by CIT
Employee contribution	Deduction u/s 80C	Deduction u/s 80C	Deduction u/s 80C	No deduction u/s 80C
Employer contribution	Exempt u/s 10	N.A. (as there is only assessee's contribution)	Exempt upto 12% of salary Excess is taxable	Not taxable yearly
Interest on Employee contribution	Exempt u/s 10	Exempt u/s 10	Exempt upto 9.5% p.a Excess is taxable	Taxable under "other sources" at the end of the term
Interest on Employer contribution	Exempt u/s 10	N.A	Exempt upto 9.5% p.a Excess is taxable	Not taxable yearly
Lumpsum @ retirement	Exempt u/s 10	Exempt u/s 10	Exempt u/s 10	Employer contribution + interest thereon is taxed under "Salaries"

- Salary = Basic salary + dearness allowance, (if forms part of retirement benefits) +

commission which is expressed as a fixed percentage of turnover.

- Any transfer from an unrecognised PF to Recognised PF is also taxable in the year of transfer.
- Exemption in respect of payment received by employee from Superannuation fund [Sec 10(13)]
- Employee's share from lumpsum payment received on maturity Unrecognised provident fund:
 - Not taxable
 - Interest on such = Taxable as Income from other sources
- PPF => For deduction u/s 80C, a member is required to contribute a min of Rs. 500 in a year. Max Rs. 1,50,000 is qualified for such deduction as per PPF rules.

Exemption of Accumulated balance of RPF, payable to an employee



- If, after termination of his employment with one employer, the employee obtains employment under another employer, then, only so much of the accumulated balance in his provident fund account will be exempt which is transferred to his individual account in a

recognised provident fund maintained by the new employer. In such a case, for exemption of payment of accumulated balance by the new employer, the period of service with the former employer shall also be taken into account for computing the period of five years' continuous service.

Profits in lieu of salary [Section 17(3)]

The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the

- (a) termination of his employment,
(b) modification of the terms and conditions of employment.

(c) Payment from provident fund or other fund

Any payment due to or received by an assessee from his employer or former employer except the following:

- Gratuity exempted u/s 10(10);
- House rent allowance exempted u/s 10(13A);
- Commuted pension exempted u/s 10(10A);
- Retrenchment compensation exempted u/s 10(10B);
- Payment from an approved Superannuation Fund u/s 10(13);
- Payment from statutory provident fund or public provident fund u/s 10(11);
- Payment from recognised provident fund to the extent it is exempt u/s 10(12).

Any payment from unrecognised provident fund or such other fund to the extent to which it does not consist of contributions by the assessee or interest on such contributions.

Any sum received by the employee under the Keyman Insurance Policy including the sum allocated by way of bonus on such policy.

Any amount due to or received by the employee (in lump sum or otherwise) prior to employment or after cessation of employment.

Retrenchment compensation [Section 10(10B)]

- Compensation paid under Industrial Disputes Act, 1947 or under any Act, Rule, Order or Notification issued under any law.
- Amount exempted u/s 10(10B) - Least of the following -
 - Actual amount received
 - Rs. 5 lacs
 - 15 days average pay x every completed year of service or part thereof in excess of 6 months. (Sec 25F of Industrial disputes act, 1947)
- where the compensation is paid under any scheme approved by the Central Government for giving special protection to workmen under certain circumstances- nothing is taxable.

Average pay means average of the wages payable to a workman

in the case of monthly paid workman,	In 3 complete calendar months
in the case of weekly paid workman	In the 4 calendar weeks
in the case of daily paid workman,	In the 12 full working weeks
If he has not worked for the above period then	Average of the wages payable during the period he actually worked.

Wages includes -

Wages excludes -

<ul style="list-style-type: none"> • all remuneration capable of being expressed in terms of money, • any value of non-monetary benefits like – the value of any house accommodation, or of supply of light, water, medical attendance or other amenity etc. 	<ul style="list-style-type: none"> • any bonus; • contribution to a retirement benefit scheme; • any gratuity payable on the termination of his service
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➤ Notice pay is fully taxable.

