

# HEADS OF INCOME



## UNIT – 1 : SALARIES

### LEARNING OUTCOMES

**After studying this unit, you would be able to -**

- ◆ **ascertain** the point of time when salary income is chargeable to tax;
- ◆ **comprehend** the meaning of salary, profits in lieu of salary, allowances, perquisite and various retirement benefits;
- ◆ **identify** the allowances which are exempt and perquisites which are tax free under default tax regime under section 115BAC and under the optional tax regime (i.e., the normal provisions of the Act);
- ◆ **determine** the taxable portion of retirement benefits, allowances and other benefits which form part of salary;
- ◆ **determine** the value of perquisite chargeable to tax under the head "Salaries";
- ◆ **identify** the admissible deductions from salary under the default tax regime under section 115BAC;
- ◆ **identify** the admissible deductions from salary under the optional tax regime (i.e., the normal provisions of the Act)
- ◆ **compute** the income chargeable to tax under the head "Salaries" under both the default tax regime and the optional tax regime.

**Proforma for computation of income under the head “Salaries” as per  
default tax regime under section 115BAC**

	Particulars	Amt(₹)
(i)	Basic Salary	xxx
(ii)	Fees/Commission	xxx
(iii)	Bonus	xxx
(iv)	Allowances:	
(a)	Dearness Allowance [Fully taxable]	xxx
(b)	House Rent Allowance (HRA) [Fully taxable]	xxx
(c)	Children Education Allowance [Fully taxable]	xxx
(d)	Children Hostel Allowance [Fully taxable]	xxx
(e)	Transport allowance	xxx
	Less: ₹ 3,200 per month only in case of blind/ deaf and dumb/orthopedically handicapped employee	xxx
		xxx
(f)	Entertainment Allowance [Fully taxable]	xxx
(g)	Travelling Allowance/Daily Allowance/ Conveyance Allowance	xxx
	Less: Exempt if the amount is fully utilised for the purpose	xxx
		xxx
(h)	Other Allowances including overtime allowance, city compensatory allowance etc. [Fully taxable]	xxx
(v)	Taxable Perquisites	
(a)	<b>Value of rent-free accommodation provided to the employee*</b>	xxx
(b)	<b>Value of any accommodation provided to the employee at a concessional rate*</b>	xxx
	<b>I) Where the accommodation is provided by the Govt. to its employees</b>	
	License fee determined by the Govt.	xxx
	Less: Rent actually paid by the employer	xxx

\*In case of furnished accommodation, the value will be increased by 10% p.a. of the cost of furniture or hire charges, as the case may be, **less** amount recovered from the employees.

	<p><b>II) Where the accommodation is provided by any other employer</b></p> <p><i>If accommodation is owned by the employer</i></p> <p>(i) <b>Cities having population &gt; 25 lakh as per 2001 census</b> 15% of salary in respect of the period of occupation (–) rent recovered from employee xxx</p> <p>(ii) <b>Cities having population &gt; 10 lakh ≤ 25 lakh as per 2001 census</b> 10% of salary in respect of the period of occupation (–) rent recovered from employee xxx</p> <p>(iii) <b>In other cities</b> 7.5% of salary in respect of the period of occupation (–) rent recovered from employee xxx</p> <p><i>If accommodation is taken on lease/rent by the employer</i></p> <p>Lower of lease rental paid or payable by the employer (or) 15% of salary xxx</p> <p>Less: Rent recovered from the employee xxx</p>	
(c)	<b>Obligation of employee discharged by employer:</b> For e.g., Professional tax paid by the employer	xxx
(d)	<b>Any sum payable by the employer to effect an assurance on the life of the employee or to effect a contract for annuity:</b> Actual expenditure incurred by the employer	xxx
(e)	Amount or aggregate of amounts of any contribution made - in a recognised provident fund, - in NPS referred to in section 80CCD(1) - in an approved superannuation fund by the employer to the account of the assessee, to the extent it <b>exceeds ₹ 7,50,000 in a P.Y.</b>	xxx
(f)	<b>Annual accretion by way of interest, dividend or any other amount of similar nature</b> during the P.Y. to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the <b>employer's contribution which is included in total income in any P.Y. under section 17(2)(vii)</b>	xxx

(g)	<b>Value of use of motor car [Refer Table below]</b>	xxx
(h)	<p><b>Any other perquisite:</b> For example,</p> <p>(1) <b>Provision of services of a sweeper, gardener, watchman or personal attendant:</b> Actual cost to employer by way of salary paid or payable for such services (-) amount paid by the employee</p> <p>(2) <b>Gas, electricity, or water supplied by employer for household consumption of the employee:</b> Amount paid on that account by the employer to the agency supplying gas etc. (-) amount paid by the employee</p> <p>(3) <b>Provision of free or concessional education facilities for any member of employee's household:</b> Sum equal to the expenditure incurred by the employer (-) amount paid or recovered from the employee</p> <p><b>Where educational institution is maintained and owned by employer:</b> Cost of such education in similar institution in or near the locality (-) amount paid or recovered from employee [However, there would be no perquisite if the value of benefit per child does not exceed ₹ 1,000 p.m.]</p> <p><b>Note:</b> Above perquisites in (g) and (h) are taxable only in case of specified employees.</p> <p>(4) <b>Interest-free or concessional loan exceeding ₹ 20,000:</b> Interest computed at the rate charged by SBI as on 1<sup>st</sup> day of relevant P.Y. in respect of loans for similar purposes on the maximum outstanding monthly balance (-) interest actually paid by employee</p> <p>(5) <b>Free food and non-alcoholic beverages through paid vouchers</b></p> <p>(6) <b>Value of gift, voucher:</b> Sum equal to the amount of such gift [If value of gift, voucher is below ₹ 5,000, there would be no perquisite]</p> <p>(7) <b>Use of moveable assets [Refer table at page 3.88]</b></p> <p>(7) <b>Transfer of moveable assets:</b> Actual cost of asset to employer – cost of normal wear and tear – Amount paid or recovered from employee <b>[Refer table at page 3.89]</b></p>	xxx
(vi)	Leave travel concession [Fully taxable]	xxx

(vii)	Gratuity		
	(a) Received during the tenure of employment (fully taxable)	xxx	
	(b) Received at the time of retirement or otherwise	xxx	
	Less: Exempt u/s 10(10) <b>[Refer fig at Page 3.32]</b>	xxx	xxx
(viii)	Uncommuted pension (fully taxable)		xxx
(ix)	Commuted pension	xxx	
	Less: Exempt u/s 10(10A) <b>[Refer fig at Page 3.29]</b>	xxx	xxx
(x)	Leave encashment		
	(a) Received during the employment (fully taxable)	xxx	
	(b) Received at the time of retirement or otherwise	xxx	
	Less: Exempt u/s 10(10AA) <b>[Refer fig at Page 3.36]</b>	xxx	xxx
(xi)	Voluntary retirement compensation	xxx	
	Less: Exempt u/s 10(10C) - Least of the following:	xxx	xxx
	(a) Compensation received/receivable on voluntary retirement	xxx	
	(b) ₹ 5,00,000	xxx	
	(c) 3 months' salary x completed years of service	xxx	
	(d) Last drawn salary x remaining months of service left	xxx	
(xii)	Retrenchment compensation etc.	xxx	
	Less: Exempt u/s 10(10B)] – Least of the following:	xxx	xxx
	(a) Compensation actually received	xxx	
	(b) ₹ 5,00,000	xxx	
	(c) 15 days average pay x completed years of service and part thereof in excess of 6 months	xxx	
<b>Gross Salary</b>			xxx
<b>Less:</b>	Deduction under section 16		
	<b>Standard deduction u/s 16(ia) -amount of salary or ₹ 50,000, whichever is less</b>		xxx
<b>Income under the head "Salaries"</b>			<b>xxx</b>

**Proforma for computation of income under the head “Salaries” under the optional tax regime (i.e., the normal provisions of the Act)**

	Particulars		Amt(₹)
(i)	Basic Salary		xxx
(ii)	Fees/Commission		xxx
(iii)	Bonus		xxx
(iv)	Allowances:		
(a)	Dearness Allowance [Fully taxable]		xxx
(b)	<b>House Rent Allowance (HRA)</b>	xxx	
	Less: Least of the following is exempt [Section 10(13A)]	xxx	xxx
	(i) HRA actually received	xxx	
	(ii) Rent paid (-)10% of salary for the relevant period	xxx	
	(iii) 50% of salary, if accommodation is located in Mumbai, Kolkata, Delhi or Chennai or 40% of salary in any other city for the relevant period	xxx	
(c)	<b>Children Education Allowance</b>	xxx	
	Less: Exempt upto ₹ 100 per month per child upto maximum of two children	xxx	xxx
(d)	<b>Children Hostel Allowance</b>	xxx	
	Less: Exempt upto ₹ 300 per month per child upto maximum of two children	xxx	xxx
(e)	<b>Transport allowance</b>	xxx	
	Less: ₹ 3,200 per month only in case of blind/ deaf and dumb/ orthopedically handicapped employee	xxx	xxx
(f)	Entertainment Allowance		xxx
(g)	Travelling Allowance/ Daily Allowance/ Conveyance Allowance	xxx	
	Less: Exempt if the amount is fully utilised for the purpose	xxx	xxx
(h)	Other Allowances including overtime allowance, city compensatory allowance etc.		xxx

(v)	Taxable Perquisites	
(a)	<b>Value of rent free accommodation<sup>†</sup> provided to the employee</b>	xxx
(b)	<b>Value of any accommodation provided to the employee at a concessional rate</b>	xxx
	<b>I) Where the accommodation is provided by the Govt. to its employees</b>	
	License fee determined by the Govt.	xxx
	Less: Rent actually paid by the employer	xxx
	<b>II) Where the accommodation is provided by any other employer</b>	
	<i>If accommodation is owned by the employer</i>	
	<b>(i) Cities having population &gt; 25 lakh as per 2001 census</b>	
	15% of salary in respect of the period of occupation (–) rent recovered from employee	xxx
	<b>(ii) Cities having population &gt; 10 lakh ≤ 25 lakh as per 2001 census</b>	
	10% of salary in respect of the period of occupation (–) rent recovered from employee	xxx
	<b>(iii) In other cities</b>	
	7.5% of salary in respect of the period of occupation (–) rent recovered from employee	xxx
	<i>If accommodation is taken on lease/rent by the employer</i>	
	Lower of lease rental paid or payable by the employer (or) 15% of salary	xxx
	Less: Rent recovered from the employee	xxx
(c)	<b>Obligation of employee discharged by employer:</b> For e.g., Professional tax paid by the employer	xxx
(d)	<b>Any sum payable by the employer to effect an assurance on the life of the employee or to effect a contract for annuity:</b> Actual expenditure incurred by the employer	xxx
(e)	Amount or aggregate of amounts of any contribution made –	xxx

<sup>†</sup>In case of furnished accommodation, the value will be increased by 10% p.a. of the cost of furniture or hire charges, as the case may be, **less** amount recovered from the employees.

	<ul style="list-style-type: none"> <li>- in a recognised provident fund,</li> <li>- in NPS referred to in section 80CCD(1)</li> <li>- in an approved superannuation fund</li> </ul> <p>by the employer to the account of the assessee, to the extent it <b>exceeds ₹ 7,50,000</b></p>	
(f)	<p><b>Annual accretion by way of interest, dividend or any other amount of similar nature</b> during the P.Y. to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the <b>employer's contribution which is included in total income in any P.Y. under section 17(2)(vii)</b></p>	xxx
(g)	<b>Value of use of motor car [Refer Table below]</b>	xxx
(h)	<p><b>Any other perquisite:</b> For example,</p> <ol style="list-style-type: none"> <li>(1) <b>Provision of services of a sweeper, gardener, watchman or personal attendant:</b> Actual cost to employer by way of salary paid or payable for such services (-) amount paid by the employee</li> <li>(2) <b>Gas, electricity, or water supplied by employer for household consumption of the employee:</b> Amount paid on that account by the employer to the agency supplying gas etc. (-) amount paid by the employee</li> <li>(3) <b>Provision of free or concessional education facilities for any member of employee's household:</b> Sum equal to the expenditure incurred by the employer (-) amount paid or recovered from the employee  <b>Where educational institution is maintained and owned by employer:</b> Cost of such education in similar institution in or near the locality (-) amount paid or recovered from employee [However, there would be no perquisite if the value of benefit per child does not exceed ₹ 1,000 p.m.]</li> </ol> <p><b>Note:</b> Above perquisites in (g) and (h) are taxable only in case of specified employees.</p> <ol style="list-style-type: none"> <li>(4) <b>Interest-free or concessional loan exceeding ₹ 20,000:</b> Interest computed at the rate charged by SBI as on 1<sup>st</sup> day of relevant P.Y. in respect of loans for similar purposes on the maximum outstanding monthly balance (-) interest actually paid by employee</li> </ol>	xxx



	<p>(5) <b>Free food and non-alcoholic beverages:</b> Expenses incurred by employer (-) amount recovered from employee [Free food and non-alcoholic beverages provided during office hours or paid vouchers upto ₹ 50 per meal is exempt]</p> <p>(6) <b>Value of gift, voucher:</b> Sum equal to the amount of such gift [If value of gift, voucher is below ₹ 5,000, there would be no perquisite]</p> <p>(7) <b>Use of moveable assets [Refer table at page 3.88]</b></p> <p>(8) <b>Transfer of moveable assets:</b> Actual cost of asset to employer – cost of normal wear and tear – Amount paid or recovered from employee <b>[Refer table at page 3.89]</b></p>		
(vi)	Leave travel concession	xxx	
	Less: Exempt u/s 10(5) <b>[Refer table at Page 3.63]</b>	xxx	xxx
(vii)	Gratuity		
	(a) Received during the tenure of employment (fully taxable)	xxx	
	(b) Received at the time of retirement or otherwise	xxx	
	Less: Exempt u/s 10(10) <b>[Refer fig at Page 3.32]</b>	xxx	xxx
(viii)	Uncommuted pension (fully taxable)		xxx
(ix)	Commuted pension	xxx	
	Less: Exempt u/s 10(10A) <b>[Refer fig at Page 3.29]</b>	xxx	xxx
(x)	Leave encashment		
	(a) Received during the employment (fully taxable)	xxx	
	(b) Received at the time of retirement or otherwise	xxx	
	Less: Exempt u/s 10(10AA) <b>[Refer fig at Page 3.36]</b>	xxx	xxx
(xi)	Voluntary retirement compensation	xxx	
	Less: Exempt u/s 10(10C) - Least of the following:	xxx	xxx
	(a) Compensation received/receivable on voluntary retirement	xxx	
	(b) ₹ 5,00,000	xxx	
	(c) 3 months' salary x completed years of service	xxx	
	(d) Last drawn salary x remaining months of service left	xxx	

(xii)	Retrenchment compensation etc.	xxx	
	Less: Exempt u/s 10(10B)] – Least of the following:	xxx	xxx
	(a) Compensation actually received	xxx	
	(b) ₹ 5,00,000	xxx	
	(c) 15 days average pay x completed years of service and part thereof in excess of 6 months	xxx	
<b>Gross Salary</b>			xxx
<b>Less:</b>	Deduction under section 16		
	<b>Standard deduction u/s 16(ia) -amount of salary or ₹ 50,000, whichever is less</b>		xxx
	<b>Entertainment allowance u/s 16(ii) (only for Govt. employees)</b>	xxx	
	Least of the following is allowable as deduction:	xxx	xxx
	(a) ₹ 5,000	xxx	
	(b) 1/5 <sup>th</sup> of basic salary	xxx	
	(c) Actual entertainment allowance received	xxx	
	<b>Professional Tax/Tax on employment (paid by employer/ employee) u/s 16(iii)</b>		xxx
<b>Income under the head “Salaries”</b>			<b>xxx</b>

**Proforma for computation of income under the head “Salaries” under optional tax regime taking Salaries computed as per default tax regime under section 115BAC as the starting point**

Particulars	Amt(₹)
<b>Income under the head “Salaries” under default tax regime under section 115BAC</b>	xxx
Less: HRA exempt under section 10(13A) – Least of the three limits	xxx
Children Education Allowance (Upto ₹ 100 per month per child upto maximum of two children)	xxx
Children Hostel Allowance (Upto ₹ 300 per month per child upto maximum of two children)	xxx
Free food and non-alcoholic beverages through paid vouchers upto ₹ 50 per meal	xxx
Leave travel concession exempt u/s 10(5)	xxx
	<b>xxx</b>

<b>Less: Deduction under section 16</b>	
Entertainment allowance u/s 16(ii) (only for Govt. employees)	xxx
Professional Tax/Tax on employment (paid by employer/employee) u/s 16(iii)	xxx
<b>Income under the head "Salaries" under optional tax regime</b>	<b>xxx</b>

PERQUISITE VALUE OF MOTOR CAR											
S. No.	Car owned/hired by	Expenses met by	Wholly official use	Partly personal use							
1	Employer	Employer	No value*	<table><tr><th>cc of engine</th><th>Perquisite value</th></tr><tr><td>upto 1.6 litres</td><td>₹ 1,800 p.m.</td></tr><tr><td>above 1.6 litres</td><td>₹ 2,400 p.m.</td></tr></table> <p>If chauffeur is also provided, ₹ 900 p.m. should be added to the above value.</p>	cc of engine	Perquisite value	upto 1.6 litres	₹ 1,800 p.m.	above 1.6 litres	₹ 2,400 p.m.	
cc of engine	Perquisite value										
upto 1.6 litres	₹ 1,800 p.m.										
above 1.6 litres	₹ 2,400 p.m.										
2	Employee	Employer	No value*	Actual amount of expenditure incurred by the employer as reduced by the perquisite value arrived at in (1) above.							
3	Employer	Employee	-	<table><tr><th>cc of engine</th><th>Perquisite value</th></tr><tr><td>upto 1.6 litres</td><td>₹ 600 p.m.</td></tr><tr><td>above 1.6 litres</td><td>₹ 900 p.m.</td></tr></table> <p>If chauffeur is also provided, ₹ 900 p.m. should be added to the above value.</p>	cc of engine	Perquisite value	upto 1.6 litres	₹ 600 p.m.	above 1.6 litres	₹ 900 p.m.	
cc of engine	Perquisite value										
upto 1.6 litres	₹ 600 p.m.										
above 1.6 litres	₹ 900 p.m.										

\*provided employer maintains the complete details of such journey and expenditure thereon and gives a certificate that such expenditure are incurred wholly for official use.

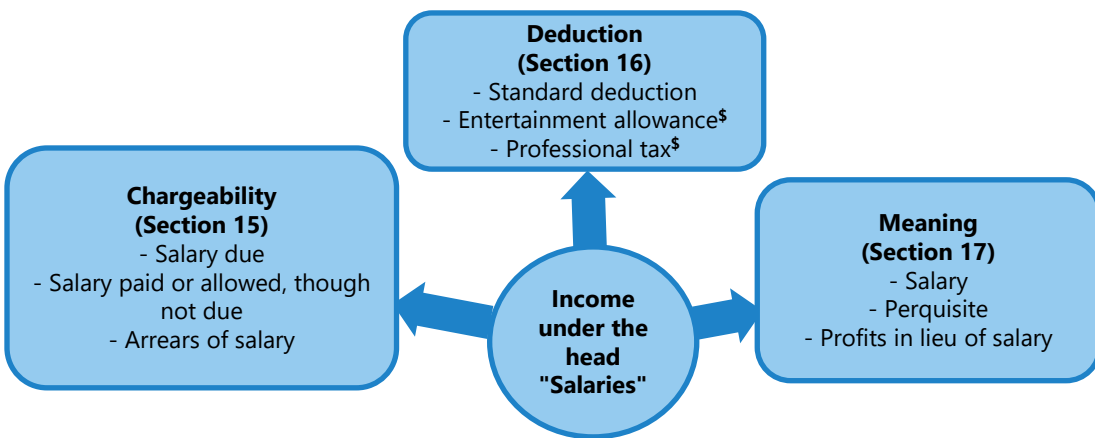


*Perquisite value of motor car is taxable only in case of specified employees if motor car is provided by the employer to the employee. However, where the motor car is owned by the employee and used by him or members of his family wholly for personal purpose and for which employer reimburses the running and maintenance expenses of the car, the perquisite value of motor car would be taxable in case of all employees.*

- Where car is owned by employer and expenses are also met by the employer, the taxable perquisite in case such car is used wholly for personal purposes of the employee would be equal to the actual expenditure incurred by the employer on running and maintenance expenses and normal wear and tear (calculated @10% p.a. of actual cost of motor car) **less** amount charged from the employee for such use.

