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INCOME FROM SALARY

B.Com- 4th Sem

Sub. Teacher

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SALARY

Salary and wages are one and the same thing. There must be employer and employee relationship .It can be received due or whichever is earlier.

- Acc to sec 15 Salary means present, past or future salary..



ALLOWANCES

- Fully tax free allowances.
- Fully taxable allowances.
- Partly taxable allowances.



FULLY TAX FREE ALLOWANCES

- Allowances to UNO employees.
- Special allowances to judges of High court and Supreme court.
- Allowances and perquisites to the government employees on posting abroad.



FULLY TAXABLE ALLOWANCES

- Dearness Allowances
- City Compensatory Allowances
- Medical allowances
- Any other allowances which is otherwise not declared or exempted.

PARTLY TAXABLE ALLOWANCES

- House Rent Allowances
 - ✓ Actual HRA.
 - ✓ Excess of rent over 10% of salary.
 - ✓ 50% of salary if the house is situated in Delhi, Mumbai, Calcutta, Chennai otherwise 40% of salary.


Example:-


Q. A is entitled to a basic salary of Rs.5,000p.m and dearness allowance of Rs.1,000p.m, 40% of which forms part of retirement benefits. He is entitled to HRA of Rs.2,000p.m as rent for a house in Delhi. Calculate the taxable HRA.

Solu. Minimum of the following three amounts shall be ex

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|------|---|--------|
| i. | Actual HRA received | 24,000 |
| ii. | Rent paid in excess of
10% of salary
(24,000-6,480) | 17,250 |
| iii. | 50% of salary | 32,400 |

Salary = basic + D.A (forming part)
 $5,000 * 12 + 40\% \text{ of } 12,000$

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- Education allowances for children Rs 100 per month per child for max of 2 children.
 - Hostel allowances for children Rs 300 per month per child for max of 2 children.
 - Allowances to transport employees exempted 70% of allowances or Rs.6,000 whichever is less.

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- Transport allowances exempted upto 800/1600 per month.
 - Underground employee allowances exempted upto 800 per month.
 - Tribal area allowances exempt upto 200 per month.
 - Conveyance allowances.
 - Uniform allowances.
 - Helper allowances


FULLY TAX FREE PERQUISITES


- **Medical benefits** : for self, spouse, parents, children and dependents.


If treatment is taken **in India** and in **recognized hospital**, then it is fully exempt, otherwise it is exempt upto Rs.15000 p.a

Treatment **outside India**: It is exempt to the extent permitted by R.B.I

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- **TRAVEL AND STAY** expenses for patient and member accompanied with the patient is exempted upto the extent permitted by R.B.I. The amount will be exempted if total income of the employee does not exceed Rs.2 lakh per annum
 - Car for personal use
 - Free telephone
 - Free hospitality
 - Club facility including health club and spa
 - Cab facility


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- Perquisites to government employees posted abroad
 - Welfare expenses for employees
 - Rent free house to judges of high court and supreme court, cabinet ministers, leaders of opposition in parliament and special officers of parliament.
 - Interest free loan if it does not exceed Rs. 20,000 per annum




If loan exceeds Rs.20,000 and if it is for purpose of treatment of **specified disease**, then it is fully exempt

If loan exceeds Rs.20,000 and it is taken for **another purpose** then it is taxable at the rate specified by S.B.I.

- Gifts in kind
- Free periodicals and journals
- Free accident and health policy for employees




Q. X is employed by A Ltd. On June 1, 2009, the company gives an interest free housing loan of Rs. 14,00,000. Loan is repayable after 10 years. What should be the Taxable Value of Perquisite?



Solu. The lending rate of SBI on April 1, 2009 was 9%p.a.

Rs. 1,05,000 (Interest @ 9% from June 1, 2009 to Mar 31, 2010) would be taxable in hands of X.

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- Conference expenses
 - Entertainment expenses
 - Festival celebration expenses
 - Guest house facility
 - Lunch facility
 - Free education to employee's children in the institution run by employer- it is exempt if the amount of expenditure does not exceed Rs. 1000 per month per child

TAXABLE PERQUISITES

Rent free accommodation

- Unfurnished accommodation

Govt. employee: Licence fees decided by the govt. is taxable.