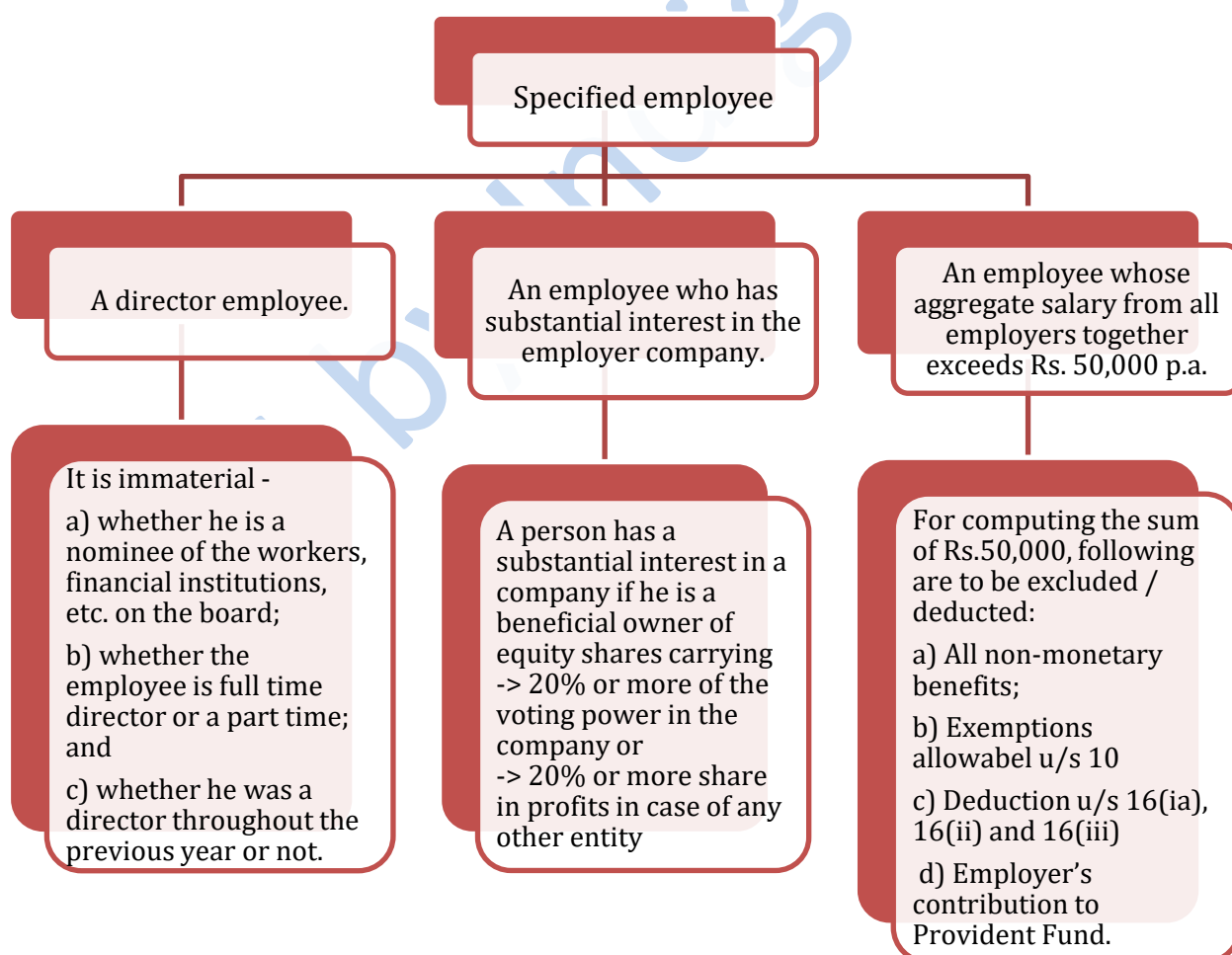
<u>Voluntary retirement compensation [sec 10(10C)]</u>	
➤ <u>Eligible Undertakings</u> – Central government, State government, Local authority, PSUs, any other company, Co-operative society etc.,	
➤ <u>Amount exempted</u> – Least of the following:	
1. Actual amount received	
2. Rs. 5 lacs	
3. 3 months x salary last drawn x completed year of service	
4. Salary last drawn x Balance of months left for retirement/superannuation	
➤ Salary = Basic salary + dearness allowance, (if forms part of retirement benefits) + commission which is expressed as a fixed percentage of turnover.	
➤ <u>Conditions to satisfy</u>	
• Such compensation should be at the time of his voluntary retirement or termination of his service, in accordance with any scheme of voluntary retirement.	
• Rule 2BA prescribes the following guidelines for the purposes of the scheme	
1. It applies to an employee who has completed 10 years of service or completed 40 years of age. However, this requirement is not applicable in case of an employee of a public sector company under the scheme of voluntary separation framed by the company.	
2. It applies to all employees by whatever name called, except directors of a company or a cooperative society.	
3. The scheme of voluntary retirement or separation must have been drawn to result in overall reduction in the existing strength of the employees.	
4. The vacancy caused by the voluntary retirement or separation must not be filled up.	
5. The retiring employee of a company shall not be employed in another company or concern belonging to the same management.	
➤ No exemption u/s 10(10C) if the employee has already taken relief u/s 89	
➤ Exemption u/s 10(10C) is allowed only once in life time.	
➤ Exemption will be available even if such compensation is received in installments.	

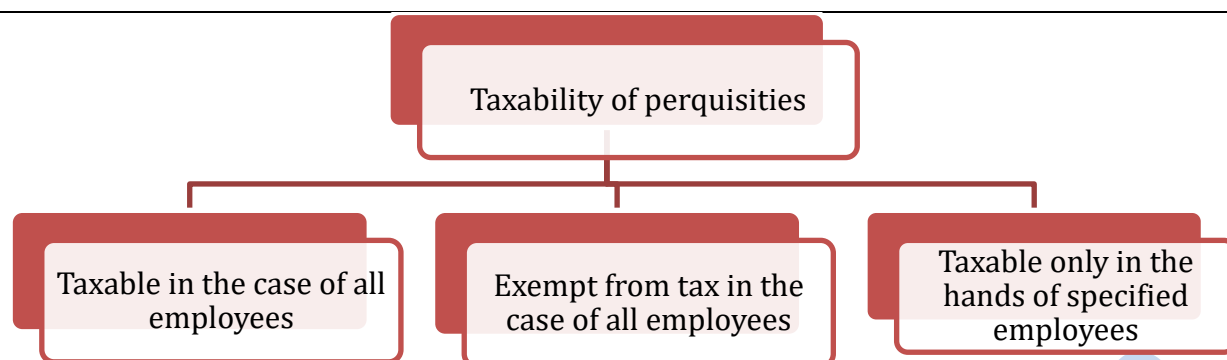
<u>Perquisites – Sec 17(2)</u>
<u>General meaning -</u> any casual emoluments or benefits attached to an office or position, in addition to salary or wages, which is availed by an employee ➤ It may be provided in cash or in kind.

- Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.
- Perquisite will become taxable only if it has a legal origin. An unauthorised advantage taken by an employee without his employer's sanction cannot be considered as a perquisite under the Act.

Definition as per sec 17(2)

Value of rent-free accommodation
Value of concession in rent in respect of accommodation.
The value of any benefit or amenity granted or provided free of cost or at concessional rate to 'specified employees'.
Amount paid by an employer in respect of any employee's obligation
Life insurance/annuity contract payments
Any contribution in excess of Rs. 7,50,000 in an RPF, NPS in an approved superannuation fund by the employer in respect of the assessee.
Annual accretion in excess of Rs. 7,50,000 to the credit of RPF, NPS, an approved superannuation fund by the employer and incl in total income of the assessee.
Value of ESOPs /Sweat equity shares provided free of cost or at concessional rate
Value of any other fringe benefit or amenity





Perquisites taxable in the case of all employees

Value of rent-free accommodation
Value of concession in rent
Amount paid by an employer in respect of any employee's obligation
Amount payable directly or indirectly to effect an assurance on the life of the assessee
Value of ESOPs and Sweat equity shares
The amount of any contribution to an approved superannuation to the extent it exceeds Rs. 7,50,000.
The value of any other fringe benefit or amenity as may be prescribed by the CBDT - Interest free or concessional loan, Travelling, touring and accommodation, Gift, voucher or token in lieu of such gift, Credit card expense, club expenditure, use of movable assets, Transfer of movable assets are some of the benefits covered under Rule 3(7)

Perquisites exempt from tax in the case of all employees

Rent-free official residence provided to a Judge of a High Court or to a Judge of the Supreme Court. Similarly, rent-free furnished house provided to an Officer of Parliament.
Telephone provided by an employer to an employee at his residence
Transport facility provided by an employer engaged in the business of carrying of passengers or goods to his employees either free of charge or at concessional rate
Privilege passes and privilege ticket orders granted by Indian Railways to its employees;
Perquisites allowed outside India by the Government to a citizen of India for rendering services outside India.
Employer's contribution to staff group insurance scheme.
Refreshment provided to all employees during working hours in office premises
Subsidized lunch or dinner provided
Recreational facilities, including club facilities, extended to employees in general i.e., not restricted to a few select employees;
Amount spent on training of employees
Sum payable by employer to a RPF or an approved superannuation fund
Rent-free official residence provided to a Judge of a High Court or the Supreme Court
Rent-free furnished residence including maintenance provided to an Officer of Parliament, Union Minister and a Leader of Opposition in Parliament;
Conveyance facility provided to High Court Judges
Leave travel concession, subject to the conditions specified under section 10

Perquisites taxable in the hands of specified employees only

Any monetary obligation of the employee which is discharged by the employer is perquisite in the hands of all employees as per section 17(2)(iv). However, sometimes instead of discharging employee's obligation, employer provides perquisites in the form of facility to the employee. Such perquisites are taxable in the hands of specified employees only.

For example:

Nature of perquisite	Specified Employee	Non-Specified Employee
Motor car and other conveyance owned by Employee and expenses met by Employer	Taxable	Taxable
Motor car owned by the employer	Taxable	Not taxable
Watchman, Gardener, Sweeper, Personal attendant engaged by employee and expenses met by employer	Taxable	Taxable
Above servants engaged by the employer	Taxable	Not taxable
Gas, Electricity, water, etc for household consumption in the name of employee and expenses met by employer	Taxable	Taxable
The above facilities in the name of the employer	Taxable	Not taxable

Leave travel concession – Sec 10(5)

- This clause exempts the leave travel concession (LTC) received by employees from their employers for proceeding to any place in India,
 - either on leave or
 - after retirement from service or
 - after termination of his service
- Family includes spouse and children of the individual and parents, brothers and sisters of the individual or any of them wholly or mainly dependent on the individual.
- The exemption referred to shall not be available to more than two surviving children of an individual after 1.10.1998. This restrictive sub-rule shall not apply in respect of children born before 1.10.1998 and also in case of multiple births after one child.
- The exemption in all cases will be limited to the amount actually spent
- Under Rule 2B, exemption will be available in respect of 2 journeys performed in a block of 4 calendar years commencing from the calendar year 1986. The current block is 2018-2021
- Where such travel concession or assistance is not availed by the individual during any block of 4 calendar years, one such unavailed LTC will be carried forward to the immediately succeeding block of 4 calendar years and will be eligible for exemption.
- The cap limit for exemption is

Journey by air	Economy fare of national carrier by shortest route.
Journey by rail	1st class AC rail fare by shortest route.
Journey by any other mode where rail service exists	1st class AC fare, through recognised public transport by shortest route.
	a recognised public transport system exists - 1st class deluxe fare by shortest route.