## 1.1 INTRODUCTION

The provisions pertaining to Income under the head "Salaries" are contained in section 15, 16 and 17 in the following manner.



<sup>\$</sup> Deduction for Entertainment allowance for Government employees and Professional tax are allowable only under the optional tax regime i.e., if the employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The same are not allowable under the default tax regime under section 115BAC.

Before learning the provisions, it is essential to understand the important concepts relating to Salaries.

- (1) Employer-employee relationship:** Every payment made by an employer to his employee for service rendered would be chargeable to tax as salaries. Before an income can become chargeable under the head 'salaries', it is vital that there should exist between the payer and the payee, the relationship of an employer and an employee.

**Example:** Sujata, an actress, is employed in Chopra Films, where she is paid a monthly remuneration of ₹2 lakh. She acts in various films produced by various

producers. The remuneration for acting in such films is directly paid to Chopra Films by the different producers.

In this case, ₹ 2 lakh will constitute salary in the hands of Sujata, since the relationship of employer and employee exists between Chopra Films and Sujata.

**Example:** In the above example, if Sujata acts in various films and gets fees from different producers, the same income will be chargeable as income from profession since the relationship of employer and employee does not exist between Sujata and the film producers.

**Example:** Commission received by a Director from a company is salary if the Director is an employee of the company. If, however, the Director is not an employee of the company, the said commission cannot be charged as salary but has to be charged either as income from business or as income from other sources depending upon the facts.

**Example:** Salary paid to a partner by a firm is nothing but an appropriation of profits. Any salary, bonus, commission or remuneration by whatever name called due to or received by partner of a firm shall not be regarded as salary. The same is to be charged as income from profits and gains of business or profession. This is primarily because the relationship between the firm and its partners is not that of an employer and employee.

**Example:** Remuneration received by a Member of Parliament/State Legislature is not taxable under the head 'Salaries' as such person is not a government employee. Such income would be taxable as 'Income from Other Sources'.

- (2) **Full-time or part-time employment:** Once the relationship of employer and employee exists, the income is to be charged under the head "salaries". It does not matter whether the employee is a full-time employee or a part-time one.

If, for example, an employee works with more than one employer, salaries received from all the employers should be clubbed and brought to charge for the relevant previous years.

- (3) **Forgoing of salary:** Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income-tax. Such waiver is only an application and hence, chargeable to tax.

**Example:**

*Mr. A, an employee instructs his employer that he is not interested in receiving the salary for April 2023 and the same might be donated to a charitable institution.*

*In this case, Mr. A cannot claim that he cannot be charged in respect of the salary for April 2023. It is only due to his instruction that the donation was made to a charitable institution by his employer. It is only an application of income.*

*Hence, the salary for the month of April 2023 will be taxable in the hands of Mr. A. He is, however, entitled to claim a deduction under section 80G for the amount donated to the institution. Deduction under section 80G is available only if Mr. A exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). [The concept of deductions is explained in detail in Chapter 6].*

- (4) **Surrender of salary:** However, if an employee surrenders his salary, in the public interest, to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered would be exempt while computing his taxable income.
- (5) **Salary paid tax-free:** This, in other words, means that 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.

However, as per section 10(10CC), 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.

- (6) **Place of accrual of salary:** Under section 9(1)(ii), salary earned in India is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

If an employee is paid pension abroad in respect of services rendered in India, the same will be deemed to accrue in India. Similarly, leave salary paid abroad in respect of leave earned in India is deemed to accrue or arise in India.

Section 9(1)(iii) provides that salaries payable by the Government to a citizen of India for services outside India shall be deemed to accrue or arise in India. However, by virtue of section 10(7), any allowance or perquisites paid or

allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt. Individual assessee **who are not citizens of India** are entitled to the following exemptions in respect of remuneration/ salary received by them under section 10(6):

**(i) *Remuneration received by officials of Embassies etc. of Foreign States [Section 10(6)(ii)]***

The remuneration received by a person for services as an official of an embassy, high commission, legation, commission, consulate or the trade representation of a foreign State or as a member of the staff of any of these officials is exempt.

**Conditions:**

- (a) The remuneration received by our corresponding Government officials or members of the staff resident in such foreign countries for similar purposes should be exempt.
- (b) The above-mentioned members of the staff should be the subjects of the respective countries represented and should not be engaged in any other business or profession or employment in India.

**(ii) *Remuneration received for services rendered in India as an employee of foreign enterprise [Section 10(6)(vi)]***

Remuneration received by a foreign national as an employee of a foreign enterprise for service rendered by him during his stay in India is also exempt from tax.

**Conditions:**

- (a) The foreign enterprise is not engaged in any business or trade in India;
- (b) The employee's stay in India does not exceed 90 days during the previous year;
- (c) The remuneration is not liable to be deducted from the employer's income chargeable to tax under the Act.

**(iii) Salary received by a non-citizen non-resident for services rendered in connection with employment on foreign ship [Section 10(6)(viii)]**

Salary income received by or due to a non-citizen of India who is also non-resident for services rendered in connection with his employment on a foreign ship is exempt where his total stay in India does not exceed 90 days during the previous year.

**(iv) Remuneration received by Foreign Government employees during their stay in India for specified training [Section 10(6)(xi)]**

Any remuneration received by employees of foreign Government from their respective Government during their stay in India, is exempt from tax, if such remuneration is received in connection with their training in any establishment or office of or in any undertaking owned by –

- (a) the Government; or
- (b) any company wholly owned by the Central or any State Government(s) or jointly by the Central and one or more State Governments; or
- (c) any company which is subsidiary of a company referred to in (b) above; or
- (d) any statutory corporation; or
- (e) any society registered under the Societies Registration Act, 1860 or any other similar law, which is wholly financed by the Central Government or any State Government(s) or jointly by the Central and one or more State Governments. Now, let us discuss the chargeability under section 15, the provisions explaining the meaning of Salary, Perquisite and Profits in lieu of salary contained in section 17 and the deductions under section 16.



*Exemption under section 10(6) and 10(7) would be available to an assessee irrespective of the regime under which he pays tax.*





## 1.2 BASIS OF CHARGE [SECTION 15]

- (i) Section 15 deals with the basis of charge under the head "Salaries". Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.
- (ii) However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.
- (iii) If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

**Example:** If A draws his salary in advance for the month of April 2024 in the month of March 2024 itself, the same becomes chargeable on **receipt basis** and is to be assessed as income of the P.Y.2023-24 i.e., A.Y.2024-25. However, the salary for the A.Y.2025-26 will not include that of April 2024.

**Example:** If the salary due for March 2024 is received by A later in the month of April 2024, it is still chargeable as income of the P.Y.2023-24 i.e., A.Y.2024-25 on **due basis**. Obviously, salary for the A.Y.2025-26 will not include that of March 2024.

### 1.2.1 Advance Salary

Advance salary is taxable when it is received by the employee irrespective of the fact whether it is due or not. The rule behind this is the basis of taxability of salary i.e., salary is taxed on due or receipt basis, whichever is earlier.

It may so happen that when advance salary is included and charged in a particular previous year, the rate of tax at which the employee is assessed may be higher than the normal rate of tax to which he would have been assessed. Section 89 provides for relief in these types of cases. The concept of relief under section 89 is explained in this unit later on.

### Difference between advance salary and advance against salary

Loan is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified installments, the loan amount cannot be brought to tax as salary of the employee.

Similarly, advance against salary is different from advance salary. It is an advance taken by the employee from his employer. This advance is generally adjusted with his salary over a specified time period. It cannot be taxed as salary.

### 1.2.2 Arrears of salary

Normally speaking, salary arrears must be charged on due basis. However, there are circumstances when it may not be possible to bring the same to charge on due basis.

**Example:**

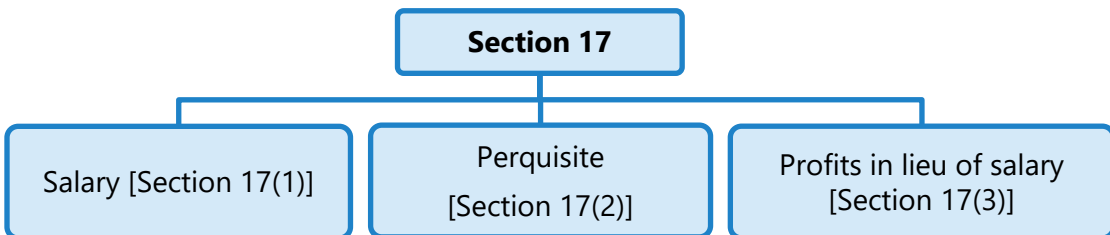
*If the Pay Commission is appointed by the Central Government and it recommends revision of salaries of employees with retrospective date, the arrears received in that connection will be charged on receipt basis. Here also, relief under section 89 is available.*

**Example:**

*If the Central Government announces increase in HRA in the previous year 2023-24 which is effective from 1.1.2022, then the arrears from 1.1.2022 to 31.3.2023 will be taxed in the previous year in which they are paid because they were never due earlier. Here also, relief under section 89 is available.*



## 1.3 SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY [SECTION 17]



### 1.3.1 Meaning of Salary

The meaning of the term 'salary' for purposes of income-tax is much wider than what is normally understood. The term 'salary' for the purposes of Income-tax Act, 1961 will include both monetary payments (e.g. basic salary, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest free loans etc.).

Section 17(1) defines the term "Salary". It is an inclusive definition and includes monetary as well as non-monetary items.

**'Salary' under section 17(1), includes the following:**

- |        |   |
|--------|---|
| (i)    | wages,  |
| (ii)   | any annuity or pension,   |
| (iii)  | any gratuity,   |
| (iv)   | any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages,  |
| (v)    | any advance of salary,  |
| (vi)   | any payment received in respect of any period of leave not availed by him i.e., leave salary or leave encashment,   |
| (vii)  | <b>Provident Fund:</b> <ul style="list-style-type: none"> <li>- the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognised provident fund to the extent it is taxable and</li> <li>- transferred balance in recognized provident fund to the extent it is taxable,</li> </ul> |
| (viii) | the contribution made by the Central Government or any other employer in the previous year to the account of an employee under a pension scheme referred to in section 80CCD.   |
| (ix)   | <b><i>the contribution made by the Central Government in the previous year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 80CCH.</i></b>  |

**(1) Wages**

In common parlance, the term "wages" means fixed regular payment earned for work or services. The words "wages", "salary", "basic salary" are used interchangeably. Moreover, the payments in the form of Bonus, Allowances etc. made to the employee are also included within the meaning of salary.

Under the Income-tax Act, there are certain payments made which are fully taxable, partly taxable and fully exempt. For Example, wages, salary, bonus, dearness allowance etc. are fully taxable payments. Whereas monetary benefits in the form of allowances such as House Rent Allowance, conveyance allowance etc. are partially taxable.

## Allowances

Allowances are monetary payments made by the employer to the employees for meeting specific expenditure, whether personal or for the performance of duties. Under the Income-tax Act, 1961, allowance is taxable on due or receipt basis, whichever is earlier. These allowances are generally taxable unless some specific exemption has been provided in respect of such allowance. Various types of allowances normally in vogue are discussed below:

Allowances		
Fully Taxable under both regimes	Fully Taxable under default tax regime/ Partly Exempt under the optional tax regime	Fully Exempt only under the optional tax regime
(i) Entertainment Allowance (ii) Dearness Allowance (iii) Overtime Allowance (iv) Fixed Medical Allowance (v) City Compensatory Allowance (to meet increased cost of living in cities) (vi) Interim Allowance (vii) Servant Allowance (viii) Project Allowance (ix) Tiffin/Lunch/Dinner Allowance (x) Any other cash allowance (xi) Warden Allowance (xii) Non-practicing Allowance (xiii) Transport allowance to employee other	(i) House Rent Allowance [u/s 10(13A)] (ii) Special Allowances [u/s 10(14)] <b>Except</b> (a) Travelling allowance (b) Daily allowance (c) Conveyance allowance (d) Transport allowance to blind/ deaf and dumb/ orthopedically handicapped employee <b>Note</b> – The exceptions in (a) to (d) above are partly exempt under both the tax regimes.	(i) Allowances to High Court Judges (ii) Salary and Allowances paid by the United Nations Organization (iii) Sumptuary allowance granted to High Court or Supreme Court Judges  <b>Note</b> – In cases (i) and (iii) above, the respective Acts provide for such exemption, notwithstanding anything contained in the Income-tax Act, 1961. In case (ii), exemption is provided under the respective Act, notwithstanding anything to the contrary contained in any other law.

than blind/ deaf and dumb/ orthopedically handicapped employee		<b>Fully Exempt under both tax regimes</b> Allowance granted to Government employees outside India [Section 10(7)]
--	--	---

### (A) Allowances which are fully taxable under both regime

- (1) **City compensatory allowance:** City Compensatory Allowance is normally intended to compensate the employees for the higher cost of living in cities. It is taxable irrespective of the fact whether it is given as compensation for performing his duties in a particular place or under special circumstances.
- (2) **Entertainment allowance:** This allowance is given to employees to meet the expenses towards hospitality in receiving customers etc. The Act gives a deduction towards entertainment allowance only to a Government employee in case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The details of deduction permissible are discussed later on in this Unit.
- (3) **Transport allowance:** 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 is fully taxable. However, in case of blind/ deaf and dumb/ orthopedically handicapped employees exemption upto ₹ 3,200 p.m. is provided under section 10(14)(ii) read with Rule 2BB. This exemption would be available under both regimes.

### (B) Allowances which are partially exempt under the optional tax regime/Allowances which are fully taxable under default tax regime

- (1) **House rent allowance [Section 10(13A)]:** HRA is a special allowance specifically granted to an employee by his employer towards payment of rent for residence of the employee. HRA granted to an employee is exempt to the extent of least of the following, in case such assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A):

Metro Cities (i.e., Delhi, Kolkata, Mumbai, Chennai)	Other Cities
1) HRA actually received for the relevant period	1) HRA actually received for the relevant period
2) Rent paid (-) 10% of salary for the relevant period	2) Rent paid (-) 10% of salary for the relevant period
3) 50% of salary for the relevant period	3) 40% of salary for the relevant period



• Exemption u/s 10(13A) would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). It is not available under the default tax regime u/s 115BAC.

- Exemption is not available to an assessee who lives in his own house, or in a house for which he has not incurred the expenditure of rent.
- "Salary" for this purpose means basic salary, dearness allowance, if provided in terms of employment and commission as a fixed percentage of turnover.
- Relevant period means the period during which the said accommodation was occupied by the assessee during the previous year.

### ILLUSTRATION 1

Mr. Raj Kumar has the following receipts from his employer:

- |   |               |
|---|---------------|
| (1) Basic pay   | ₹ 40,000 p.m. |
| (2) Dearness allowance (D.A.)                                 | ₹ 6,000 p.m.  |
| (3) Commission  | ₹ 50,000 p.a. |
| (4) Motor car for personal use (expenses met by the employer) | ₹ 1,500 p.m.  |
| (5) House rent allowance                                      | ₹ 15,000 p.m. |

Find out the amount of HRA exempt in the hands of Mr. Raj Kumar assuming that he paid a rent of ₹ 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**SOLUTION**

HRA received	₹ 1,80,000
Less: Exempt under section 10(13A) <b>[Note]</b>	<u>₹ 1,36,800</u>
<b>Taxable HRA</b>	<u>₹ 43,200</u>

**Note:** Exemption shall be least of the following three limits:

- (a) the actual amount received ( $₹ 15,000 \times 12$ ) = ₹ 1,80,000
- (b) excess of the actual rent paid by the assessee over 10% of his salary  
 = Rent Paid (-) 10% of salary for the relevant period  
 = ( $₹ 16,000 \times 12$ ) (-) 10% of  $[(₹ 40,000 + ₹ 6,000) \times 12]$   
 = ₹ 1,92,000 - ₹ 55,200 = ₹ 1,36,800
- (c) 40% salary as his accommodation is situated at Kanpur  
 = 40% of  $[(₹ 40,000 + ₹ 6,000) \times 12]$  = ₹ 2,20,800

**Note:** For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide, but excludes all other allowances and perquisites.

**(2) Special allowances to meet expenses relating to duties or personal expenses [Section 10(14)]**

This clause provides for exemption (as per Rule 2BB) in respect of the following:

- (i) Special allowances or benefit, not being in the nature of a perquisite, specifically granted to meet expenses incurred wholly, necessarily and exclusively in the performance of the duties of an office or employment of profit **[Section 10(14)(i)]**

These allowances would be exempt to that extent such expenses are actually incurred for that purpose. In other words, actual allowance received or actual amount spent for the performance of the duties of an office or employment of profit, whichever is less would be exempt.

- (ii) Special allowances granted to the assessee either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides or to compensate him for the increased cost of living **[Section 10(14)(ii)]**.

For the allowances under this category, **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 as income from salary for the year. 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.

### Rule 2BB

The following allowances have been prescribed in Rule 2BB:

#### Allowances prescribed for the purposes of section 10(14)(i)

- (a) any allowance granted to meet the expenditure incurred on a helper where such helper is engaged in the performance of the duties of an office or employment of profit (**Helper Allowance**);
- (b) any allowance granted for encouraging the academic, research and training pursuits in educational and research institutions(**Research allowance**);
- (c) any allowance granted to meet the expenditure on the purchase or maintenance of uniform for wear during the performance of the duties of an office or employment of profit (**Uniform Allowance**).

#### Allowances prescribed for the purposes of section 10(14)(ii)

S. No.	Name of Allowance	Extent to which allowance is exempt
1.	Any Special Compensatory Allowance in the nature of <b>Special Compensatory (Hilly Areas) Allowance</b> or High Altitude Allowance or Uncongenial Climate Allowance or Snow Bound Area Allowance or Avalanche Allowance	₹ 800 or ₹ 300 per month depending upon the specified locations ₹ 7,000 per month in Siachen area of Jammu and Kashmir
2.	Any Special Compensatory Allowance in the nature of <b>border area allowance or remote locality allowance or difficult area allowance or disturbed area allowance</b>	₹ 1,300 or ₹ 1,100 or ₹ 1,050 or ₹ 750 or ₹ 300 or ₹ 200 per month depending upon the specified locations



3.	<b>Special Compensatory (Tribal Areas/Schedule Areas/Agency Areas) Allowance [Specified States]</b>	₹ 200 per month
4.	Any allowance granted to an employee <b>working in any transport system</b> to meet his personal expenditure during his duty performed in the course of running such transport from one place to another, provided that such employee is not in receipt of daily allowance	70% of such allowance upto a maximum of ₹ 10,000 per month
5.	<b>Children Education Allowance</b>	₹ 100 per month per child upto a maximum of two children
6.	Any allowance granted to an employee to meet the <b>hostel expenditure</b> on his child	₹ 300 per month per child upto a maximum of two children
7.	<b>Compensatory Field Area Allowance [Specified areas in Specified States]</b>	₹ 2,600 per month
8.	<b>Compensatory Modified Field Area Allowance [Specified areas in Specified States]</b>	₹ 1,000 per month
9.	Any special allowance in the nature of <b>counter insurgency allowance</b> granted to the members of the armed forces operating in areas away from their permanent locations.	₹ 3,900 per month
10.	<b>Underground Allowance</b> granted to an employee who is working in uncongenial, unnatural climate in underground mines.	₹ 800 per month
11.	Any special allowance in the nature of <b>high Altitude allowance</b> granted to the member of the armed forces operating in high altitude areas	

	For altitude of 9,000 to 15,000 feet For above 15,000 feet	₹ 1,060 per month ₹ 1,600 per month
12.	Any special allowance in the nature of <b>special compensatory highly active field area allowance</b> granted to the member of the armed forces	₹ 4,200 per month
13.	Any special allowance in the nature of <b>Island (duty) allowance</b> granted to the member of the armed forces in <b>Andaman &amp; Nicobar and Lakshadweep Group of Islands</b>	₹ 3,250 per month

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 and disturbed area allowance referred at serial number 2, respectively.