Non govt. employee: House **owned** by employer

% of salary

Cities having population

15% of salary

more than 25 lakhs

10% of salary

10 lakhs-25 lakhs

7.5% of salary

less than 10 lakhs

- If house is **hired** by the employer taxable perquisite will be 15% of salary or actual rent whichever is less

- Furnished accommodation

Value of unfurnished rent free
accommodation

+

Value of furniture




Value of furniture can be calculated as follows

- ✓ If furniture is rented- actual rent of furniture
- ✓ If furniture is owned- 10% of the original cost of furniture

Salary for rent free accommodation=

Basic salary + D.A (forming part of salary)
+ Bonus + Commission + Taxable portion
of allowances + fees + any other monetary
payment which is chargeable to tax



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- **Hotel accommodation:** Taxable perquisite will be 24% of salary for the period of stay or actual hotel expenses whichever is less

However if the accommodation is provided on transfer of one place to another, then it is exempted for 15 days.

- **More than one accommodation:** if it is provided on transfer from one place to another then

For first 3 months – first accommodation is taxable

After 3 months both accommodations will be taxable

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- Any other obligation of employee paid by employer is fully taxable

Example gas bills, electricity bills of employee paid by employer

1.If car is owned by employee and expenses are paid by employee- taxable perquisite will be nil

2.If car is owned by employer and expenses are paid by employer

- Used for office purposes- taxable perquisites will be nil
- Used for private purposes- taxable perquisites will be normal wear and tear of car and normal expenses

(normal wear and tear means if car is purchased then 10% of actual cost,

- Used for both purposes- taxable perquisite will be .
- ✓ For small car – Rs 1,800 p.m
- ✓ For large car - Rs 2,400 p.m
- ✓ If driver is provided- Rs 900 p.m

3. If car is owned by employee and expenses paid by employer

- Used for office purposes- taxable perquisites will be nil

Used for private purposes- taxable perquisites will be actual expenses paid by employer

- Used for both purposes- taxable perquisite will be .
Expenses paid by employer as reduced by
 - ✓ For small car (less than 1.6L) – Rs 600 p.m
 - ✓ For large car (more than 1.6L) - Rs 900 p.m
 - ✓ If driver is provided- Rs 900 p.m

4.If car is owned by employer and expenses are paid by employee.

- Used for office purposes- taxable perquisites will be nil
- Used for private purposes- taxable perquisites will be normal wear and tear of car and normal expenses
- Used for both purposes- taxable perquisite will be .
 - ✓ For small car (less than 1.6L)– Rs 600 p.m
 - ✓ For large car (more than 1.6L) - Rs 900 p.m
 - ✓ If driver is provided- Rs 900 p.m

PROFITS IN LIEU OF SALARY

Pension is of three types.

Monthly pension : Fully taxable.

Family pension: Exempt up to $\frac{1}{3}$ of family pension or Rs 15,000 whichever is less.

Commutation pension: If it is received along with gratuity then $\frac{1}{3}$ of gross commutation is exempt otherwise $\frac{1}{2}$ of gross commutation is exempt.

GRATUITY

- Government Employees : Fully exempt
 - Non Government employees
 - Covered under gratuity act least of the following is exempted.
 - a) 15 days salary for each completed year of service or part there of in excess of 6 months.
$$15/26 \times (\text{salary last drawn}) \times (\text{no of years of service})$$
- Note: Salary** = Basic salary+ D.A (not forming part of salary)

b) Actual gratuity received.

c) Rs 350000 which ever is less.

Not covered under gratuity act least of the following is exempt.

a) $\frac{1}{2}$ month salary for each completed year of services.

b) $\frac{1}{2} * (\text{average salary}) * (\text{no of year of service})$

c) Actual gratuity Rs 350000

Note- Salary for gratuity = average of last 10 months immediately preceding month of retirement

LEAVE ENCASHMENT

Government employees : Fully exempt.

Non government employees :

Least of following is exempt.

- Cash equivalent to leave salary to the credit of employees at the time of retirement.
- 10 months average salary.
- Rs 300000 which ever is less.

RETRENCHMENT COMPENSATION

Least of the following is exempt.

- a) Rs 5,00,000.
- b) Amount as per industrial dispute act.

Compensation On VRS

Least of following is exempted.

- a) Actual amount received.
- b) Three months salary for each completed year of service.
- c) Salary for the service left for retirement.
- d) Rs 5,00,000 which ever is less.

PROVIDENT FUND

TYPE	EMPLOYEE CONTRIBUTION	EMPLOYEER CONTRIBUTION	INTEREST	REFUND
SPF	TAXABLE	EXEMPT	EXEMPT	EXEMPT
RPF	TAXABLE	Exempt up to 12% of salary	Exempt up to 9.5% of salary	Exempt (retirement, death, retrenchment, 5 years of service)
UPF	TAXABLE	EXEMPT	EXEMPT	Taxable
PPF	TAXABLE	Exempt	EXEMPT	EXEMPT



Thank you