	A recognised public transport system does not exist - amount equivalent to 1st class AC fare by rail through shortest route.
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Medical facilities [Sec 17(2)]

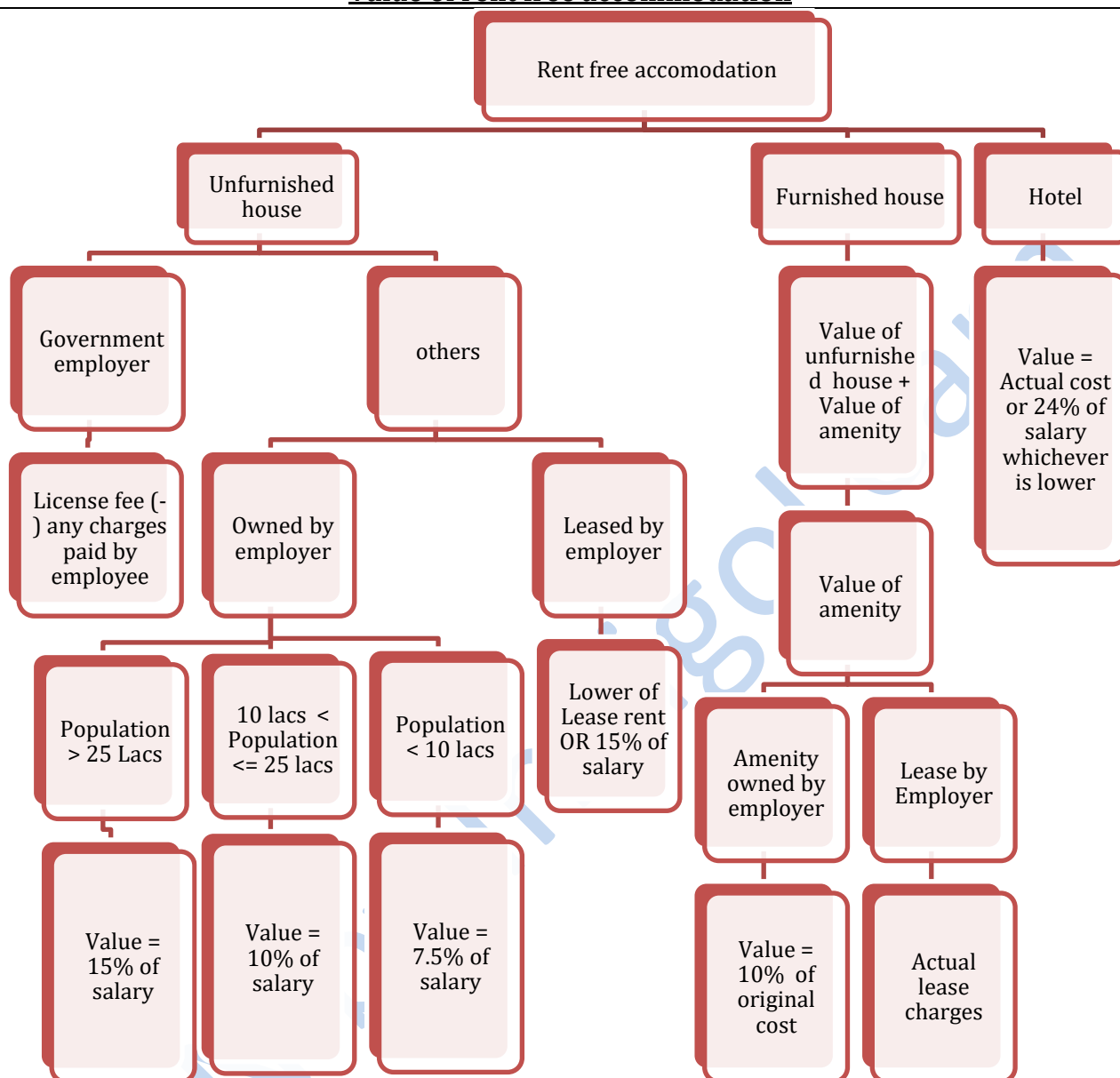
- The following medical facilities will not amount to a perquisite
1. Value of medical treatment in any hospital maintained by the employer
 2. Reimbursement of expenditure actually incurred on medical treatment in
 - any hospital maintained by the Government and
 - in respect of the prescribed disease or ailments in any hospital approved by the Principal Chief Commissioner

The employee shall attach with his return of income a certificate from the hospital specifying the disease
 3. Premium paid to effect an insurance on the health of employee under a scheme approved by the Central Government or IRDA for the purposes of section 36(1)
 4. Payment of premium on personal accident insurance policies – because it is taken in their business interest only
 5. Reimbursement of premium paid to effect an insurance on the health of employee or for the family of an employee under a scheme approved by the Central Government or the IRDA for the purposes of section 80D
 6. Amount paid towards expenditure incurred outside India on medical treatment

medical treatment of the employee or any member of the family	exempt only to the extent permitted by the RBI
travel and stay abroad for such treatment	exempt only to the extent permitted by the RBI
travel and stay abroad of one attendant who accompanies the patient	exempt if the employee's gross total income as computed before including the said expenditure does not exceed Rs. 2 lakh

- Family = Spouse + children + Parents & siblings if wholly dependent on the assessee.
- Hospital includes a dispensary or a clinic or a nursing home.