### (C) Allowances which are partly exempt under both regimes

The following allowances prescribed in Rule 2BB would be exempt under both the default and optional tax regimes:

#### Allowances prescribed for the purposes of section 10(14)(i)

- (a) any allowance granted to meet the cost of travel on tour or on transfer **(Travelling Allowance);**

**Explanation** - "allowance granted to meet the cost of travel on transfer" includes any sum paid in connection with the transfer, packing and transportation of personal effects on such transfer.

- (b) any allowance, whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty **(Daily allowance);**
- (c) any allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office or employment of profit **(Conveyance Allowance);**

#### Allowances prescribed for the purposes of section 10(14)(ii)

Any **transport allowance** granted to an employee who is blind or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body, to

meet his expenditure for commuting between his residence and place of duty would be exempt upto ₹ 3,200 per month.

### ILLUSTRATION 2

Mr. Srikant has two sons. He is in receipt of children education allowance of ₹ 150 p.m. for his elder son and ₹ 70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance : ₹ 500 p.m.

Compute his taxable allowances

### SOLUTION

Taxable allowance in the hands of Mr. Srikant is computed as under -

#### **If Mr. Srikant exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)**

Children Education Allowance:

Elder son [(₹ 150 – ₹ 100) p.m. × 12 months]	= ₹ 600	
Younger son [(₹ 70 – ₹ 70) p.m. × 12 months]	= Nil	₹ 600
Transport allowance (₹ 1,800 p.m. × 12 months)		₹ 21,600
Tribal area allowance [(₹ 500 – ₹ 200) p.m. × 12 months]		₹ 3,600
<b>Taxable allowances</b>		<b>₹ 25,800</b>

#### **If Mr. Srikant pays tax under default tax regime under section 115BAC**

Children Education Allowance [(₹ 150 + ₹ 70) p.m. × 12 months]	₹ 2,640
Transport allowance (₹ 1,800 p.m. × 12 months)	₹ 21,600
Tribal area allowance (₹ 500 p.m. × 12 months)	₹ 6,000
<b>Taxable allowances</b>	<b>₹ 30,240</b>

#### **(D) Allowances which are fully exempt only under the optional tax regime (i.e., the normal provisions of the Act)**

- (1) **Allowance to Supreme Court/ High Court Judges:** Any allowance paid to a Judge of a High Court and Supreme Court under section 22A(2) of the High Court Judges (Conditions of Service) Act, 1954 and section 23(1A) of the

Supreme Court Judges (Salaries and Conditions of services) Act, 1958, respectively, is not taxable under the optional tax regime (i.e., normal provisions of the Act).

- (2) **Allowance received from United Nations Organisation (UNO):** Salary and Allowance paid by the UNO to its employees is not taxable by virtue of section 2 of the United Nations (Privileges and Immunities) Act, 1947. Besides salary, any pension covered under the United Nations (Privileges and Immunities) Act and received from UNO is also exempt from tax under the optional tax regime (i.e., normal provisions of the Act).
- (3) **Sumptuary allowance:** Sumptuary allowance given to High Court Judges under section 22C of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges under section 23B of the Supreme Court Judges (Conditions of Service) Act, 1958 is not chargeable to tax under the optional tax regime (i.e., normal provisions of the Act)

**Note – In cases (1) and (3) above, the respective Acts provide for such exemption, notwithstanding anything contained in the Income-tax Act, 1961. In case (2), exemption is provided under the respective Act, notwithstanding anything to the contrary contained in any other law.**

#### **(E) Allowances which are fully exempt under both regimes**

**Allowances payable outside India [Section 10(7)]:** Allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for services rendered outside India are exempt from tax.

#### **(2) Annuity or Pension**

##### ***Meaning of Annuity***

- As per the definition, 'annuity' is treated as salary. Annuity is a sum payable in respect of a particular year. It is a yearly grant. If a person invests some money entitling him to series of equal annual sums, such annual sums are annuities in the hands of the investor.
- Annuity received by a present employer is to be taxed as salary. It does not matter whether it is paid in pursuance of a contractual obligation or voluntarily.
- Annuity received from a past employer is taxable as profit in lieu of salary.
- Annuity received from person other than an employer is taxable as "income from other sources".

## Pension

*Concise Oxford Dictionary* defines 'pension' as a periodic payment made especially by Government or a company or other employers to the employee in consideration of past service payable after his retirement.

Pension is of two types: commuted and uncommuted.

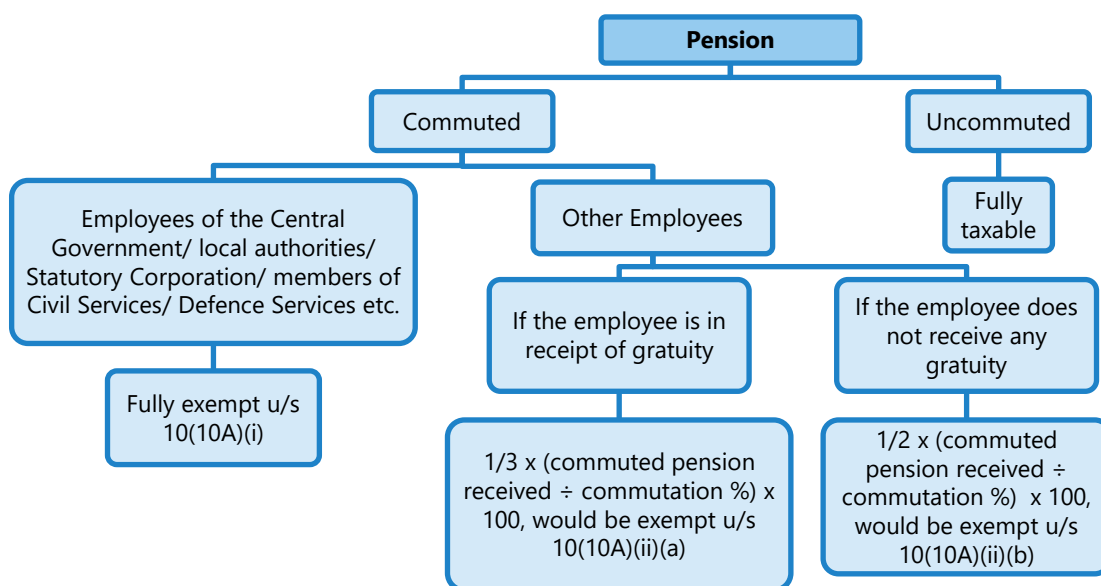
- **Uncommuted Pension:** Uncommuted pension refers to pension received periodically. It is fully taxable in the hands of both government and non-government employees.
- **Commuted Pension:** Commutation means inter-change. Commuted pension means lump sum amount taken by commuting the whole or part of the pension. Many persons convert their future right to receive pension into a lumpsum amount receivable immediately.

### Example:

Suppose a person is entitled to receive a pension of say ₹ 10,000 p.m. for the rest of his life. He may commute  $\frac{1}{4}$ th i.e., 25% of this amount and get a lumpsum of say ₹ 1,50,000. After commutation, his pension will now be the balance 75% of ₹ 10,000 p.m. = ₹ 7,500 p.m.

### Exemption in respect of Commuted Pension [Section 10(10A)]

As per section 10(10A), the payment in respect of commuted pension is exempt, subject to the conditions specified therein. Its tax treatment is depicted hereunder:





- Exemption u/s 10(10A) in respect of commuted pension is available to an assessee irrespective of the regime under which he pays tax.
- Judges of the Supreme Court and High Court will be entitled to the exemption of the commuted portion u/s 10(10A)(i).

### ILLUSTRATION 3

Mr. Sagar who retired on 1.10.2023 is receiving ₹5,000 p.m. as pension. On 1.2.2024, he commuted 60% of his pension and received ₹3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee.
- He is a private sector employee and received gratuity of ₹5,00,000 at the time of retirement.
- He is a private sector employee and did not receive any gratuity at the time of retirement.

### SOLUTION

#### (a) He is a government employee

Uncommuted pension received (October – March)	₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]	
Commuted pension received	₹ 3,00,000
Less: Exempt u/s 10(10A)	₹ <u>3,00,000</u> <u>NIL</u>
<b>Taxable pension</b>	<b>₹ <u>24,000</u></b>

#### (b) He is a private sector employee and received gratuity ₹ 5,00,000 at the time of retirement

Uncommuted pension received (October – March)	₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]	
Commuted pension received	₹ 3,00,000
Less: Exempt u/s 10(10A)	
$\left( \frac{1}{3} \times \frac{₹ 3,00,000}{60\%} \times 100\% \right)$	₹ <u>1,66,667</u> <u>₹ 1,33,333</u>
<b>Taxable pension</b>	<b>₹ <u>1,57,333</u></b>

**(c) He is a private sector employee and did not receive any gratuity at the time of retirement**

Uncommuted pension received (October – March) ₹ 24,000

[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]

Commuted pension received ₹ 3,00,000

Less: Exempt u/s 10(10A)

$\left( \frac{1}{2} \times \frac{₹ 3,00,000}{60\%} \times 100\% \right)$	₹ 2,50,000	₹ 50,000
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**Taxable pension ₹ 74,000**

**Exemption in respect of pension received by recipient of gallantry awards [Section 10(18)]**

Any income by way of pension received by an individual is exempt from income-tax if –

- (a) such individual was an employee of Central or State Government and
- (b) has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award notified by the Central Government in this behalf.

In case of the death of such individual, any income by way of family pension received by any member of the family of such individual shall also be exempt under this clause.

"Family", in relation to an individual, means –

- The spouse and children of the individual; and
- The parents, brothers and sisters of the individuals or any of them, wholly or mainly dependent on the individual.



*Exemption under section 10(18) would be available to an assessee irrespective of the regime under which he pays tax.*

**Exemption of disability pension granted to disabled personnel of armed forces who have been invalided on account of disability attributable to or aggravated by such service [Circular No. 13/2019, dated 24.6.2019]**

The entire disability pension, i.e., "disability element" and "service element" of pension granted to members of naval, military or air forces who have been invalided out of naval, military or air force service on account of bodily disability attributable to or aggravated by such service would be exempt from tax.

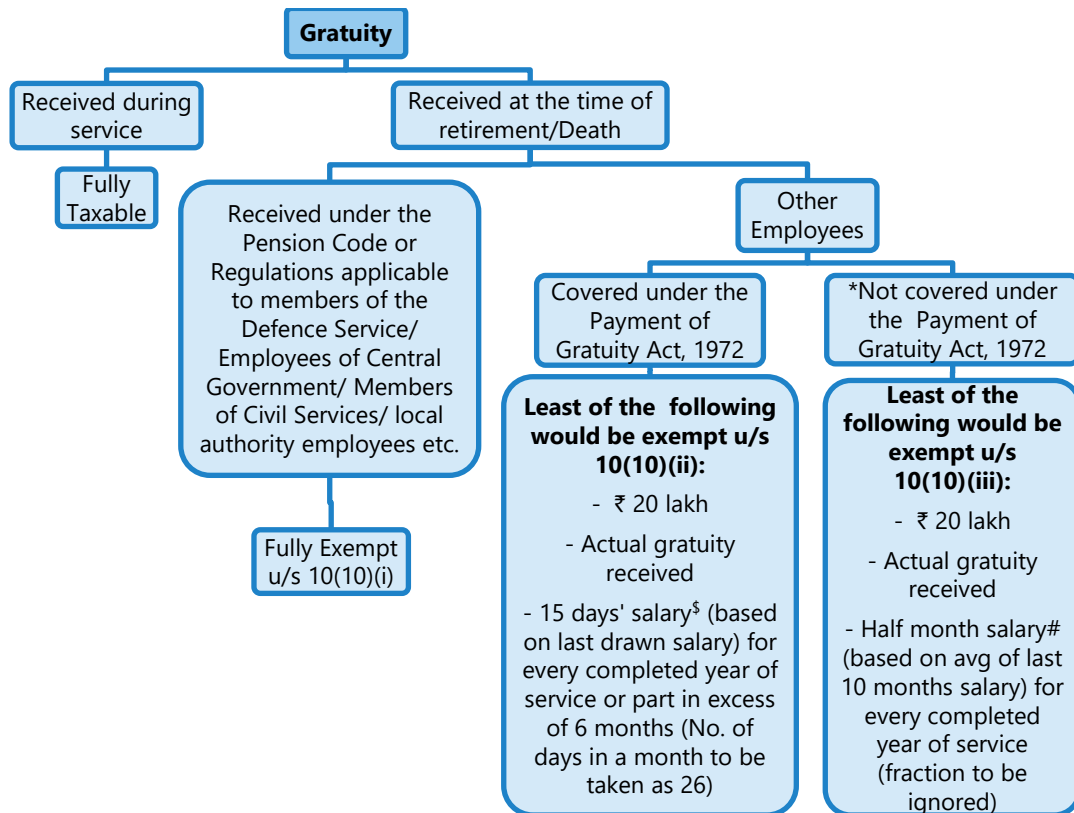
The CBDT has, vide this circular, clarified that exemption in respect of disability pension would be available to all armed forces personnel (irrespective of rank) who have been invalided out of such service on account of bodily disability attributable

to or aggravated by such service. However, such tax exemption will be available only to armed forces personnel who have been invalided out of service on account of bodily disability attributable to or aggravated by such service and **not** to personnel who have been retired on superannuation or otherwise.

### (3) Gratuity

Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee. Now-a-days gratuity has become a normal payment applicable to all employees. In fact, Payment of Gratuity Act, 1972 is a statutory recognition of the concept of gratuity. Almost all employers enter into an agreement with employees to pay gratuity.

#### Exemption in respect of Gratuity [Section 10(10)]



\*Any death cum retirement gratuity received by an employee on his retirement or his becoming incapacitated prior to such retirement or on his termination or any gratuity received by his widow, children or dependents on his death

\$ Salary for this purpose means basic salary and dearness allowance. No. of days in a month for this purpose, shall be taken as 26.

#Salary for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits, forming part of salary and commission which is expressed as a fixed percentage of turnover.



- Where gratuity is received from 2 or more employers in the same previous year, then, aggregate amount of gratuity exempt from tax cannot exceed ₹ 20,00,000.
- Where gratuity is received in any earlier previous year from former employer and again received from another employer in a later previous year, the limit of ₹ 20,00,000 will be reduced by the amount of gratuity exempt earlier.
- It is important to note the difference in definition of "Salary" and the manner of computation of the third limit in case of employees covered under the Payment of Gratuity Act, 1972 and those not covered for determining the amount of exempt gratuity.
- Exemption under section 10(10) would be available to an assessee irrespective of the regime under which he pays tax.

#### ILLUSTRATION 4

Mr. Ravi retired on 15.6.2023 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary : ₹ 50,000 p.m.

Dearness Allowance : ₹ 10,000 p.m. (60% of which is for retirement benefits)

Commission : 1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)

Bonus : ₹ 25,000 p.a.

Compute his taxable gratuity assuming:

- He is private sector employee and covered by the Payment of Gratuity Act, 1972.
- He is private sector employee and **not** covered by Payment of Gratuity Act, 1972.
- He is a Government employee.

#### SOLUTION

##### (a) He is covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10)

Least of the following:

i. Gratuity received ₹ 15,00,000

ii. Statutory limit ₹ 20,00,000

iii. 15 days' salary based on last drawn

salary for each completed year of service

or part thereof in excess of 6 months

$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$

$\frac{15}{26} \times (50,000 + 10,000) \times 27 =$  ₹ 9,34,615      ₹ 9,34,615

**Taxable Gratuity** ₹ **5,65,385**

**(b) He is not covered by the Payment of Gratuity Act 1972**

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10) **(Note)** ₹ 8,58,000

**Taxable Gratuity** ₹ **6,42,000**

**Note:** Exemption under section 10(10) is least of the following:

(i) Gratuity received ₹ 15,00,000

(ii) Statutory limit ₹ 20,00,000

(iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

i.e.  $\frac{1}{2} \times \text{Average salary} \times \text{years of service}$

$$= \frac{1}{2} \times \frac{\left[ (50,000 \times 10) + (10,000 \times 60\% \times 10) + \left( 1\% \times 1,20,00,000 \times \frac{10}{12} \right) \right]}{10} \times 26$$

= ₹ 8,58,000

**(c) He is a government employee**

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10)	<u>₹ 15,00,000</u>
<b>Taxable gratuity</b>	<b><u>Nil</u></b>

**(4) Fees, commission, perquisites or profits in lieu of or in addition to any salary or wages**

The payment in the form of fees or commission by the employer to the employee are fully taxable. Commission may be paid as fixed percentage of turnover or net profits etc.

Section 17(2) and 17(3) contains the provisions relating to perquisites and profits in lieu of salary, respectively. The provisions of these sections would be discussed in detail separately in this unit.

**(5) Any Advance of Salary**

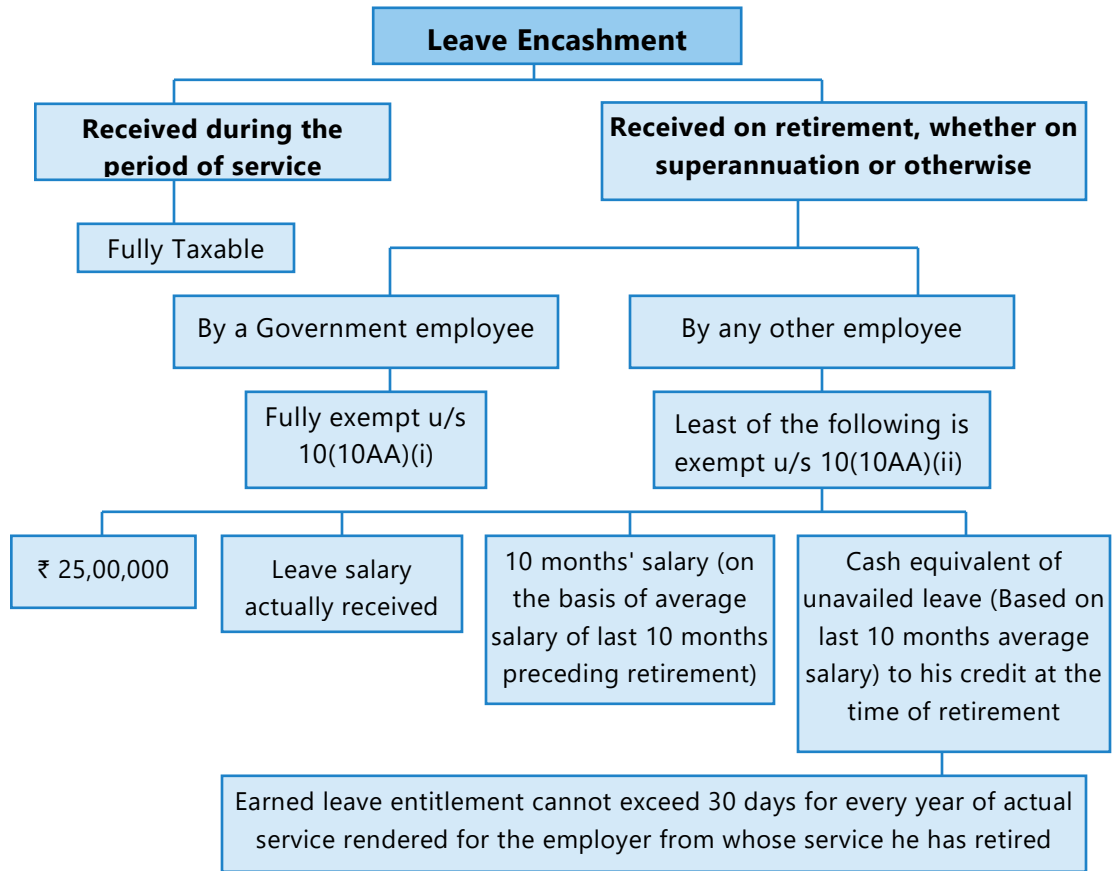
The treatment of "Advance Salary" is already discussed in this unit.

**(6) Leave Salary or Leave Encashment**

Generally, employees are allowed to take leave during the period of service. Employee may avail such leave or in case the leave is not availed, then the leave may either lapse or be accumulated for future or allowed to be encashed every year or at the time termination/ retirement. 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.

**Exemption of amount received by way of encashment of unutilised earned leave on retirement [Section 10(10AA)]**

The taxability and exemption provisions are depicted hereunder:



- Where leave salary is received from two or more employers in the same previous year, then the aggregate amount of leave salary exempt from tax cannot exceed ₹ 25,00,000.
- Where leave salary is received in any earlier previous year from a former employer and again received from another employer in a later previous year, the limit of ₹ 25,00,000 will be reduced by the amount of leave salary exempt earlier.
- Salary for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits and 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.
- Exemption under section 10(10AA) would be available to an assessee irrespective of the regime under which he pays tax.

**ILLUSTRATION 5**

Mr. Gupta retired on 1.12.2023 after 20 years of service and received leave salary of ₹5,00,000. Other details of his salary income are:

Basic Salary	: ₹5,000 p.m. (₹1,000 was increased w.e.f. 1.4.2023)
Dearness Allowance	: ₹3,000 p.m. (60% of which is for retirement benefits)
Commission	: ₹500 p.m.
Bonus	: ₹1,000 p.m.
Leave availed during service	: 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

- He is a government employee.
- He is a non-government employee.

**SOLUTION****(a) He is a government employee**

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	<u>₹ 5,00,000</u>
Taxable Leave salary	<u>Nil</u>

**(b) He is a non-government employee**

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exempt under section 10(10AA) [See Note below]	<u>₹ 26,400</u>
Taxable Leave Salary	<u>₹ 4,73,600</u>

**Note:** Exemption under section 10(10AA) is least of the following:

- Leave salary received ₹ 5,00,000
- Statutory limit ₹ 25,00,000
- 10 months' salary based on average salary of last 10 months

$$\text{i.e. } \left[ 10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov.}}{10 \text{ months}} \right]$$

$$= \left[ 10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \right] \quad ₹ 66,000$$

- (iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service)

Leave Due = Leave allowed – Leave taken

$$= (30 \text{ days per year} \times 20 \text{ years}) - 480 \text{ days} = 120 \text{ days}$$

$$\text{i.e.} \left[ \frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p.m.} \right]$$

$$= \left[ \frac{120 \text{ days}}{30 \text{ days}} \times \frac{₹ 66,000}{10} \right] \quad ₹ 26,400$$

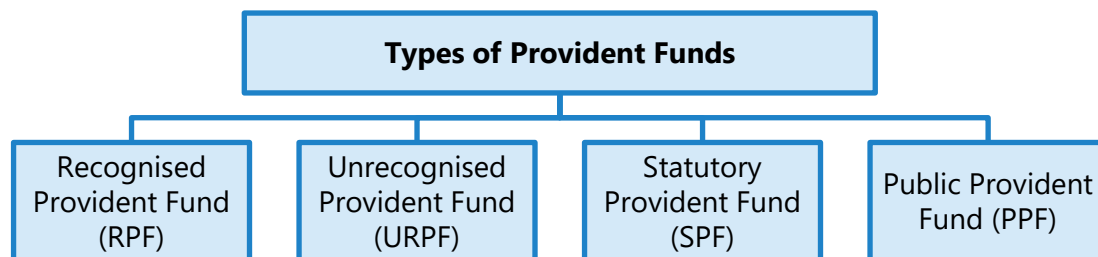
### (7) Provident fund

Provident fund scheme is a scheme intended to give substantial benefits to an employee at the time of his retirement. Under this scheme, a specified sum is deducted from the salary of the employee each month or at regular intervals as his contribution towards the fund. The employer also generally contributes the same amount out of his pocket, to the fund. The contributions of the employer and the employee are invested in approved securities. Interest earned thereon is also credited to the account of the employee. Thus, the credit balance in a provident fund account of an employee consists of the following:

- (i) employee's contribution
- (ii) interest on employee's contribution
- (iii) employer's contribution
- (iv) interest on employer's contribution.

The accumulated balance is paid to the employee at the time of his retirement or resignation. In the case of death of the employee, the same is paid to his legal heirs.

The provident fund represents an important source of small savings available to the Government. Hence, the Income-tax Act, 1961 gives certain deductions on savings in a provident fund account.



(i) **Recognised Provident Fund (RPF):** Recognised provident fund means a provident fund recognised by the Commissioner of Income-tax for the purposes of income-tax. It is governed by Part A of Schedule IV to the Income-tax Act, 1961. This schedule contains various rules regarding the following:

- (a) Recognition of the fund
- (b) Employee's and employer's contribution to the fund
- (c) Treatment of accumulated balance etc.

A fund constituted under the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 will also be a Recognised Provident Fund.

(ii) **Unrecognised Provident Fund (URPF):** A fund not recognised by the Commissioner of Income-tax is Unrecognised Provident Fund.

(iii) **Statutory Provident Fund (SPF):** The SPF is governed by Provident Funds Act, 1925. It applies to employees of government, railways, semi-government institutions, local bodies, universities and all recognised educational institutions.

(iv) **Public Provident Fund (PPF):** Public provident fund is operated under the Public Provident Fund Act, 1968. A membership of the fund is open to every individual though it is ideally suited to self-employed people. A salaried employee may also contribute to PPF in addition to the fund operated by his employer. An individual may contribute to the fund on his own behalf as also on behalf of a minor of whom he is the guardian.

For getting a deduction under section 80C, a member is required to contribute to the PPF a minimum of ₹ 500 in a year. The maximum amount that may qualify for deduction on this account is ₹ 1,50,000 as per PPF rules.

A member of PPF may deposit his contribution in as many installments in multiples of ₹ 500 as is convenient to him. The amount of contribution may be paid at any of the offices or branch offices of the State Bank of India or its subsidiaries and specified branches of banks or any Post Office.

**The tax treatment is given below:**

**During the Employment period**

Particulars	Recognised PF	Unrecognised PF	Statutory PF	Public PF
Employer's Contribution	Contribution in excess of 12% of salary is taxable as "salary" u/s 17(1)	Not taxable at the time of contribution	Fully exempt	N.A.(as there is only assessee's own contribution)
Employee's Contribution	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)	Not eligible for deduction	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)
Interest Credited on Employer's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1)	Not taxable at the time of credit of interest	Fully exempt	N.A.
Interest Credited on Employee's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1) <b>[See Note below]</b>	Not taxable at the time of credit of interest	Exempt upto certain limit of contribution <b>[See Note below]</b>	Fully exempt



Amount withdrawn on retirement/ termination	Exempt u/s 10(12) subject to certain conditions detailed in the chart below	<ul style="list-style-type: none"> <li>Employee's contribution is not taxable.</li> <li>Interest on Employee's contribution is taxable under 'Income from Other Sources'.</li> <li>Employer's contribution and interest thereon is salary</li> </ul>	Exempt u/s 10(11)	Fully exempt u/s 10(11)
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*Salary for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits and commission as a percentage of turnover.*

**Note - Interest credited on contribution by such person/employee**

As per section 10(11), any payment from a Provident Fund (PF) to which Provident Fund Act, 1925, applies or from Public Provident Fund would be exempt.

Accumulated balance due and becoming payable to an employee participating in a Recognized Provident Fund (RPF) would be exempt under section 10(12).

However, the exemption under section 10(11) or 10(12) would not be available in respect of income by way of interest accrued during the previous year to the extent it relates to the amount or the aggregate of amounts of contribution made by that person/employee exceeding ₹ 2,50,000 in any previous year in that fund, on or after 1<sup>st</sup> April, 2021.

If the contribution by such person/employee is in a fund in which there is no employer's contribution, then, a higher limit of ₹ 5,00,000 would be applicable for such contribution, and interest accrued in any previous year in that fund, on or after 1<sup>st</sup> April, 2021 would be exempt upto that limit.

It may be noted that interest accrued on contribution to such funds upto 31<sup>st</sup> March, 2021 would be exempt without any limit, even if the accrual of income is after that date.

Exemption under section 10(11) and 10(12) would be available to an assessee irrespective of the regime under which he pays tax.

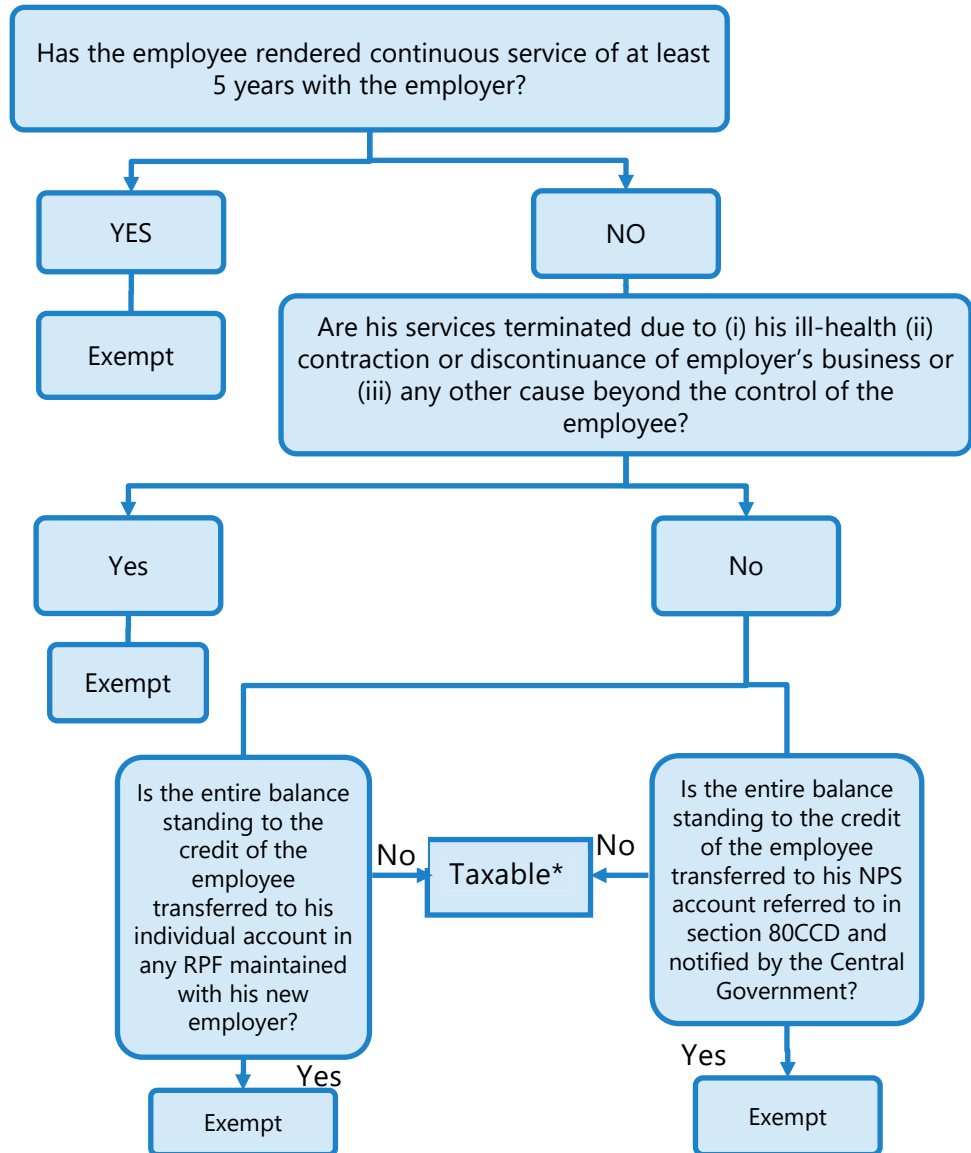
The CBDT has, vide Rule 9D, notified the manner to calculate taxable interest relating to contribution in a provident fund or recognized provident fund, exceeding threshold limit.

Interest income accrued during the previous year which is not exempt from inclusion in the total income of a person (taxable interest) shall be computed as the interest accrued during the previous year in the taxable contribution account.

For this purpose, separate accounts within the provident fund account shall be maintained during the previous year 2021-22 and all subsequent previous years for taxable contribution and non-taxable contribution made by a person.

- (a) Non-taxable contribution account – Aggregate of
  - (i) closing balance in the account as on 31.03.2021;
  - (ii) any contribution made by the person in the account during the previous year 2021-22 and subsequent previous years, which is not included in the taxable contribution account; and
  - (iii) interest accrued on (i) and (ii),as reduced by the withdrawal, if any, from such account.
- (b) Taxable contribution account – Aggregate of
  - (i) contribution made by the person in the account during the previous year 2021-22 and subsequent previous years, which is in excess of the yearly threshold limit; and
  - (ii) interest accrued on (i)as reduced by the withdrawal, if any, from such account.

Yearly threshold limit is ₹ 5,00,000, if the contribution by such person/employee is in a fund in which there is no employer's contribution and ₹ 2,50,000 in other cases.

**Exemption of Accumulated balance of RPF, payable to an employee**

\* Where the accumulated balance in RPF becomes taxable, the tax payable in each of the years would be computed as if the fund had been an URPF and the difference in tax would be payable by the employee.

**Note:**

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.

#### ILLUSTRATION 6

*Mr. A retires from service on December 31, 2023, after 25 years of service. Following are the particulars of his income/investments for the previous year 2023-24:*

<b>Particulars</b>	<b>₹</b>
<i>Basic pay @ ₹ 16,000 per month for 9 months</i>	1,44,000
<i>Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months</i>	72,000
<i>Lumpsum payment received from the Unrecognized Provident Fund</i>	6,00,000
<i>Deposits in the PPF account</i>	40,000

*Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2024-25?*

#### SOLUTION

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2024-25 is computed hereunder:

<b>Particulars</b>	<b>₹</b>
<b>Amount taxable under the head "Salaries":</b>	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000
<b>Amount taxable under the head "Income from Other Sources":</b>	
Interest on the employee's share	60,000
<b>Total amount taxable from the amount received from the fund</b>	<b>3,30,000</b>

**Note:** *Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF*

is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

### ILLUSTRATION 7

Will your answer be any different if the fund mentioned above was a recognised provident fund?

### SOLUTION

Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

### ILLUSTRATION 8

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2023-24. You are required to compute his gross salary from the details given below:

Basic Salary	₹ 10,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	₹ 50,00,000
Bonus	₹ 40,000
Gratuity	₹ 25,000
His own contribution in the RPF	₹ 20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	₹ 13,000

### SOLUTION

#### Computation of Gross Salary of Mr. B for the A.Y.2024-25

Particulars	₹	₹
Basic Salary [ ₹ 10,000 × 12]		1,20,000
Dearness Allowance [ ₹ 8,000 × 12]		96,000
Commission on turnover [0.1% × ₹ 50,00,000]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000

Employers contribution to RPF [20% of ₹ 1,20,000]	24,000	
Less: Exempt <b>[Note 2]</b>	20,760	3,240
Interest accrued in the RPF@13% p.a.	13,000	
Less: Exempt@9.5% p.a.	9,500	3,500
<b>Gross Salary</b>		<b>2,92,740</b>

**Notes:**

1. Gratuity received during service is fully taxable.
2. Employers' contribution in the RPF is exempt up to 12% of the salary i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [₹ 1,20,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 1,73,000 = ₹ 20,760
3. Employee's contribution to RPF is **not** taxable. It is eligible for deduction under section 80C, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**(8) The contribution made by the Central Government or any other employer in the previous year to the account of an employee under a pension scheme referred to in section 80CCD**

National Pension scheme is a scheme approved by the Government for Indian citizen aged between 18-70 years. Subscriber of the NPS account contributes some amount in their account. In case of any employee, being a subscriber of the NPS account, employer may also contribute into the employee's account.

**Employer's contribution to NPS account would form part of salary of employees under section 17(1).**

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. (*Deduction under section 80CCD will be discussed in detail in Chapter 6 – "Deductions from Gross Total Income"*)



Deduction under section 80CCD(2) in respect of employer's contribution would be available to an assessee irrespective of the regime under which he pays tax. However, deduction under section 80CCD(1)/(1B) in respect of employee's contribution would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**(9) The contribution made by the Central Government in the previous year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 80CCH.**

Agnipath Scheme is a Central Government Scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces as Agniveers for four years to serve the country.

In pursuance of the Government's decision to implement the Agnipath Scheme, 2022, the Competent Authority has decided to create a non-lapsable dedicated Agniveer Corpus Fund in the interest-bearing section of the Public Account head.

In this account, fixed percentage of monthly emoluments would be contributed by the Agniveer and matching amount would be contributed by the Central Government.

The Agniveer Corpus Fund is defined as a Fund in which consolidated contributions of all the Agniveers and matching contributions of the Government along with interest on these contributions would be held in their respective accounts.

**Central Government's contribution to Agniveer Corpus Fund account would form part of salary of employees under section 17(1).**

However, while computing total income of an individual enrolled in the Agnipath Scheme, being the assessee, a deduction under section 80CCH is allowed to the assessee in respect of his contribution as well as Central Government's contribution under Agniveer Corpus Fund referred therein. (Deduction under section 80CCH will be discussed in detail in Chapter 6 – "Deductions from Gross Total Income")



Deduction under section 80CCH(2) in respect of Central Government's contribution would be available to an assessee irrespective of the regime under which he pays tax. However, deduction under section 80CCH(1) in respect of employee's contribution would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

#### It includes the following:

##### (i) Compensation on account of termination of his employment

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

##### (ii) Compensation on account of modification of the terms and conditions of employment

The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the modification of the terms and conditions of employment.

Usually, such compensation is treated as a capital receipt. However, by virtue of this provision, the same is treated as a revenue receipt and is chargeable as salary.

**Note:** It is to be noted that merely because a payment is made by an employer to a person who is his employee does not automatically fall within the scope of the above provisions. The payment must be arising due to master-servant relationship between the payer and the payee. If it is not on that account, but due to considerations totally unconnected with employment, such payment is not profit in lieu of salary.

##### (iii) Payment from provident fund or other fund

Any payment due to or received by an assessee from his employer or former employer from a provident or other fund other than

- Gratuity [Section 10(10)]
- Pension [Section 10(10A)]
- Compensation received by a workman under Industrial Disputes Act, 1947 [Section 10(10B)]
- from provident fund or public provident fund [Section 10(11)]
- from recognized provident fund [Section 10(12)]
- from approved superannuation fund [Section 10(13)]
- any House Rent Allowance [Section 10(13A)],

to the extent to which it does not consist of employee's contributions or interest on such contributions.

**Note:** If any sum is paid to an employee at the time of maturity from an unrecognised provident fund it is to be dealt with as follows:

- (a) that part of the sum which represents the employer's contribution to the fund and interest thereon is taxable under the head "Salaries".



- (b) *that part of the sum which represents employee's contribution is not chargeable to tax as no deduction or exemption was available at the time of contribution.*
- (c) *that part of the sum which represents the interest on employee's contribution is chargeable to tax as 'Income from other sources'.*

**(iv) Keyman Insurance policy**

Any sum received by an assessee under a Key man Insurance policy including the sum allocated by way of bonus on such policy.