Valuation of perquisites
Value of rent free accommodation



- For computing the value of a furnished accommodation, first find the value of the unfurnished accommodation and then find the value of amenities. The aggregate is the value of furnished accommodation.
- All the above values will be reduced with the amount actually collected by the employer from the employee.
- In case of hotel accommodation, where the employee is provided such accommodation for a period not exceeding in aggregate 15 days on his transfer from one place to another, there would be no perquisite.
- Where an employee is transferred from one place to another and he is provided with an accommodation at new place also, the value of perquisite shall be taken for only one such house having lower value for a period not exceeding 90 days. Thereafter, the values of both such houses are taxable.

- Where the accommodation is provided by the Central Government or any State Government to an employee who is serving on deputation with any body or undertaking under the control of such Government, then the value is computed based on the population assuming such body or undertaking to be the employer
- Any accommodation provided to an employee working at a mining site; or an on-shore oil exploration site; or a project execution site; or a dam site; or a power generation site; or an off-shore site, which
 - i. being of a temporary nature and having plinth area not exceeding 800 sq.ft. is located not less than 8 kms away from the local limits of any municipality or a cantonment board; or
 - ii. is located in a remote area. (Remote area here means an area located at least 40 K.M. away from a town having population not exceeding 20,000 as per latest published census.)
- **Definition of salary** -
Includes all allowances, bonus and commission and Excludes
 - (a) Dearness allowance if it does not form part of retirement benefit (only DA* is included)
 - (b) Employer's contribution to the provident fund account of the employee;
 - (c) Allowances which are exempted u/s 10
 - (d) The value of perquisites u/s 17(2)
 - (e) Any payment or expenditure specifically excluded under proviso 17(2)
 - (f) Lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and similar payments;

<u>Value of any concession in the matter of rent respecting any accommodation provided to the assessee by the employer [Sec 17(2)(ii)]</u>	
➤	The difference between the specified rate in respect of the period during which said accommodation was occupied computed as per the above flowchart and the amount of rent recoverable/recovered from the employee would be deemed to be the concession in the matter of rent.
➤	All the above points with regard to hotel accommodation and 2 accommodations will remain the same
➤	Definition of salary is also the same as mentioned above.

- Rule 3(1) is applicable in computation of taxable perquisite, in case of deemed concessions.

<u>Value of perquisite per calendar month –motor car / other vehicle [Rule 3(2)]</u>			
Owner/hirer of the car	Expenses met / reimbursed by	Purpose	Taxable value
Employer	Employer	Fully official	Not a perk
Employer	Employer	Fully personal	Actual expense on running and maintenance + Driver's salary +10% Dep on cost – Amount charged from EE
Employer	Employer	Partly official and partly personal	CC < 1.6 Lts – 1800 pm + 900 pm CC > 1.6 lts - 2400 pm + 900pm CC = Cubic capacity of the engine