**(v) Lump sum Payment or otherwise**

Any amount, whether in lump sum or otherwise, due to the assessee or received by him, from any person -

- (a) before joining employment with that person, or
- (b) after cessation of his employment with that person.

**(1) Retrenchment compensation [Section 10(10B)]**

The retrenchment compensation means the compensation paid under Industrial Disputes Act, 1947 or under any Act, Rule, Order or Notification issued under any law. It also includes compensation paid on transfer of employment under section 25F or closing down of an undertaking under section 25FF of the Industrial Disputes Act, 1947.

It may be noted that compensation on account of termination and due to modification in terms and conditions of employment would be taxable as "profits in lieu of salary". However, the retrenchment compensation would be exempt under section 10(10B), subject to following limits.

- (a) Amount calculated in accordance with the provisions of section 25F of the Industrial Disputes Act, 1947

i.e., 15 days average pay x completed years of service and part thereof in excess of 6 months

**(or)**

- (b) An amount, not less than ₹ 5,00,000 as may be notified by the Central Government in this behalf,

whichever is lower.

**Notes:**

1. *The above limits will not be applicable to cases where the compensation is paid under any scheme approved by the Central Government for giving special protection to workmen under certain circumstances.*
2. *Average pay means average of the wages payable to a workman*
  - *in the case of monthly paid workman, in the three complete calendar months,*
  - *in the case of weekly paid workman, in the four calendar weeks,*
  - *in the case of daily paid workman, in the twelve full working weeks,*

*preceding the date on which the average pay becomes payable if the workman had worked for three complete calendar months or four complete weeks or twelve full working days, as the case may be, and where such calculation cannot be made, the average pay shall be calculated as the average of the wages payable to a workman during the period he actually worked.*
3. *Wages for this purpose means all remuneration capable of being expressed in terms of money, which would, if the terms of employment, expressed or implied, were fulfilled, be payable to a workman in respect of his employment or of work done in such employment, and includes*
  - *such allowances including DA as the workman is for the time being entitled to;*
  - *the value of any house accommodation, or of supply of light, water, medical attendance or other amenity or of any other service or of any concessional supply of food grains or other articles;*
  - *any travel concession; and*
  - *any commission payable on the promotion of sales or business or both*

*However, it does not include*

  - *any bonus;*
  - *contribution to a retirement benefit scheme;*
  - *any gratuity payable on the termination of his service.*
4. *Exemption under section 10(10B) would be available to an assessee irrespective of the regime under which he pays tax.*

## (2) Voluntary Retirement Receipts [Section 10(10C)]

Lump sum payment or otherwise received by an employee at the time of voluntary retirement would be taxable as "profits in lieu of salary". However, it would be exempt under section 10(10C), subject to the following conditions:

**Eligible Undertakings** - The employees of the following undertakings are eligible for exemption under this clause:

- (i) Public sector company
- (ii) Any other company
- (iii) An authority established under a Central/State or Provincial Act
- (iv) A local authority
- (v) A co-operative society
- (vi) An University established or incorporated under a Central/State or Provincial Act and an Institution declared to be an University by the University Grants Commission
- (vii) An Indian Institute of Technology
- (viii) Such Institute of Management as the Central Government may, by notification in the Official Gazette, specify in this behalf
- (ix) Any State Government
- (x) The Central Government
- (xi) An institution, having importance throughout India or in any State or States, as the Central Government may specify by notification in the Official Gazette.

**Limit:** The maximum limit of exemption should not exceed ₹ 5 lakh.

Such compensation should be at the time of his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or, in the case of public sector company, a scheme of voluntary separation. The exemption will be available even if such compensation is received in installments.

**Guidelines:**

The schemes should be framed in accordance with such guidelines, as may be prescribed and should include the criteria of economic viability.

Rule 2BA prescribes that the exemption under this section would be available 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.

The amount receivable on account of voluntary retirement or separation of the employee **must not exceed** -

- the **amount equivalent to three months' salary** for each completed year of service or
- salary at the time of retirement multiplied by the balance months of service left before the date of his retirement or superannuation.



- *Where any relief has been allowed to any assessee u/s 89 for any A.Y. in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption u/s 10(10C) shall be allowed to him in relation to that A.Y. or any other A.Y.*
- *Where exemption for voluntary retirement compensation under section 10(10C) has been allowed in any A.Y., then no exemption thereunder shall be allowed to him in any other A.Y.*
- *"Salary" for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits, forming part of salary and commission which is expressed as a fixed percentage of turnover.*
- *Exemption under section 10(10C) would be available to an assessee irrespective of the regime under which he pays tax.*

**ILLUSTRATION 9**

*Mr. Dutta received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89.*

**SOLUTION**

Voluntary retirement compensation received	₹ 7,00,000
Less: Exemption under section 10(10C) [ <b>See Note below</b> ]	<u>₹ 5,00,000</u>
Taxable voluntary retirement compensation	<u>₹ 2,00,000</u>

**Note:** Exemption is to the extent of least of the following:

- |   |               |
|---|---------------|
| (i) Compensation actually received                        | = ₹ 7,00,000  |
| (ii) Statutory limit                                      | = ₹ 5,00,000  |
| (iii) 3 months' salary × completed years of service       |               |
| = (₹ 20,000 + ₹ 5,000) × 3 × 30 years                     | = ₹ 22,50,000 |
| (iv) Last drawn salary × remaining months of service left |               |
| = (₹ 20,000 + ₹ 5,000) × 6 × 12 months                    | = ₹ 18,00,000 |

### 1.3.3 Perquisites

The term 'perquisite' indicates some extra benefit in addition to the amount that may be legally due by way of contract for services rendered. In modern times, the salary package of an employee normally includes monetary salary and perquisites like housing, car etc.

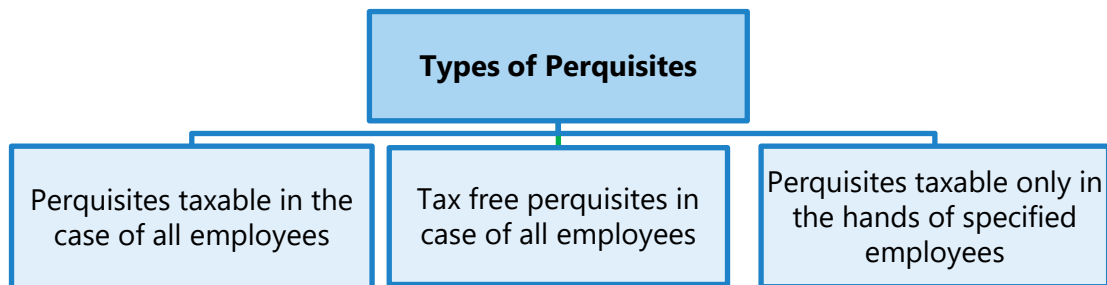
- Perquisite may be provided in cash or in kind.
- Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.
- Perquisite may arise in the course of employment or in the course of profession. If it arises from a relationship of employer-employee, then the value of the perquisite is taxable as salary. However, if it arises during the course of profession, the value of such perquisite is chargeable as profits and gains of business or profession.
- 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.

**Example:** Mr. A, an employee, is given a house by his employer. On 31.3.2024, he is terminated from service, but he continues to occupy the house without the permission of the employer for six more months after which he is evicted by the

*employer. The question arises whether the value of the benefit enjoyed by him during the six months period can be considered as a perquisite and be charged to salary. It cannot be done since the relationship of employer-employee ceased to exist after 31.3.2024. However, the definition of income is wide enough to bring the value of the benefit enjoyed by Mr. A to tax as "Income from other sources".*

### (1) Definition of "Perquisite"

The term "perquisite" is defined under section 17(2). The definition of perquisite is an inclusive one. Based on the definition, perquisites can be classified in following three ways:



### (A) Perquisites taxable in the case of all employees

The following perquisites are chargeable to tax in case of all employees:

<b>Rent Accommodation</b>	<b>Free</b>	Value of rent-free accommodation provided to the assessee by his employer <b>computed in prescribed manner</b> [Section 17(2)(i)]. [Refer discussion on valuation of perquisite]
<b>Exception:</b> Rent-free official residence provided to a Judge of a High Court or to a Judge of the Supreme Court is not taxable if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).		
<b>Concession in rent</b>		<b>Value of any accommodation provided to the assessee by his employer at a concessional rate. Accommodation would be deemed to have been provided at a concessional rate, if the value of accommodation computed in the prescribed manner exceeds the rent recoverable from, or payable by, the assessee</b> [Section 17(2)(ii)].

<b>Payment by the employer in respect of an obligation of employee</b>	Amount paid by an employer in respect of any obligation which otherwise would have been payable by the employee [Section 17(2)(iv)].
<i><b>Example:</b> If a domestic servant is engaged by an employee and the employer reimburses the salary paid to the servant, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. This perquisite will be covered by section 17(2)(iv) and will be taxable in the hands of all employees.</i>	
<b>Amount payable by an employer directly or indirectly to effect an assurance on the life of the assessee</b>	<p>Amount payable by an employer directly or indirectly to effect an assurance on the life of the assessee or to effect a contract for an annuity, other than payment made to RPF or approved superannuation fund or deposit-linked insurance fund established under the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948 or Employees' Provident Fund and Miscellaneous Provisions Act, 1952 [Section 17(2)(v)].</p> <p>However, there are schemes like group annuity scheme, employees state insurance scheme and fidelity insurance scheme, under which insurance premium is paid by employer on behalf of the employees. Such payments are not regarded as perquisite in view of the fact that the employees have only an expectancy of the benefit in such schemes.</p>
<b>Specified security or sweat equity shares allotted or transferred, by the employer</b>	The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer or former employer, free of cost or at concessional rate to the assessee [Section 17(2)(vi)] [Refer discussion on valuation of perquisite].
<b>Amount or the aggregate of amounts of any contribution made to the account of the assessee by employer</b> <ul style="list-style-type: none"> <li>- in a recognised provident fund</li> <li>- in NPS</li> <li>- in an approved superannuation fund</li> </ul>	<p>The amount or aggregate of amounts of any contribution made</p> <ul style="list-style-type: none"> <li>- in a recognised provident fund</li> <li>- in NPS referred to in section 80CCD(1)</li> <li>- in an approved superannuation fund</li> </ul> <p>by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000 [Section 17(2)(vii)].</p>

<b>Annual accretion to the balance at the credit of the recognised provident fund/NPS/approved superannuation fund which relates to the employer's contribution and included in total income (on account of the same having exceeded ₹ 7,50,000)</b>	Refer discussion below
<b>Any other fringe benefit or amenity</b>	<p>The value of any other fringe benefit or amenity as may be prescribed by the CBDT [Section 17(2)(viii)]. Rule 3(7) prescribed the following other benefits or amenity taxable in case of all employees.</p> <ul style="list-style-type: none"> <li>- Interest free or concessional loan</li> <li>- Travelling, touring and accommodation</li> <li>- Free or concessional food and non-alcoholic beverages</li> <li>- Gift, voucher or token in lieu of such gift</li> <li>- Credit card expense</li> <li>- Club expenditure</li> <li>- Use of movable assets</li> <li>- Transfer of movable assets</li> <li>- Other benefit or amenity [For valuation, refer discussion on valuation of perquisite]</li> </ul>

**Annual accretion to the balance at the credit of the recognised provident fund/NPS/approved superannuation fund which relates to the employer's contribution and included in total income (on account of the same having exceeded ₹ 7,50,000)**

Any annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the employer's contribution which is included in total income in any previous year under section 17(2)(vii) computed in prescribed manner [Section 17(2)(viiia)].



In other words, interest, dividend or any other amount of similar nature on the amount which is included in total income under section 17(2)(vii) would also be treated as a perquisite.

The CBDT has, vide Rule 3B, notified the following manner to compute the annual accretion by way of interest, dividend or any other amount of similar nature during the previous year-

$$TP = (PC/2)*R + (PC1 + TP1)*R$$

Where,

TP	Taxable perquisite under section 17(2)(vii) for the current P.Y.
PC	Amount or aggregate of amounts of employer's contribution in excess of ₹ 7.5 lakh to recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund during the P.Y.
PC1	Amount or aggregate of amounts of employer's contribution in excess of ₹ 7.5 lakh to recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund for the previous year or years commencing on or after 1 <sup>st</sup> April, 2020 other than the current P.Y.
TP1	Aggregate of taxable perquisite under section 17(2)(vii) for the previous year or years commencing on or after 1 <sup>st</sup> April, 2020 other than the current P.Y.
R	I/ Favg
I	Amount or aggregate of amounts of income accrued during the current P.Y. in recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund
Favg	(Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on first day of the current P.Y. + Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on last day of the current P.Y.)/2

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.

### ILLUSTRATION 10

*Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2021. His basic salary is ₹6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2022, 31.3.2023 and 31.3.2024 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2023-24 and A.Y. 2024-25. Prior to 1.9.2021, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".*

### SOLUTION

#### Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2023-24

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2022-23 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) =  $(PC/2)*R + (PC1 + TP1)*R$   
 $= (27,600/2) \times 0.111 + 0$   
 $= ₹ 1,532$ 

PC     ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600

PC1    Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2021-22 and there is no employer's contribution in P.Y. 2020-21.

TP1    Nil

R        $I/Favg = 2,06,711/18,62,093 = 0.111$

I       RPF balance as on 31.3.2023 – employee's and employer's contribution during the year – RPF balance as on 1.4.2022 = ₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)

Favg Balance to the credit of recognized provident fund as on 1<sup>st</sup> April, 2022 + Balance to the credit of recognized provident fund as on 31<sup>st</sup> March, 2023)/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

**Note** – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2023-24 –

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2021-22]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (iii) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2021-22

**Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2024-25**

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) =  $(PC/2) \times R + (PC1 + TP1) \times R$   
 $= (27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$   
 $= ₹ 1,308 + ₹ 2,761 = ₹ 4,069$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600

PC1 Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21 and P.Y. 2021-22 = ₹ 27,600

TP1 Taxable perquisite under section 17(2)(viia) for the P.Y. 2022-23 = ₹ 1,532

R  $I/\text{Favg} = 3,50,307/36,95,802 = 0.09479$

I RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048)

Favg Balance to the credit of recognized provident fund as on 1<sup>st</sup> April, 2023 + Balance to the credit of recognized provident fund as on 31<sup>st</sup> March, 2024)/2 = (₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802

**Note** – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2024-25 –

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2021-22]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (iii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- (iv) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2021-22
- (v) interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2022-23

**Exemption in respect of payment from superannuation funds [Section 10(13)]**

Any payment received by any employee from an approved superannuation fund shall be entirely excluded from his total income if the payment is made

- (a) on the death of a beneficiary;
- (b) to an employee in lieu or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
- (c) by way of refund of contribution on the death of a beneficiary; or
- (d) by way of contribution to an employee on his leaving the service in connection with which the fund is established otherwise than by retirement at or after a specified age or his becoming incapacitated prior to such retirement, to the extent the payment made does not exceed the contribution made prior to 1-4-1962 and the interest thereon.
- (e) by way of transfer to the account of the employee under a pension scheme referred to in section 80CCD, which is notified by the Central Government.

**(B) Tax free perquisites in all cases**

The following perquisites are exempt from tax in the hands of all employees.

<b>Telephone</b>	Telephone provided by an employer to an employee at his residence
<b>Transport Facility</b>	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;

<b>Privilege passes and privilege ticket</b>	Privilege passes and privilege ticket orders granted by Indian Railways to its employees;
<b>Perquisites allowed outside India by the Government</b>	Perquisites allowed outside India by the Government to a citizen of India for rendering services outside India;
<b>Employer's contribution to staff group insurance scheme;</b>	Employer's contribution to staff group insurance scheme;
<b>Annual premium by employer on personal accident policy</b>	Payment of annual premium by employer on personal accident policy effected by him on the life of the employee;
<b>Refreshment</b>	Refreshment provided to all employees during working hours in office premises;
<b>Subsidized lunch</b>	Subsidized lunch provided to an employee during working hours at office or business premises provided the value of such meal is upto ₹ 50; <b><i>This exemption is available only if the employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).</i></b>
<b>Recreational facilities</b>	Recreational facilities, including club facilities, extended to employees in general i.e., not restricted to a few select employees;
<b>Amount spent on training of employees</b>	Amount spent by the employer on training of employees or amount paid for refresher management course including expenses on boarding and lodging;
<b>Sum payable by employer to a RPF or an approved superannuation fund</b>	Sum payable by an employer to a RPF or an approved superannuation fund or deposit-linked insurance fund established under the Coal Mines Provident Fund and Miscellaneous provisions Act, 1948 or the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 upto the limit prescribed;

<b>Leave travel concession</b>	Leave travel concession <b>if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)</b> , subject to the conditions specified under section 10 (discussed below)
<b>Note:</b> Value of Leave travel concession provided to the High Court judge or the Supreme Court Judge and members of his family are completely exempt without any conditions if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).	
<b>Medical facilities</b>	Medical facilities subject to certain prescribed limits [Refer proviso to section 17(2)];
<b>Rent-free official residence</b>	Rent-free official residence provided to a Judge of a High Court or the Supreme Court if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A);
<b>Conveyance facility</b>	Conveyance facility provided to High Court Judges under section 22B of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges under section 23A of the Supreme Court Judges (Conditions of Service) Act, 1958 if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Exemption in respect of Leave travel concession [Section 10(5)]**

- (i) This clause exempts the leave travel concession (LTC) received by employees from their employers for proceeding to any place in India,
- (a) either on leave or
  - (b) after retirement from service or
  - (c) after termination of his service.

***Exemption under this section would be available only to employees exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). It is not available under the default tax regime under section 115BAC.***

- (ii) **The benefit is available to individuals** - citizens as well as non-citizens - in respect of travel concession or assistance for himself or herself and for his/her family- i.e., 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.
- (iii) **Limit of exemption**- The exemption in all cases will be limited to the amount actually spent subject to such conditions as specified in Rule 2B regarding the ceiling on the number of journeys for the place of destination.

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. 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.

**Example:**

*An employee does not avail any LTC for the block 2018-21. He is allowed to carry forward maximum one unavailed LTC to be used in the succeeding block of 2022-25. Accordingly, if he avails LTC in April, 2023, the same will be treated as having availed in respect of the block 2018-2021. Therefore, he will be eligible for exemption in respect of that journey and two more journeys can be further availed in respect of the block of 2022-25.*

- (iv) **Monetary limits** - Where the journey is performed on or after the 1.10.1997, the amount exempted under section 10(5) in respect of the value of LTC shall be the amount actually incurred on such travel subject to the following conditions:

S.No.	Journey performed by	Limit
1	Air	Amount not exceeding the air economy fare of the National Carrier by the shortest route to the place of destination.
2	Any other mode:	
	(i) Where rail service is available	Amount not exceeding the air-conditioned first class rail fare by the

			shortest route to the place of destination
	(ii)	Where rail service is not available	
		(a) a recognised public transport system exists	amount not exceeding the 1st class or deluxe class fare, as the case may be, on such transport by the shortest route to the place of destination
		(b) no recognised public transport system exists	amount equivalent to the air-conditioned first class rail fare, for the distance of the journey by the shortest route, as if the journey had been performed by rail

**Note:** 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.



*Exemption in respect of leave travel concession under section 10(5) would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).*

### ILLUSTRATION 11

*Mr. D went on a holiday on 25.12.2023 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹60,000 (₹45,000 for adults and ₹15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).*

### SOLUTION

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).