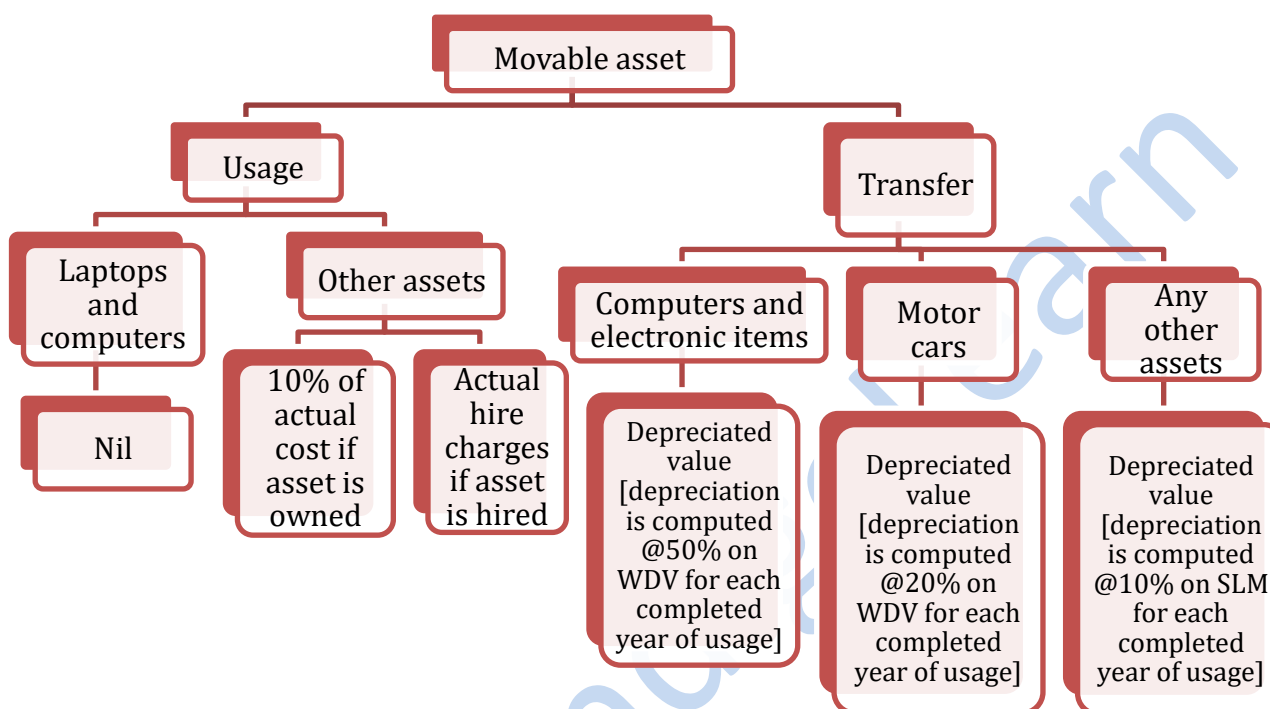
			900 Pm for chauffeur is considered only if driver is employed.
Employer	Employee	Partly official and partly personal	CC < 1.6 Lts – 600 pm + 900 pm CC > 1.6 lts - 900 pm + 900pm CC = Cubic capacity of the engine 900 Pm for chauffeur is considered only if driver is employed.
Employee	Employer	Fully official	Not a perk
Employee	Employer	Partly official and partly personal	Actual exp – (1800+900) (if CC < 1.6 Lts) OR Act exp – (2400+900) (if CC > 1.6 lts) as the case may be
Any other automotive conveyance			
Employee	Employer	Fully official	Not a perk
Employee	Employer	Partly official and partly personal	Actual exp – 900 pm
<ul style="list-style-type: none"> ➤ If the employee uses more than 1 car owned or hired by ER, then 1 will be assumed to be used partly for personal use and the other will be assumed to be used fully for personal purposes. ➤ The employer has to maintain a complete record of all details like journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon in case it is used fully for official purpose. ➤ The normal wear and tear of the motor-car shall be 10% p.a of actual cost of such car. ➤ The use of any vehicle provided by an employer for journey by the assessee from his residence to his office or other place of work, and back home shall not be regarded as a benefit given or provided to him free of cost or at concessional rate. 			

<u>Valuation of fringe benefits</u>			
<u>Benefit</u>	<u>Valuation</u>		
Provision of domestic servants like sweeper, a gardener, a watchman or a personal attendant [Rule 3(3)]	Actual cost to the employer ie. total amount of salary paid or payable by the employer as reduced by any amount paid by the employee for such service.		
	If servants are engaged by the employee and employer pays or reimburses the cost	Taxable in the hands of all employees	
	If the domestic servants are engaged by the employer.	Taxable in the hands of specified employees only.	
Gas, Electricity or water supplied by employer [Rule 3(4)]	<u>Circumstances</u>	<u>Value of benefit</u>	
	If payment is made to agency supplying of gas, electricity etc.	Sum equal to the amount paid on that account by the employer to the agency supplying the gas, electric energy or water	

	<p>If supply is made from resources owned by the employer</p> <p>➤ Any payment made by employee in respect of such service shall be deducted from the above value so arrived.</p>	<p>Manufacturing cost per unit incurred by the employer</p>
Free or concessional educational facilities [Rule 3(5)]	<p>If the fees is paid or reimbursed by the employer</p> <p>If the educational institution is maintained and owned by the employer or If free educational facilities are allowed in any other educational institution by reason of his being in employment of that employer</p> <p>➤ Any payment made by employee in respect of such service shall be deducted from the above value so arrived.</p> <p><u>Note:</u> The exemption of Rs.1,000 p.m is allowed only in case of education facility provided to the children of the employee not to other household members.</p>	<p>Value = sum equal to the amount of expenditure incurred by the employer</p> <p>Then it is taxed only in the hands of specified employees Value = cost of such education in a similar institution in or near the locality There would be no perquisite if the cost of such benefit per child does not exceed Rs. 1,000 p.m.</p>
Fee or concessional tickets by the employer who is engaged in the carriage of passengers or goods [Rule 3(6)]	<p>Value at which such benefit or amenity is offered by such employer to the public (-) amount recovered.</p> <p>Value = Nil in case of employees of an airline or the railways.</p>	
Interest-free or concessional loan (for all employees or any member of his household) [Rule 3(7)(i)]	<p>Maximum outstanding monthly balance \times SBI rate of interest on loans for same purpose on 1st day of PY (-) interest recovered.</p> <p>Value = Nil if</p> <ol style="list-style-type: none"> 1) Loan \leq 20,000 and 2) Loan for medical treatment for prescribed disease. (but no exemption if medical exp reimbursed by insurance) <p>➤ Maximum outstanding monthly balance \Rightarrow Outstanding balance for each loan as on the last day of each month.</p>	
Travelling, touring and accommodation [Rule 3(7)(ii)]	<p>For any holiday availed of by the employee or any member of his household reimbursed by employer</p> <p>If such facilities are maintained by employer to particular employees only</p>	<p>Value = Actual expenses paid for or borne or reimbursed by the employer</p> <p>Value = value at which such facilities are offered by other agencies to the public.</p>