**ILLUSTRATION 12**

*In the above illustration 11, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.*

**SOLUTION**

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable

$$\text{LTC} = 15,000 \times \frac{1}{3} = ₹ 5,000.$$

LTC exempt would be only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

***Medical facilities [Proviso to section 17(2)]***

The following medical facilities **are exempt from tax:**

**(i) Value of medical treatment in any hospital maintained by the employer:**

The value of any medical treatment provided to an employee or any member of his family in any hospital maintained by the employer;

**(ii) Reimbursement of expenditure actually incurred on medical treatment:**

Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family

- **in any hospital** maintained by the Government/local authority/any other hospital approved by the Government for the purpose of medical treatment of its employees;
- **in respect of the prescribed disease** or ailments in any hospital approved by the Principal Chief Commissioner or Chief Commissioner having regard to the prescribed guidelines.
- **in respect of any illness relating to COVID-19 subject to conditions notified by the Central Government**

*Accordingly, the Central Government has, vide Notification No. 90/2022 dated 5.8.2022, specified that for claiming benefit of such exemption, the employee has to submit the following documents to the employer, –*

- (a) *the COVID-19 positive report of the employee or family member, or medical report if clinically determined to be COVID-19 positive*

*through investigations, in a hospital or an in-patient facility by a treating physician of a person so admitted;*

- (b) *all necessary documents of medical diagnosis or treatment of the employee or his family member for COVID-19 or illness related to COVID-19 suffered within 6 months from the date of being determined as COVID-19 positive; and*
- (c) *a certification in respect of all expenditure incurred on the treatment of COVID-19 or illness related to COVID-19 of the employee or of any member of his family.*

(iii) **Premium paid to effect an insurance on the health of employee:** Any premium paid by an employer in relation to an employee to effect an insurance on the health of such employee. However, any such scheme should be approved by the Central Government or the Insurance Regulatory Development Authority (IRDA) for the purposes of section 36(1)(ib).

(iv) **Reimbursement of premium paid to effect an insurance on the health of employee or for the family of an employee:** Any sum paid by the employer in respect of any premium paid by the employee to effect an insurance on his health or the health of any member of his family under any scheme approved by the Central Government or the Insurance Regulatory Development Authority (IRDA) for the purposes of section 80D.

(v) **Amount paid towards expenditure incurred outside India on medical treatment:** Any expenditure incurred by the employer or any sum paid by the employer on any expenditure actually incurred by the employee on the following:

- (a) **medical treatment** of the employee or any member of the family of such employee outside India;
- (b) **travel and stay abroad** of the employee or any member of the family of such employee for medical treatment;
- (c) **travel and stay abroad of one attendant** who accompanies the patient in connection with such treatment.

**Conditions:**

1. The perquisite element in respect of expenditure on medical treatment and stay abroad will be exempt only to the extent permitted by the RBI.

2. The expenses in respect of traveling of the patient and the attendant will be exempt if the employee's gross total income as computed before including the said expenditure does not exceed ₹ 2 lakh.

**Note:** For this purpose, family means spouse and children of the individual. Children may be dependent or independent, married or unmarried. It also includes parents, brothers and sisters of the individual if they are wholly or mainly dependent upon him. Hospital includes a dispensary or a clinic or a nursing home.

### ILLUSTRATION 13

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2023-24:

Medical premium paid for insuring health of Mr. G	₹ 7,000
Treatment of Mr. G by his family doctor	₹ 5,000
Treatment of Mrs. G in a Government hospital	₹ 25,000
Treatment of Mr. G's grandfather in a private clinic	₹ 12,000
Treatment of Mr. G's mother (68 years and dependant) by family doctor	₹ 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	₹ 3,000
Treatment of Mr. G's brother (independent)	₹ 6,000
Treatment of Mr. G's father (75 years and dependent) abroad	₹ 50,000
Expenses of staying abroad of the patient	₹ 30,000
Limit specified by RBI	₹ 75,000

### SOLUTION

#### Computation of taxable value of perquisite in the hands of Mr. G

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		-

Treatment of Mr. G by his family doctor	5,000
Treatment of Mr. G's mother (dependent) by family doctor	8,000
Treatment of Mr. G's sister (dependent) in a nursing home	3,000
Treatment of Mr. G's grandfather in a private clinic	12,000
Treatment of Mr. G's brother (independent)	6,000
<b>Taxable value of perquisite</b>	<b>39,000</b>

### ***Payment of premium on personal accident insurance policies***

If an employer takes personal accident insurance policies on the life of employees and pays the insurance premium, no immediate benefit would become payable and benefit will accrue at a future date only if certain events take place.

Moreover, the employers would be taking such policy in their business interest only, so as to indemnify themselves from payment of any compensation. Therefore, the premium so paid will not constitute a taxable perquisite in the employees' hands<sup>‡</sup>.

### **(C) Perquisites taxable only in the hands of specified employees [Section 17(2)(iii)]**

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.

The value of any benefit or amenity granted or provided free of cost or at concessional rate which have not been included in (A) & (B) above will be taxable in the hands of specified employees. Followings are the example of such services:

- (i) Provision of sweeper, gardener, watchman or personal attendant
- (ii) Facility of use of gas, electricity or water supplied by employer
- (iii) Free or concessional tickets
- (iv) Use of motor car
- (v) Free or concessional educational facilities

*For valuation of such perquisites, refer discussion on valuation of perquisite.*

<sup>‡</sup>CIT vs. Lala Shri Dhar [1972] 84 ITR 19 (Del.)

**Meaning of specified employees:**

- (i) **Director employee:** An employee of a company who is also a director is a specified employee. It is immaterial whether he is a full-time director or part-time director. It also does not matter whether he is a nominee of the management, workers, financial institutions or the Government. It is also not material whether or not he is a director throughout the previous year.
- (ii) **An employee who has substantial interest in the company:** An employee of a company who has substantial interest in that company is a specified employee. A person has a substantial interest in a company if he is a beneficial owner of equity shares carrying 20% or more of the voting power in the company.

**Beneficial and legal ownership:** In order to determine whether a person has a substantial interest in a company, it is the beneficial ownership of equity shares carrying 20% or more of the voting power that is relevant rather than the legal ownership.

**Example:**

*A, Karta of a HUF, is a registered shareholder of Bright Ltd. The amount for purchasing the shares is financed by the HUF. The dividend is also received by the HUF. Supposing further that A is an employee in Bright Ltd., the question arises whether he is a specified employee.*

*In this case, he cannot be called a specified person since he has no beneficial interest in the shares registered in his name. It is only for the purpose of satisfying the statutory requirements that the shares are registered in the name of A. All the benefits arising from the shareholding goes to the HUF. Conversely, it may be noted that an employee who is not a registered shareholder will be considered as a specified employee if he has beneficial interest in 20% or more of the equity shares in the company.*

- (iii) **Employee drawing in excess of ₹ 50,000:** An employee other than an employee described in (i) & (ii) above, whose income chargeable under the head 'salaries' exceeds ₹ 50,000 is a specified employee. The above salary is to be considered exclusive of the value of all benefits or amenities not provided by way of monetary payments.

**In other words, for computing the limit of ₹ 50,000, the following items have to be excluded or deducted:**

(a)	all non-monetary benefits;
(b)	monetary benefits which are exempt under section 10. This is because the exemptions provided under section 10 are excluded completely from salaries.
(c)	Standard deduction upto <b>₹ 50,000</b> [under section 16(ia)] is to be excluded irrespective of the regime.
(d)	Deduction for entertainment allowance [under section 16(ii)] and deduction toward professional tax [under section 16(iii)] are also to be excluded if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

If an employee is employed with more than one employer, the aggregate of the salary received from all employers is to be taken into account in determining the above ceiling limit of ₹ 50,000, i.e., Salary for this purpose = Basic Salary + Dearness Allowance + Commission, whether payable monthly or turnover based + Bonus + Fees + Any other taxable payment + Any taxable allowances + Any other monetary benefits – Deductions under section 16]

## **(2) Valuation of Perquisites**

The Income-tax Rules, 1962 contain the provisions for valuation of perquisites. It is important to note that only those perquisites which the employee actually enjoys have to be valued and taxed in his hand.

### **Example:**

*Suppose a company offers a housing accommodation rent-free to an employee but the latter declines to accept it, then the value of such accommodation obviously cannot be evaluated and taxed in the hands of the employees.*

For the purpose of computing the income chargeable under the head "Salaries", the value of perquisites provided by the employer directly or indirectly to the employee or to any member of his household by reason of his employment shall be determined in accordance with **Rule 3**.

**(A) Value of rent free accommodation/ Value of accommodation provided to employee at a concessional rate [Sub-rule (1) of Rule 3]<sup>§</sup>**

*Accommodation would be deemed to have been provided at a concessional rate, if the value of accommodation computed in the prescribed manner exceeds the rent recoverable from, or payable by, the assessee [Explanation to section 17(2)(ii)].*

The value of residential accommodation provided by the employer during the previous year shall be determined in the following manner –

Sl. No.	Circumstances	In case of unfurnished accommodation	In case of furnished accommodation
(1)	(2)	(3)	(4)
1.	<b>Where the accommodation is provided by the Central Government or any State Government to the employees either holding office or post in connection with the affairs of the Union or of such State</b>	<ul style="list-style-type: none"> <li>License fee determined by the Central Government or any State Government in respect of accommodation in accordance with the rules framed by such Government <b>as reduced by</b></li> <li>the rent actually paid by the employee.</li> </ul>	<ul style="list-style-type: none"> <li>The value of perquisite as determined under column (3) should be <b>increased by</b></li> <li><b>(i) If furniture is owned by employer,</b> 10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, air-conditioning plant or equipment).</li> <li><b>(ii) If such furniture is hired from a third party,</b></li> <li>The actual hire charges payable for the same <b>as reduced by</b></li> <li>any charges paid or payable for the same by the employee during the previous year</li> </ul>

<sup>§</sup> Consequent to amendment of section 17(2)(i) and (ii), there has not been any amendment in Rule 3(1) upto 30.4.2023. As and when there is an amendment in Rule 3(1), the same will be given in the Statutory Update for May 2024/ Nov 2024 Examination.

2.	<p><b>Where the accommodation is provided by any other employer</b></p> <p>(a) <u>where the accommodation is owned by the employer</u></p>	<p>(i) 15% of salary in cities having population &gt; 25 lakhs as per 2001 census;</p> <p>(ii) 10% of salary in cities having population &gt; 10 lakhs ≤ 25 lakhs as per 2001 census;</p> <p>(iii) 7.5% of salary in other areas, in respect of the period during which the said accommodation was occupied by the employee during the previous year</p> <p><b>as reduced by</b> the rent, if any, actually paid by the employee.</p>	<ul style="list-style-type: none"> <li>• The value of perquisite as determined under column (3) should be <b>increased by</b></li> </ul> <p><b>(i) If furniture is owned by employer,</b> 10% per annum of the cost of furniture (including television sets, refrigerators, other household appliances, air-conditioning plant or equipment or other similar appliances or gadgets).</p> <p><b>(ii) If such furniture is hired from a third party,</b></p> <ul style="list-style-type: none"> <li>• the actual hire charges payable for the same</li> <li>• <b>as reduced by</b></li> <li>• any charges paid or payable for the same by the employee during the previous year</li> </ul>
	<p>(b) <u>where the accommodation is taken on lease or rent by the employer</u></p>	<ul style="list-style-type: none"> <li>• Actual amount of lease rental paid or payable by the employer or</li> <li>• 15% of salary whichever is lower,</li> <li>• <b>as reduced by</b></li> <li>• the rent, if any, actually paid by the employee.</li> </ul>	<ul style="list-style-type: none"> <li>• The value of perquisite as determined under column (3) should be <b>increased by</b></li> </ul> <p><b>(i) If furniture is owned by employer,</b> 10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, air-conditioning plant or equipment or other</p>



			<p>similar appliances or gadgets).</p> <p><b>(ii) If such furniture is hired from a third party,</b></p> <ul style="list-style-type: none"> <li>the actual hire charges payable for the same <b>as reduced by</b></li> <li>any charges paid or payable for the same by the employee during the previous year</li> </ul>
3.	<b>Where the accommodation is provided by any employer, whether Government or any other employer, in a hotel.</b>	Not applicable	<ul style="list-style-type: none"> <li>24% of salary paid or payable for the previous year or</li> <li>the actual charges paid or payable to such hotel, <b>whichever is lower</b>, for the period during which such accommodation is provided <b>as reduced by</b></li> <li>the rent, if any, actually paid or payable by the employee.</li> </ul> <p>However, where the employee is provided such accommodation for a period not exceeding in aggregate fifteen days on his transfer from one place to another, there would be no perquisite.</p>

**Notes:**

- (1) If an employee is provided with accommodation, on account of his transfer from one place to another, at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower perquisite value, as calculated above, for a period not exceeding 90

days and thereafter, the value of perquisite shall be charged for both such accommodations.

- (2) 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,-
  - (i) the employer of such an employee shall be deemed to be that body or undertaking where the employee is serving on deputation; and
  - (ii) the value of perquisite of such an accommodation shall be the amount calculated in accordance with Sl. No.2.(a) of the above table, as if the accommodation is owned by the employer.
- (3) "Accommodation" includes a house, flat, farm house or part thereof, or accommodation in a hotel, motel, service apartment, guest house, caravan, mobile home, ship or other floating structure.
- (4) "Hotel" includes licensed accommodation in the nature of motel, service apartment or guest house.

#### Meaning of Salary for Valuation Rules

"Salary" includes pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called, from one or more employers, as the case may be. However, it does not include the following, namely—

- (1) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned;
- (2) employer's contribution to the provident fund account of the employee;
- (3) allowances which are exempted from the payment of tax;
- (4) value of the perquisites specified in section 17(2);
- (5) any payment or expenditure specifically excluded under proviso to section 17(2);
- (6) 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;

**ILLUSTRATION 14**

*Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai. He gives you the following particulars:*

*Basic salary* ₹ 6,000 p.m.

*Dearness Allowance* ₹ 2,000 p.m. (30% is for retirement benefits)

*Bonus* ₹ 1,500 p.m.

*Even though the company allotted the house to him on 1.4.2023, he occupied the same only from 1.11.2023. Calculate the taxable value of the perquisite for A.Y.2024-25.*

**SOLUTION**

Value of the rent free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of [(₹ 6000 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] **[See Note below]**

= 15% of ₹ 40,500 = ₹ 6,075.

**Note:** Since, Mr. C occupies the house only from 1.11.2023, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2023 to 31.03.2024) will be considered.

**ILLUSTRATION 15**

*Using the data given in the previous illustration 14, compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.*

**SOLUTION**

First of all, we have to see whether the accommodation is provided at a concessional rate. If the value of accommodation computed in prescribed manner exceeds the rent recoverable, or payable by, the assessee, the accommodation would be deemed to have been provided at a concessional rate.

In this case, 15% of salary would be ₹ 6,075 (i.e. 15% of ₹ 40,500). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 × 5). Since 15% of salary exceeds the rent recovered from the employee, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation	= ₹ 6,075
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
<b>Perquisite value of accommodation given at a concessional rent</b>	<b>= ₹ 1,075</b>

#### ILLUSTRATION 16

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,200 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

#### SOLUTION

Here again, we have to see whether the accommodation is provided at a concessional rate.

In the case of accommodation taken on lease by the employer, the accommodation would be deemed to have been provided at a concessional rate if the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 15% of salary is ₹ 6,075 (i.e. 15% of ₹ 40,500). Rent paid by the employer is ₹ 6,000 (i.e. ₹ 1,200 × 5). The lower of the two is ₹ 6,000, which exceeds the rent paid by the employee i.e., ₹ 5,000 (₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation [Note]	= ₹ 6,000
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
<b>Value of accommodation given at a concessional rent</b>	<b>= ₹ 1,000</b>

**Note:** Value of the accommodation is lower of

- (i) Lease rent paid by the company for relevant period = ₹ 1,200 × 5 = ₹ 6,000
- (ii) 15% of salary for the relevant period (computed earlier) = ₹ 6,075

#### ILLUSTRATION 17

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2024. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.

**SOLUTION**

Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 25 lakh, the accommodation would be deemed to have been provided at a concessional rate, if 15% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether the accommodation is provided at a concessional rate.

In this case, 15% of salary is ₹ 6,075 (i.e. 15% of ₹ 40,500). The value of furniture of ₹ 4,625 (**See Note below**) is to be added to 15% of salary. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (computed earlier)	= ₹ 6,075
Add: Value of furniture provided by the employer [ <b>Note</b> ]	= <u>₹ 4,625</u>
Value of furnished accommodation	= ₹ 10,700
Less: Rent paid by the employee (₹ 1,000 × 5)	= <u>₹ 5,000</u>

**Value of furnished accommodation given at a concessional rent = ₹ 5,700**

**Note:** Value of the furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

**ILLUSTRATION 18**

*Using the data given in illustration 17 above, compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m.*

**SOLUTION**

In the case of Government employees, the accommodation would be deemed to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/recoverable from the employee.

In this case, ₹ 3,500 (licence fees: ₹ 700 × 5) + ₹ 4,625 (Value of furniture) is the value of furnished accommodation. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000

x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (₹ 700 × 5) = ₹ 3,500

Add: Value of furniture provided by the employer (computed earlier) = ₹ 4,625

**Value of furnished accommodation** = ₹ 8,125

Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ 5,000

**Perquisite value of furnished accommodation given at concessional rent** = ₹ 3,125

### (B) Motor Car [Sub-rule (2) of Rule 3]

If motor car is provided by the employer to the employee, it will be perquisite in the hands of specified employees only. However, the use of any vehicle provided by a company or an employer for journey by the assessee from his residence to his office or other place of work, or from such office or place to his residence shall not be regarded as a benefit given or provided to him free of cost or at concessional rate. [Explanation below section 17(2)(iii)]

But if the motor car is owned by the employee and used by him or members of his family wholly for personal purpose and for which employer reimburses the running and maintenance expenses of the car, it will be perquisite in the hands of all employees.

The value of perquisite by way of use of motor car to an employee by an employer shall be determined in the following manner –

#### VALUE OF PERQUISITE PER CALENDAR MONTH

Sl. No.	Circumstances	Where cubic capacity of engine does not exceed 1.6 litres	Where cubic capacity of engine exceeds 1.6 litres
(1)	(2)	(3)	(4)
(1)	Where the motor car is owned or hired by the employer and – (a) <u>is used wholly and exclusively in the performance</u>	Not a perquisite, provided the documents specified	Not a perquisite, provided the documents specified in Note (2) below the table

	<u>of his official duties</u>	in Note (2) below the table are maintained by the employer.	are maintained by the employer.
	(b) <u>is exclusively for the private or personal purposes</u> of the employee or any member of his household and the running and maintenance expenses are met or reimbursed by the employer;	Actual amount of expenditure incurred by the employer on the running and maintenance of motor car during the relevant previous year including remuneration, if any, paid by the employer to the chauffeur as increased by the amount representing normal wear and tear of the motor car and as reduced by any amount charged from the employee for such use.	Actual amount of expenditure incurred by the employer on the running and maintenance of motor car during the relevant previous year including remuneration, if any, paid by the employer to the chauffeur as increased by the amount representing normal wear and tear of the motor car and as reduced by any amount charged from the employee for such use.
	(c) <u>is used partly in the performance of duties and partly for private or personal purposes</u> of his own or any member of his household and-  (i) the expenses on maintenance and running are met or reimbursed by the employer  (ii) the expenses on running and maintenance for	    ₹ 1,800 (plus ₹ 900, if chauffeur is also provided to run the motor car)    ₹ 600 (plus ₹ 900, if chauffeur is also provided by the	    ₹ 2,400 (plus ₹ 900, if chauffeur is also provided to run the motor car)    ₹ 900 (plus ₹ 900, if chauffeur is also provided

	private or personal use are fully met by the assessee.	employer to run the motor car)	by the employer to run the motor car)
(2)	<p><b><u>Where the employee owns a motor car but the actual running and maintenance charges (including remuneration of the chauffeur, if any) are met or reimbursed to him by the employer and –</u></b></p> <p>(a) such reimbursement is <u>for the use of the vehicle wholly and exclusively for official purposes</u></p> <p>(b) such reimbursement is <u>for the use of the vehicle partly for official purposes and partly for personal or private purposes of the employee or any member of his household.</u></p>	<p>Not a perquisite, provided the documents specified in Note (2) below the table are maintained by the employer.</p> <p>The actual amount of expenditure incurred by the employer as reduced by the amount specified in Sl. No. (1)(c)(i) above (Also see note (2) below this table).</p>	<p>Not a perquisite, provided the documents specified in Note (2) below the table are maintained by the employer.</p> <p>The actual amount of expenditure incurred by the employer as reduced by the amount specified in Sl. No. (1)(c)(i) above (Also see note (2) below this table).</p>
(3)	<b>Where the employee owns any other automotive conveyance but the actual running and maintenance charges are met or</b>		



<p><b>reimbursed to him by the employer and</b></p> <p>(a) such reimbursement is <u>for the use of the vehicle wholly and exclusively for official purposes</u></p> <p>(b) such reimbursement is <u>for the use of vehicle partly for official purposes and partly for personal or private purposes</u> of the employee</p>	<p>Not a perquisite, provided the documents specified in the note (2) below the table are maintained by the employer.</p> <p>The actual amount of expenditure incurred by the employer as reduced by the amount of ₹ 900. (Also see note (2) below the table)</p>	<p>Not applicable.</p>
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**Notes:**

- (1) **Where more than one motor car is provided** - Where one or more motor-cars are owned or hired by the employer and the employee or any member of his household are allowed the use of such motor-car or all of any of such motor-cars (otherwise than wholly and exclusively in the performance of his duties), the value of perquisite shall be the amount calculated in respect of one car as if the employee had been provided one motor-car for use partly in the performance of his duties and partly for his private or personal purposes and the amount calculated in respect of the other car or cars as if he had been provided with such car or cars exclusively for his private or personal purposes.
- (2) **Documents to be maintained in certain cases** - Where the employer or the employee claims that the motor-car is used wholly and exclusively in the performance of official duty or that the actual expenses on the running and maintenance of the motor-car owned by the employee for official purposes is more than the amounts deductible in Sl. No. 2(b) or 3(b) of the above table, he may claim a higher amount attributable to such official use and the value of perquisite in such a case shall be the actual amount of charges met or reimbursed by the employer as reduced by such higher amount attributable

to official use of the vehicle provided that the following conditions are fulfilled :-

- (a) the employer has maintained complete details of journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon;
- (b) the employer gives a certificate to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

**(3) Meaning of Normal wear and tear of a motor-car** - For computing the perquisite value of motor car, the normal wear and tear of a motor-car shall be taken at 10% per annum of the actual cost of the motor-car or cars.

**(C) Valuation of benefit of provision of domestic servants**  
**[Sub-rule (3) of Rule 3]**

If servants are engaged by the employee and employer paid or reimbursed the employee for the wages of such servants, it will be perquisite in the hands of all employees. But if the domestic servants are engaged by the employer and facility of such servants is provided to the employee, it will be perquisite in the hands of specified employees only.

- (i) The value of benefit to the employee or any member of his household resulting from the provision by the employer of the services of a sweeper, a gardener, a watchman or a personal attendant, shall be the actual cost to the employer.
- (ii) The actual cost in such a case shall be the total amount of salary paid or payable by the employer or any other person on his behalf for such services **as reduced by** any amount paid by the employee for such services.

**ILLUSTRATION 19**

*Mr. X and Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered:*

- (i) *For Mr. X, who engaged a domestic servant for ₹500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. ₹500 per month.*
- (ii) *For Mr. Y, he was provided with a domestic servant @ ₹500 per month as part of remuneration package.*

*You are required to comment on the taxability of the above in the hands of Mr. X and Mr. Y, who are not specified employees.*

### **SOLUTION**

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

#### **(D) Valuation of gas, electricity or water supplied by employer [Sub-rule (4) of Rule 3]**

If gas, electricity or water connections are taken by the employee and employer paid or reimbursed the employee for such expenses, it will be perquisite in the hands of all employees. But if the gas, electricity or water connections are taken in the name of employer and facility of such supplies are provided to the employee, it will be perquisite in the hands of specified employees only. The value of benefit to the employee resulting from the provision of gas, electricity or water supplied by the employer shall be determined as follow:

<b>Circumstances</b>	<b>Value of benefit</b>
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
If supply is made from resources owned by the employer	manufacturing cost per unit incurred by the employer

Where the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value so arrived at.

#### **(E) Valuation of free or concessional educational facilities [Sub-rule (5) of Rule 3]**

If school fees of children of employee or any member of employee's house hold is paid or reimbursed by the employer on employee's behalf, it will be perquisite in the hands of all employees. But if the education facility is provided in the school maintained by the employer or in any school by reason of his being employment at free of cost or at

concessional rate, it would be perquisite in the hands of specified employees only. The value of benefit to the employee resulting from the provision of free or concessional educational facility for any member of his household shall be determined as follow:

Circumstances	Value of benefit
If the educational institution is maintained and owned by the employer	cost of such education in a similar institution in or near the locality.
If free educational facilities are allowed in any other educational institution by reason of his being in employment of that employer	However, there would be no perquisite if the cost of such education or the value of such <b>benefit per child</b> does not exceed ₹ 1,000 p.m.
Others	amount of expenditure incurred by the employer in that behalf

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

**Note:** The exemption of ₹ 1,000 p.m is allowed only in case of education facility provided to the children of the employee and not in case of education facility provided to other household members.

**(F) Free or concessional tickets [Sub-rule (6) of Rule 3]**

The value of any benefit or amenity resulting from the provision by an employer

- who is engaged in the carriage of passengers or goods,
- to any employee or to any member of his household for personal or private journey free of cost or at concessional fare,
- in any conveyance owned, leased or made available by any other arrangement by such employer for the purpose of transport of passengers or goods

shall be taken to be the value at which such benefit or amenity is offered by such employer to the public as reduced by the amount, if any, paid by or recovered from the employee for such benefit or amenity.

However, there would be no such perquisite to the employees of an airline or the railways.

**(G) Valuation of other fringe benefits and amenities [Sub-rule (7) of Rule 3]**

Section 17(2)(viii) provides that the value of any other fringe benefit or amenity as may be prescribed would be included in the definition of perquisite and taxable in the hands of all employees. Accordingly, the following other fringe benefits or amenities are prescribed and the value thereof shall be determined in the manner provided hereunder:-

**(i) Interest-free or concessional loan [Sub-rule 7(i) of Rule 3]**

- (a) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan for any purpose made available to

- the employee or
- any member of his household

during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India, as on the 1<sup>st</sup> day of the relevant previous year in respect of loans for the same purpose advanced by it on the maximum outstanding monthly balance as reduced by the interest, if any, actually paid by him or any such member of his household.

**“Maximum outstanding monthly balance”** means the aggregate outstanding balance for each loan as on the last day of each month.

- (b) However, **no value would be charged** if such loans are made available for medical treatment in respect of prescribed diseases (like cancer, tuberculosis, etc.) or where the amount of loans are **not exceeding in the aggregate ₹ 20,000**.
- (c) Further, where the benefit relates to the loans made available for medical treatment referred to above, the exemption so provided shall not apply to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.

**(ii) Travelling, touring and accommodation [Sub-rule 7(ii) of Rule 3]**

- (a) **If Travelling, touring, accommodation etc. expenses are paid or reimbursed by employer** - The value of travelling, touring, accommodation and any other expenses paid for or borne or reimbursed by the employer for any holiday availed of by the employee

or any member of his household, other than leave travel concession or assistance, shall be determined as the sum equal to the amount of the expenditure incurred by such employer in that behalf.

- (b) **If Travelling, touring, accommodation etc. facilities are maintained by employer to particular employees only** - Where such facility is maintained by the employer, and is not available uniformly to all employees, the value of benefit shall be taken to be the value at which such facilities are offered by other agencies to the public.
- (c) **Expenses on any member of household accompanying such employee on office tour** - Where the employee is on official tour and the expenses are incurred in respect of any member of his household accompanying him, the amount of expenditure so incurred shall also be a fringe benefit or amenity.
- (d) **If official tour is extended as vacation** - However, where any official tour is extended as a vacation, the value of such fringe benefit shall be limited to the expenses incurred in relation to such extended period of stay or vacation. The amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.

**(iii) Free or concessional food and non-alcoholic beverages**  
**[Sub-rule 7(iii) of Rule 3]**

- (a) The value of free food and non-alcoholic beverages provided by the employer to an employee shall be the amount of expenditure incurred by such employer. The amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.
- (b) However, the following would not be treated as a perquisite -
  - (1) free food and non-alcoholic beverages provided by such employer
    - during working hours at office or business premises or
    - through paid vouchers which are not transferable and usable only at eating joints,to the extent the value thereof either case does not exceed fifty rupees per meal or
  - (2) tea or snacks provided during working hours or

- (3) free food and non-alcoholic beverages during working hours provided in a remote area or an off-shore installation.



*Exemption in respect of free food and non-alcoholic beverage provided by such employer through paid voucher would not be available in case an employee pays tax under the default tax regime under section 115BAC.*

**(iv) Value of gift, voucher or token in lieu of such gift [Sub-rule 7(iv) of Rule 3]**

- (a) The value of any gift, or voucher, or token in lieu of which such gift may be received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift:
- (b) However, if the value of such gift, voucher or token, as the case may be, is below ₹ 5,000 in the aggregate during the previous year, the value of perquisite shall be taken as 'Nil'.

**(v) Credit card expenses [Sub-rule 7(v) of Rule 3]**

- (a) The amount of expenses including membership fees and annual fees incurred by the employee or any member of his household, which is charged to a credit card (including any add-on-card) provided by the employer, or otherwise, paid for or reimbursed by such employer shall be taken to be the value of perquisite chargeable to tax as reduced by the amount, if any paid or recovered from the employee for such benefit or amenity.
- (b) However, such expenses incurred wholly and exclusively for official purposes would not be treated as a perquisite if the following conditions are fulfilled.
- (1) complete details in respect of such expenditure are maintained by the employer which may, *inter alia*, include the date of expenditure and the nature of expenditure;
  - (2) the employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

**(vi) Club expenditure [Sub-rule 7(vi) of Rule 3]**

- (a) The value of benefit to the employee resulting from the payment or reimbursement by the employer of any expenditure incurred (including the amount of annual or periodical fee) in a club by him or by a member of his household shall be determined to be the actual amount of expenditure incurred or reimbursed by such employer on that account. The amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.

However, where the employer has obtained corporate membership of the club and the facility is enjoyed by the employee or any member of his household, the value of perquisite shall not include the initial fee paid for acquiring such corporate membership.

- (b) Further, if such expenditure is incurred wholly and exclusively for business purposes, it would not be treated as a perquisite provided the following conditions are fulfilled:-
- (1) complete details in respect of such expenditure are maintained by the employer which may, *inter alia*, include the date of expenditure, the nature of expenditure and its business expediency;
  - (2) the employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.
- (c) There would be no perquisite for use of health club, sports and similar facilities provided uniformly to all employees by the employer.

**(vii) Use of moveable assets [Sub-rule 7(vii) of Rule 3]**

Value of perquisite is determined as under:

Asset given	Value of benefit
(a) Use of laptops and computers	Nil
(b) Movable assets, other than - (i) laptops and computers; and (ii) assets already specified	10% p.a. of the actual cost of such asset, <b>or</b> the amount of rent or charge paid, or payable by the employer, <b>as the case may be</b>



**Note:** Where the employee is paying any amount in respect of such asset, the amount so paid shall be deducted from the value of perquisite determined above.

**(viii) Transfer of moveable assets [Sub-rule 7(viii) of Rule 3]**

Value of perquisite is determined as under:

Assets transferred	Value of perquisite
Computers and electronic items	Depreciated value of asset [depreciation is computed @50% on WDV for each completed year of usage]
Motor cars	Depreciated value of asset [depreciation is computed @20% on WDV for each completed year of usage]
Any other asset	Depreciated value of asset [depreciation is computed @10% on SLM for each completed year of usage]

**Note:** Where the employee is paying any amount in respect of such asset, the amount so paid shall be deducted from the value of perquisite determined above.

**(ix) Other benefit or amenity [Sub-rule 7(ix) of Rule 3]**

The value of any other benefit or amenity, service, right or privilege provided by the employer shall be determined on the basis of cost to the employer under an arms' length transaction as reduced by the employee's contribution, if any.

However, there will be **no taxable perquisite in respect of expenses on telephones including mobile phone** actually incurred on behalf of the employee by the employer i.e., if an employer pays or reimburses telephone bills or mobile phone charges of employee, there will be no taxable perquisite.

**ILLUSTRATION 20**

*Mr. X retired from the services of M/s Y Ltd. on 31.01.2024, after completing service of 30 years and one month. He had joined the company on 1.1.1994 at the age of 30 years and received the following on his retirement:*

- (i) Gratuity ₹6,00,000. He was covered under the Payment of Gratuity Act, 1972.

- (ii) Leave encashment of ₹3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2021 by the company for ₹ 5,00,000. Company has recovered ₹2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹50,000 from their own contribution.

Following are the other particulars:

- (i) He has drawn a basic salary of ₹20,000 and 50% dearness allowance per month for the period from 01.04.2023 to 31.01.2024.
- (ii) Received pension of ₹5,000 per month for the period 01.02.2024 to 31.03.2024 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

### SOLUTION

#### Computation of Gross Total Income of Mr. X for A.Y. 2024-25

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher ( <b>See Note - 1</b> )	6,000
Transfer of car ( <b>See Note - 2</b> )	56,000
Gratuity ( <b>See Note - 3</b> )	80,769
Leave encashment ( <b>See Note - 4</b> )	1,30,000
Uncommuted pension (₹ 5000 x 2)	10,000

Commuted pension ( <b>See Note - 5</b> )	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	50,000
<b>Taxable Salary /Gross Total Income</b>	<b>6,82,769</b>

**Notes:**

- (1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.

**Note** – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross total income would be ₹ 7,27,769.

- (2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2021)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2022	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2023	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2024	2,56,000
Less: Amount recovered	2,00,000
<b>Value of perquisite</b>	<b>56,000</b>

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is **not** relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) **Taxable gratuity**

Particulars	₹
Gratuity received	6,00,000
Less : Exempt under section 10(10) - Least of the following:	
(i) Notified limit = ₹ 20,00,000	
(ii) Actual gratuity = ₹ 6,00,000	
(iii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$	
$15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	5,19,231
<b>Taxable Gratuity</b>	<b>80,769</b>

**Note:** As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

(4) **Taxable leave encashment**

Particulars	₹
Leave Salary received	3,30,000
Less : Exempt under section 10(10AA) - Least of the following:	
(i) Notified limit ₹ 25,00,000	
(ii) Actual leave salary ₹ 3,30,000	
(iii) 10 months $\times ₹ 20,000$ ₹ 2,00,000	
(iv) Cash equivalent of leave to his credit ₹ 2,20,000	
$\left( \frac{330}{30} \times 20,000 \right)$	2,00,000
<b>Taxable Leave encashment</b>	<b>1,30,000</b>

**Note –** It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be ₹ 3,00,000

(i.e.  $10 \times ₹ 30,000$ ) and the fourth limit ₹ 3,30,000, in which case, the taxable leave encashment would be ₹ 30,000 (₹ 3,30,000 - ₹ 3,00,000). In such a case, the gross total income would be ₹ 6,32,769.

(5) **Commuted Pension**

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of  $\frac{1}{3}^{\text{rd}}$  of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10(10A) = $\frac{1}{3} \times \left[ 3,00,000 \times \frac{3}{2} \right]$	1,50,000
<b>Taxable amount</b>	<b>1,50,000</b>

- (6) The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

### ILLUSTRATION 21

*Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2023-24:*

- (i) *Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).*

*In case the company has employed the domestic servant, what is the value of perquisite?*

- (ii) *Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.*
- (iii) *The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.*

- (iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- (v) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- (vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2023 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2024-25.

The lending rate of State Bank of India as on 1.4.2023 for housing loan may be taken as 10%.

### SOLUTION

#### Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

- (i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

- (ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

**Note** – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

- (iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

- (iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

**Note** - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000

- (v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.
- (vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1<sup>st</sup> day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is  $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2023	5,88,000	1,960
May, 2023	5,76,000	1,920
June, 2023	5,64,000	1,880
July, 2023	5,52,000	1,840
August, 2023	5,40,000	1,800
September, 2023	5,28,000	1,760
October, 2023	5,16,000	1,720
November, 2023	5,04,000	1,680
December, 2023	4,92,000	1,640
January, 2024	4,80,000	1,600
February, 2024	4,68,000	1,560
March, 2024	4,56,000	1,520
<b>Total value of this perquisite</b>		<b>20,880</b>

**Total value of taxable perquisite**

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

**Note** - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be ₹ 57,280 [i.e., ₹ 18,000 + ₹ 2,400 + ₹ 11,000 + ₹ 5,000 + ₹ 20,880].

**(H) Valuation of specified security or sweat equity share for the purpose of section 17(2)(vi) [Sub-rule (8)]**

The fair market value of any specified security or sweat equity share, being an equity share in a company, on the date on which the option is exercised by the employee, shall be determined in the following manner -

- (1) **If shares are listed on recognized stock exchange** - In a case where, on the date of the exercising of the option, the share in the company is listed on a recognized stock exchange, the fair market value shall be the average of the opening price and closing price of the share on that date on the said stock exchange.



**If shares are listed on more than one recognized stock exchange** -Where, on the date of exercising of the option, the share is listed on more than one recognized stock exchanges, the fair market value shall be the average of opening price and closing price of the share on the recognised stock exchange which records the highest volume of trading in the share.

**If no trading in share on recognized stock exchange** - Where on the date of exercising of the option, there is no trading in the share on any recognized stock exchange, the fair market value shall be -

- (a) the closing price of the share on any recognised stock exchange on a date closest to the date of exercising of the option and immediately preceding such date; or
- (b) the closing price of the share on a recognised stock exchange, which records the highest volume of trading in such share, if the closing price, as on the date closest to the date of exercising of the option and immediately preceding such date, is recorded on more than one recognized stock exchange.

**"Closing price"** of a share on a recognised stock exchange on a date shall be the price of the last settlement on such date on such stock exchange.

However, where the stock exchange quotes both "buy" and "sell" prices, the closing price shall be the "sell" price of the last settlement.

**"Opening price"** of a share on a recognised stock exchange on a date shall be the price of the first settlement on such date on such stock exchange.

However, where the stock exchange quotes both "buy" and "sell" prices, the opening price shall be the "sell" price of the first settlement.

- (2) **If shares are not listed on recognized stock exchange** -In a case where, on the date of exercising of the option, the share in the company is not listed on a recognised stock exchange, the fair market value shall be such value of the share in the company as determined by a merchant banker on the specified date.

For this purpose, **"specified date"** means,—

- (i) the date of exercising of the option; or

- (ii) any date earlier than the date of the exercising of the option, not being a date which is more than 180 days earlier than the date of the exercising.

**Note:** Where any amount has been recovered from the employee, the same shall be deducted to arrive at the value of perquisites.

### ILLUSTRATION 22

*AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2023. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.*

- (i) *What is the perquisite value of sweat equity shares allotted to Sri Chand?*
- (ii) *In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?*

### SOLUTION

- (i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	₹
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 each	2,00,000
<b>Value of perquisite of sweat equity shares allotted to Sri Chand</b>	<b>1,00,000</b>

- (ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). *(The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)*

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

**(I) Valuation of specified security, not being an equity share in a company for the purpose of section 17(2)(vi) [Sub-rule (9)]**

The fair market value of any specified security, not being an equity share in a company, on the date on which the option is exercised by the employee, shall be such value as determined by a merchant banker on the specified date.