	Expenses on any member of household accompanying such employee on office tour	Value = the amount of expenditure so incurred for that member
	If official tour is extended as vacation	Value = Actual exp during vacation period.
Free or concessional food and non-alcoholic beverages [Rule 3(7)(iii)]	<p>Amount of expenditure incurred by such employer. The following would not be treated as a perquisite :</p> <ol style="list-style-type: none"> 1. Provided during working hours at office or business premises 2. Provided through paid vouchers which are not transferable and usable only at eating joints, (not exceeding Rs. 50 per meal) [No exemption is available to assessee, who opts for Section 115BAC] 3. Provided in a remote area or an off-shore installation 	
Gift, voucher or token in lieu of such gift – given to employee or by member of his household on ceremonial occasions or otherwise [Rule 3(7)(iv)]	<p>Actual value of such gift. Taxable Value = nil if value of gift is less than Rs. 5000</p>	
Credit card expenses (incurred by the employee or any member of his household) [Rule 3(7)(v)]	<p>Actual Amount of expenditure including membership fees and annual fees</p> <ul style="list-style-type: none"> ➤ If it is for official purpose then, it is not taxable if, <ul style="list-style-type: none"> – complete details in respect of such expenditure are maintained by the employer and – the employer gives a certificate to that effect. 	
Club expenditure (incurred by the employee or any member of his household) [Rule 3(7)(vi)]	<p>Actual expenditure (met by the employer) + annual periodical fees (–) amount recovered from the employee.</p> <ul style="list-style-type: none"> ➤ If Employer has taken corporate membership then the initial fees is not considered as perk. ➤ If it is for official purpose then, it is not taxable if complete details in respect of such expenditure are maintained by the employer and the employer gives a certificate to that effect. ➤ No perquisite for use of health club, sports and similar facilities provided uniformly to all employees by the employer 	
Other benefit or amenity [Rule 3(7)(ix)]	<p>Value = cost to the employer under an arms' length transaction as reduced by the employee's contribution, if any.</p> <ul style="list-style-type: none"> ➤ If an employer pays or reimburses telephone bills or mobile phone charges of employee, there will be no taxable perquisite. 	

Valuation with regard to usage or transfer of Moveable property [Rule 3(7)(vii) & (viii)]



- **Note:** Any payment made by employee in respect of such perquisites shall be deducted from the above respective values so arrived.

Valuation of specified security or sweat equity share

The FMV of any specified security or sweat equity share, being an equity share on the date on which the option is exercised is determined in the following manner –

If shares are listed on RSE	If shares are listed on more than one RSE	If no trading in share on RSE	If shares are not listed	In case of securities other than equity shares
FMV = average of the opening price and closing price of the share on that date.	FMV = average of the opening price and closing price of the share on that date in the RSE which records the highest volume of trading in the share	FMV = closing price on the date closest to the date of exercising of the option immediately preceding such date OR closing price on the date closest to the date of exercising in the RSE records the	FMV determined by a merchant banker on the specified date.	FMV determined by a merchant banker on the specified date.

		highest volume of trading in the share as the case may be.		
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Tax on perquisite of specified securities and sweat equity shares allotted by employer is required to be paid

- Generally = In the year of exercising the option.
- Current employer, being eligible start-up is taxable in the year;
 - after expiry of 48 months from the end of the relevant A.Y
 - in which sale of such shares or securities are made by the assessee
 - in which the assess ceases to be the employee of such employer

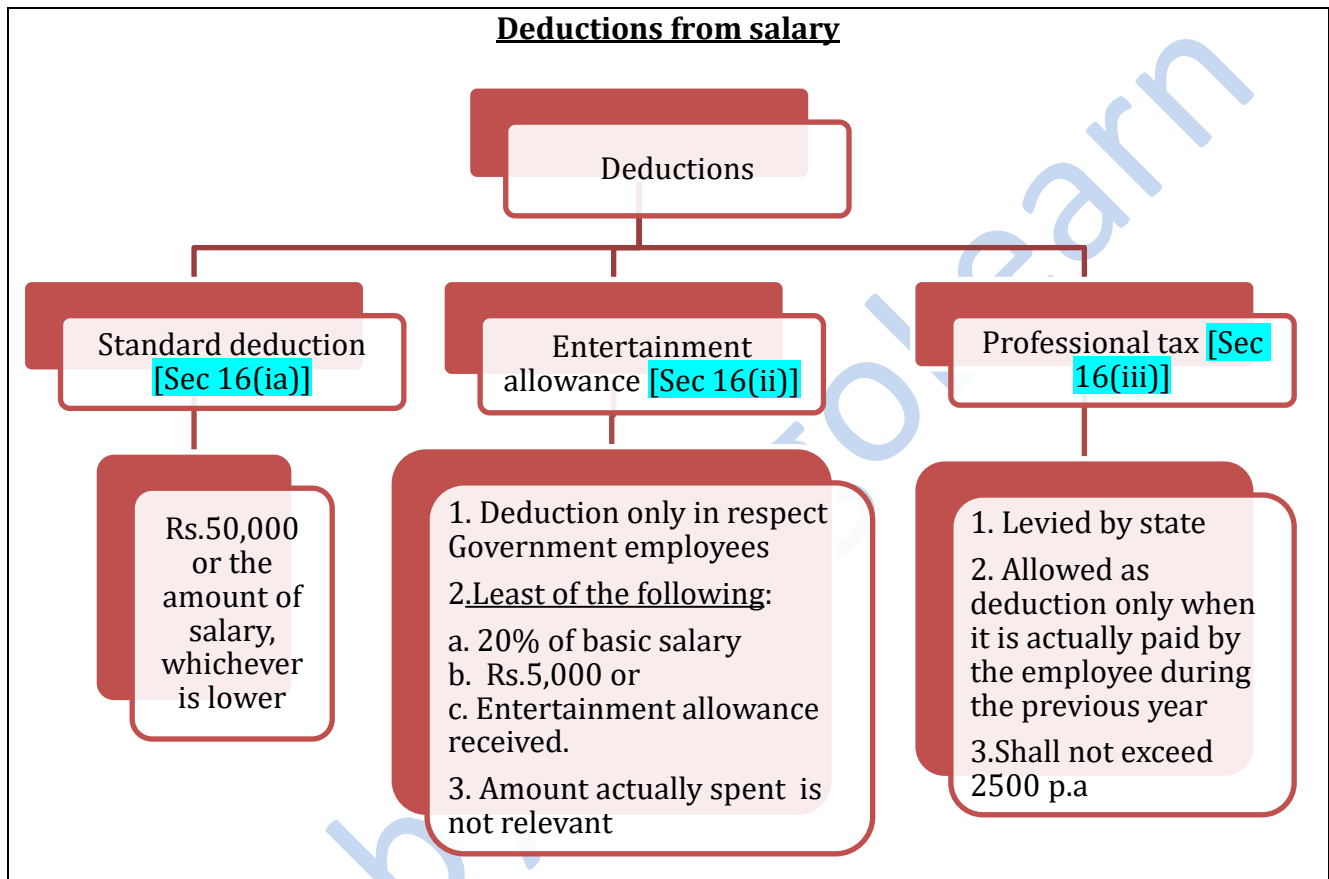
Whichever is earlier

RSE – Recognised stock exchange
 Specified Date – date of exercising of option or any date not exceeding 180 days prior to that date

- Note: Any amount has been recovered from employee in respect of such service shall be deducted from the above respective values so arrived.

Computation of taxable perquisite under 17(2)(vii) and 17(2)(viii) [Rule 3B]	
➤ Any contribution in excess of Rs. 7,50,000 in an RPF, NPS or in an approved superannuation fund by the employer in respect of the assessee. (17(2)(vii))	
➤ Annual accretion in excess of Rs. 7,50,000 to the credit of RPF, NPS, an approved superannuation fund by the employer and incl in total income of the assessee. (17(2)(viii))	
Rule 3B (Applicable from November 2021)	
Annual accretion by way of interest, dividend or any other amount of similar nature during the previous year o balance to the credit of the fund or scheme referred in 17(2)(vii) shall be the amount computed as per the formula	
$TP = (PC/2) \times R + (PC_1 + TP_1) \times R$	
TP	Taxable perquisite under 17(2)(viii) for current previous year
TP ₁	Aggregate of taxable perquisite under 17(2)(viii) for the previous years commencing on or after 01-04-2020
PC	Aggregate amounts of principal contribution made by the employer in excess of Rs. 7.5 Lakh to the fund or scheme specified in 17(2)(vii)
PC ₁	Aggregate amounts of principal contribution made by employer in excess of Rs. 7.5 lakh to the fund or scheme specifies in 17(2)(vii) for the previous year or years commencing on or after 1st day April, 2020 other than the current previous year.
R	I / Favg
I	Aggregate of amounts of income accrued during the current previous year in the fund
Favg	Average of aggregate of amounts of balance to the credit of the fund on first day of previous year and on last day of previous year

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.



- Standard deduction has been increased from Rs. 40,000 to Rs. 50,000 w.e.f AY 2020-21.
- Salary, Pension and emoluments paid by United Nations to its officials is exempt from Income tax. [Sec 2 of United Nations (Privileges and Immunities) Act, 1947]

Definition of Member of household for the purpose of valuation of Perquisites:

Include-

- (a) spouse(s),
- (b) children and their spouses,
- (c) parents, and
- (d) servants and dependants

Relief u/s 89

- When an assessee is charged for –
 - Arrear or Advance salary; or
 - Gratuity, Commuted pension, etc.

then he may fall under higher rate of tax (of progressive tax-slab) e.g. instead of 20% he may have to pay tax @ 30%. To compensate aggrieved assessee from such higher rate, sec. 89(1) provides for 'Relief'.

- Applicable to: An assessee, who is in receipt of –
 - Arrear salary or Advance salary or in any other way is in receipt, in any one financial year, of salary for more than 12 months; or
 - Profit in lieu of salary u/s 17(3) e.g. gratuity, commuted pension, etc.; or
 - Family pension, being paid in arrears.
- Note: An assessee, who receives leave encashment during continuation of his service, can also claim relief u/s 89.
- Assessee has made an application in this behalf to the Assessing Officer.
- Quantum of Relief: As computed by method provided in Rule 21A
- No relief at the time of Voluntary retirement or Termination of service.