For this purpose, “**specified date**” means,—

- (i) the date of exercising of the option; or
- (ii) any date earlier than the date of the exercising of the option, not being a date which is more than 180 days earlier than the date of the exercising.

Tax on perquisite of specified securities and sweat equity shares is required to be paid in the year of exercising of option. However, where such shares or securities are allotted by the current employer, being an eligible start-up \*\*, the perquisite is taxable in the year

- after the expiry of 48 months from the end of the relevant assessment year
- in which sale of such security or share are made by the assessee
- in which the assessee ceases to be the employee of the employer,

whichever is earlier.

**Definitions for the purpose of perquisite rules -**

The following definitions are relevant for applying the perquisite valuation rules -

Term	Meaning
<b>Member of household</b>	shall <b>include</b> - (a) spouse(s), (b) children and their spouses, (c) parents, and (d) servants and dependants;
<b>Salary</b>	<b>includes</b> the pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called from one or more employers, as the case may be, but <b>does not include</b> the following, namely:-

\*\* Referred to in section 80-IAC, which will be dealt with in detail at the Final level

	<ul style="list-style-type: none"> <li>(a) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned;</li> <li>(b) employer's contribution to the provident fund account of the employee;</li> <li>(c) allowances which are exempted from payment of tax;</li> <li>(d) the value of perquisites specified in clause (2) of section 17 of the Income-tax Act;</li> <li>(e) any payment or expenditure specifically excluded under proviso to clause (2) of section 17;</li> <li>(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;</li> </ul>
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**ILLUSTRATION 23**

*X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2023-24 –*

- (1) *Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.*
- (2) *Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.*
- (3) *A car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.*
- (4) *A gift voucher of ₹ 10,000 on his birthday.*

*Compute the value of perquisites chargeable to tax for the A.Y.2024-25, assuming his salary for perquisite valuation to be ₹ 10 lakh.*

**SOLUTION**

**Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2024-25**

	Particulars	Amount in ₹		
(1)	<b>Value of accommodation at concessional rate</b>			
	Actual amount of lease rental paid by X Ltd.	1,80,000		

	15% of salary i.e., 15% of ₹ 10,00,000	1,50,000		
	Lower of the above		1,50,000	
	<b>Less: Rent paid by Mr. Y (₹ 5,000 × 12)</b>		<b>60,000</b>	
			90,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		36,000	1,26,000
(2)	Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]			32,400
(3)	Value of gift voucher*			10,000
	<b>Value of perquisites chargeable to tax</b>			<b>1,68,400</b>

\* An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.



## 1.4 DEDUCTIONS FROM SALARY

The income chargeable under the head 'Salaries' is computed after making the following deductions:

- (1) Standard deduction [Section 16(ia)]
- (2) Entertainment allowance [Section 16(ii)]
- (3) Professional tax [Section 16(iii)]

Income under the head "Salaries"	Amount (₹)	Amount (₹)
Salary/Bonus/Commission etc.	A	D
Taxable Allowance	B	
Value of Taxable Perquisites	C	
Gross Salary (A+B+C)		
Less: Deductions under Section 16		
Standard deduction of upto ₹ 50,000	xxx	
Entertainment Allowance to Government employee, if the assessee exercises the option of shifting out	xxx	

of the default tax regime provided under section 115BAC(1A)		
Professional Tax paid, if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)	xxx	E
<b>Net taxable income from Salary (D-E)</b>		<b>F</b>

### 1.4.1 Standard Deduction

A standard deduction of ₹ 50,000 or the amount of salary, whichever is lower, is to be provided to the employees.



*Standard deduction of upto ₹ 50,000 is available to an assessee irrespective of the regime under which he pays tax.*

### 1.4.2 Entertainment allowance

Entertainment allowance received is fully taxable and is first to be included in the salary and thereafter the following deduction is to be made from gross salary:

However, deduction in respect of entertainment allowance is available in case of Government employees only. The amount of deduction will be lower of:

- (i) One-fifth of his basic salary or
- (ii) ₹ 5,000 or
- (iii) Entertainment allowance received.

Amount actually spent by the employee towards entertainment out of the entertainment allowance received by him is not a relevant consideration at all.



*Deduction in respect of entertainment allowance would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction would not be available under the default tax regime i.e., under section 115BAC.*

### 1.4.3 Professional tax on employment

Professional tax or taxes on employment levied by a State under Article 276 of the Constitution is allowed as deduction only when it is actually paid by the employee during the previous year. The total amount by way of professional tax payable in respect of any one person shall not exceed ₹ 2,500 per annum. However, the

amount paid during the previous year can be more than ₹ 2,500 as the employee may have paid the professional tax of an earlier year during the previous year.



• If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is first included as salary income and then allowed as a deduction u/s 16.

• Deduction in respect of professional tax would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction would not be available under the default tax regime i.e., under section 115BAC.

#### ILLUSTRATION 24

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2024.

Basic pay	₹ 4,00,000
Dearness Allowance	₹ 1,50,000
Commission	₹ 1,00,000
Entertainment allowance	₹ 40,000
Medical expenses reimbursed	₹ 25,000
Professional tax paid	₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2024-25, if Mr. Goyal is a State Government employee.

#### SOLUTION

##### Computation of salary of Mr. Goyal for the A.Y.2024-25 under default tax regime under section 115BAC

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-

Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
<b>Gross Salary</b>	<b>7,16,000</b>
Less: Deductions under section 16(ia) - Standard deduction of upto ₹ 50,000	50,000
<b>Income from Salary</b>	<b>6,66,000</b>

**Note:** Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime under section 115BAC.

**Computation of salary of Mr. Goyal for the A.Y.2024-25 under the optional tax regime (normal provisions of the Act)**

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF <b>[Note]</b>		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
<b>Gross Salary</b>		<b>7,16,000</b>
Less: Deductions under section 16		
under section 16(ia) - Standard deduction of upto ₹ 50,000		50,000
under section 16(ii) - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [ $1/5 \times ₹ 4,00,000$ ]	80,000	
(c) Statutory amount	5,000	5,000
under section 16(iii) - Professional tax paid		2,000
<b>Income from Salary</b>		<b>6,59,000</b>

**Note:** Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.





## 1.5 RELIEF UNDER SECTION 89

(1) **On account of arrears of salary or advance salary:** Where by reason of any portion of an assessee's salary being paid in arrears or in advance or by reason of his having received in any one financial year, salary for more than twelve months or a payment of profit in lieu of salary under section 17(3), his income is assessed at a rate higher than that at which it would otherwise have been assessed, the Assessing Officer shall, on an application made to him in this behalf, grant such relief as prescribed. The procedure for computing the relief is given in Rule 21A.

(2) **On account of family pension:** Similar tax relief is extended to assessee who receive arrears of family pension as defined in the *Explanation* to clause (iia) of section 57.

**"Family pension"** means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death.

(3) **No relief at the time of Voluntary retirement or termination of service:** No relief shall be granted in respect of any amount received or receivable by an assessee on his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or a scheme of voluntary separation (in the case of a public sector company), if exemption under section 10(10C) in respect of such compensation received on voluntary retirement or termination of his service or voluntary separation has been claimed by the assessee in respect of the same assessment year or any other assessment year.

### ILLUSTRATION 25

*In the case of Mr. Hari, who turned 71 years on 28.3.2024, you are informed that the salary (computed) for the previous year 2023-24 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:*

Previous year	Taxable Salary (₹)	Arrears now received (₹)
2010 – 2011	7,10,000	1,03,000
2011 – 2012	8,25,000	1,17,000
2012 – 2013	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2024-25. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Note: Rates of Taxes:**

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2011-12	Upto ₹ 2,40,000	Nil	Upto ₹ 1,60,000	Nil
	₹ 2,40,001 - ₹ 5,00,000	10%	₹ 1,60,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2012-13	Upto ₹ 2,50,000	Nil	Upto ₹ 1,80,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 1,80,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2013-14	Upto ₹ 2,50,000	Nil	Upto ₹ 2,00,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 2,00,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

**Note** – Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years.

**SOLUTION**

**Computation of tax payable by Mr. Hari for the A.Y.2024-25**

Particulars	Incl. arrears of salary ₹	Excl. arrears of salary ₹
Current year salary (computed)	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add: Health and education cess @4%	8,780	4,640
<b>Total payable</b>	<b>2,28,280</b>	<b>1,20,640</b>

**Computation of tax payable on arrears of salary if charged to tax in the respective AYs**

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
<b>Taxable salary</b>	<b>8,13,000</b>	<b>7,10,000</b>	<b>9,42,000</b>	<b>8,25,000</b>	<b>10,75,000</b>	<b>9,50,000</b>
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
<b>Tax payable</b>	<b>1,00,837</b>	<b>78,280</b>	<b>1,38,638</b>	<b>1,02,485</b>	<b>1,51,925</b>	<b>1,18,450</b>

**Computation of relief under section 89**

	Particulars	₹	₹
i	Tax payable in A.Y.2024-25 on arrears:		
	Tax on income including arrears	2,28,280	
	Less : Tax on income excluding arrears	1,20,640	1,07,640
ii	Tax payable in respective years on arrears :		
	Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	2,99,215	92,185
	Relief under section 89 - difference between tax on arrears in A.Y. 2024-25 and tax on arrears in the respective years		<b>15,455</b>

**Tax payable for A.Y.2024-25 after relief under section 89**

Particulars	₹
Income-tax payable on total income including arrears of salary	2,28,280
Less : Relief under section 89 as computed above	15,455
<b>Tax payable after claiming relief</b>	<b>2,12,825</b>



## LET US RECAPITULATE

### Basis of Charge [Section 15]

(i)	Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.
(ii)	However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.
(iii)	If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

If an employee works with more than one employer, salaries received from all the employers would be clubbed and brought to charge for the relevant previous year.

### Taxability/Exemption of certain Allowances

Section	Allowance	Exemption
10(13A)	House Rent Allowance	<p>Least of the following is exempt:</p> <p>(a) HRA actually received</p> <p>(b) Rent paid <i>less</i> 10% of salary</p> <p>(c) 50% of salary, if accommodation is located in Mumbai, Kolkata, Delhi or Chennai 40% of salary, if the accommodation is located in any other city.</p> <p><b>Note</b> - Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).</p>
10(14)(ii)	Children education allowance	<p>₹ 100 per month per child upto maximum of two children</p> <p><b>Note</b> - Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).</p>
	Transport allowance for commuting between the place of residence and the place of duty	<p>₹ 3,200 per month for an employee who is blind or deaf and dumb or orthopedically handicapped</p> <p><b>Note</b> - Exemption in respect of transport allowance would be available to an assessee irrespective of the regime under which he pays tax.</p>

	Hostel expenditure of employee's children	₹ 300 per month per child up to a maximum of two children <b>Note</b> - Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).	
<b><u>Exemption of Terminal Benefits [Exemption would be available to an assessee irrespective of the tax regime under which he pays tax]</u></b>			
Section	Component of salary	Category of employee	Particulars [Taxability / Exemption under section 10]
10(10)	<b>Gratuity</b>	Central Government employees/ Members of Civil Services/ local authority employees etc.	Fully exempt u/s 10(10)(i)
		Other employees	Least of the following is exempt : (i) Gratuity actually received <b><u>In case of employees covered by the Payment of Gratuity Act, 1972</u></b> (ii) $15/26 \times$ last drawn salary $\times$ number of completed years or part in excess of six months (iii) ₹ 20,00,000  <b><u>In case of employees not covered by the Payment of Gratuity Act, 1972</u></b> (ii) $1/2 \times$ average salary of last 10 months $\times$ number of completed years of service (fraction to be ignored). (iii) ₹ 20,00,000
10(10A)	<b>Pension</b>		
	Uncommuted pension	Government & Non-Government employees	Fully taxable

	Commuted pension	Employees of Central Government/ local authorities/ Statutory corporation/ members of Civil services/ All-India services/ Defence Services	Fully exempt under section 10(10A)(i)
		Other Employees	<p><b><u>If the employee is in receipt of gratuity</u></b>  <math>\frac{1}{3} \times (\text{commuted pension received} \div \text{commutation \%}) \times 100</math></p> <p><b><u>If the employee is not in receipt of gratuity</u></b>  <math>\frac{1}{2} \times (\text{commuted pension received} \div \text{commutation \%}) \times 100</math></p>
10(10AA)	<b>Leave Salary</b>		
	Received during service	Government & Non-Government	Fully taxable
	Received at the time of retirement, (whether on superannuation or otherwise)	Government	Fully exempt u/s 10(10AA)(i)
		Non-Government	<p>Least of the following is exempt :</p> <p>(i) ₹ 25,00,000</p> <p>(ii) Leave salary actually received</p> <p>(iii) Cash equivalent of leave standing at the credit of the employee [based on average salary of last 10 months] (maximum 30 days for every year of service)</p> <p>(iv) 10 months' salary (based on average salary of last 10 months preceding retirement)</p>
10(10B)	<b>Retrenchment Compensation</b>		Least of the following is exempt :
			(i) Compensation actually received

			(ii) ₹ 5,00,000 (iii) 15 days average pay × Completed years of service and part thereof in excess of 6 months
10(10C)	<b>Voluntary Retirement Compensation</b>	Central and State Government, Public sector company, any other company, local authority, co-operative society, IIT etc.	Least of the following is exempt : (i) Compensation actually received (ii) ₹ 5,00,000 (iii) 3 months' salary x completed years of service (iv) Last drawn salary x remaining months of services left

#### **Section 10(5) [Leave Travel Concession]**

Exemption is available for 2 trips in a block of 4 calendar years. Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

S. No.	Journey performed by	Exemption
1	Air	Amount not exceeding air economy fare by the shortest route.
2	Any other mode : (i) Where rail service is available (ii) Where rail service is not available a) and public transport does not exist b) but public transport exists.	Amount not exceeding air-conditioned first-class rail fare by the shortest route to the place of destination  Amount equivalent to air conditioned first class rail fares by the shortest route, as if the journey had been performed by rail  Amount not exceeding the first class or deluxe class fare by the shortest route to the place of destination

#### **Provident Funds - Exemption & Taxability provisions**

Particulars	Recognized PF	Unrecognized PF	Statutory PF	Public PF
<b>Employer's</b>	Contribution in excess of 12% of	Not taxable at the time of	Fully exempt	N.A. (as there is only

<b>Contribution</b>	salary is taxable as "salary" u/s 17(1)	contribution		assessee's own contribution)
<b>Employee's Contribution</b>	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)	Not eligible for deduction	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)
<b>Interest Credited on Employer's Contribution</b>	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1)	Not taxable at the time of credit of interest	Fully exempt	N.A.
<b>Interest Credited on Employee's Contribution</b>	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1) <b>[See Note below]</b>	Not taxable at the time of credit of interest	Exempt upto certain limit of contribution <b>[See Note below]</b>	Fully exempt
<b>Amount withdrawn on retirement/ termination</b>	Exempt from tax if (i) employee served a continuous period of 5 years or more; or (ii) retires before rendering 5 years of service because of ill health, contraction or discontinuance of employer's business or reason beyond	Employer's contribution and interest thereon is taxable as salary. Employee's contribution is not taxable. Interest on employee's contribution is taxable under income from other source.	Fully exempt u/s 10(11)	Fully exempt u/s 10(11)



	<p>the control of the employee; or</p> <p>(iii) on cessation of employment, the employee obtains employment with any other employer, to the extent the accumulated balance in RPF is transferred to his RPF account maintained by the new employer.</p> <p>(iv) The entire balance standing to the credit of the employee is transferred to his NPS account referred to in section 80CCD and notified by the Central Government</p> <p>In other cases, it will be taxable.</p>			
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As per section 10(11), any payment from a Provident Fund (PF) to which Provident Fund Act, 1925, applies or from Public Provident Fund would be exempt.

Accumulated balance due and becoming payable to an employee participating in a Recognized Provident Fund (RPF) would be exempt under section 10(12).

However, the exemption under section 10(11) or 10(12) would not be available in respect of income by way of interest accrued during the previous year to the extent it relates to the amount or the aggregate of amounts of contribution made by that person/employee exceeding ₹ 2,50,000 in any previous year in that fund, on or after 1<sup>st</sup> April, 2021.

If the contribution by such person/employee is in a fund in which there is no employer's contribution, then, a higher limit of ₹ 5,00,000 would be applicable for such contribution, and interest accrued in any previous year in that fund, on or after 1<sup>st</sup> April, 2021 would be exempt upto that limit.

It may be noted that interest accrued on contribution to such funds upto 31<sup>st</sup> March, 2021 would be exempt without any limit, even if the accrual of income is after that date.

### **Valuation of Perquisites [Section 17(2) read with Rule 3]**

#### **(I) Rent-free residential accommodation/ Accommodation provided to an employee at concessional rate**

S. No. (A)	Category of Employee (B)	Unfurnished accommodation (C)	Furnished accommodation (D)						
1	Government employee	License fee determined as per Government rules as reduced by the rent actually paid by the employee.	Value determined under column (C)  <b>Add:</b> 10% p.a. of the furniture cost. However, if the furniture is hired, then hire charges payable/paid should be added to the value determined under column (C), <b>as reduced by</b> charges recovered from employee.						
2	Non- government employee	<table><tr><th colspan="2"><b><u>Where accommodation is owned by employer</u></b></th></tr><tr><th>Location</th><th>Perquisite value</th></tr><tr><td>In cities having a population &gt; 25 lacs as per 2001 census</td><td>15% of salary</td></tr></table>	<b><u>Where accommodation is owned by employer</u></b>		Location	Perquisite value	In cities having a population > 25 lacs as per 2001 census	15% of salary	Value determined under column (C)  <b>Add:</b> 10% p.a. of the furniture cost.  However, if the furniture is hired, then hire charges payable/paid should be added to the value
<b><u>Where accommodation is owned by employer</u></b>									
Location	Perquisite value								
In cities having a population > 25 lacs as per 2001 census	15% of salary								

		In cities having a population > 10 lacs ≤ 25 lacs as per 2001 census	10% of salary	determined under column (C), <b>as reduced by</b> charges recovered from employee.
		In other areas	7.5% of salary	
		The perquisite value should be arrived at by reducing the rent, if any, actually paid by the employee, from the above value.		
		<b><u>Where the accommodation is taken on lease or rent by employer</u></b> Lower of the following is taxable: (a) actual amount of lease rent paid or payable by employer or (b) 15% of salary The lower of the above should be reduced by the rent, actually paid by the employee, to arrive at the perquisite value.		Value determined under column (C) <b>Add:</b> 10% p.a. of the furniture cost. However, if the furniture is hired, then hire charges payable/paid should be added to the value determined under column (C), <b>as reduced by</b> charges recovered from employee.

**(II) Interest free or concessional loan**

In respect of any loan given by employer to employee or any member of his household (excluding for medical treatment for specified ailments or where loans amount in aggregate does not exceed ₹ 20,000), the interest at the rate charged by SBI as on the first day of the relevant previous year at maximum outstanding monthly balance (aggregate outstanding balance for each loan as on the last day of each month) as reduced by the interest, if any, actually paid by him or any member of his household.

**(III) Use of movable assets by employee/ any member of his household**

Asset given		Value of benefit
(a)	Use of laptops and computers	Nil
(b)	Movable assets, other than - (i) laptops and computers; and (ii) assets already specified	10% p.a. of the actual cost of such asset, <b>or</b> the amount of rent or charge paid, or payable by the employer, <b>as the case may be</b> <b>(-)</b> Amount paid by/ recovered from an employee

**(IV) Transfer of movable assets**

Actual cost of asset to employer (-) cost of normal wear and tear (-) amount paid or recovered from employee

Assets transferred	Value of perquisite
Computers and electronic items	@50% on WDV for each completed year of usage
Motor cars	@20% on WDV for each completed year of usage
Any other asset	@10% of actual cost of such asset to employer for each completed year of usage [on SLM basis]

**(V) Motor car**

S. No.	Car owned/hired by	Expenses met by	Wholly official use	Partly personal use (c)						
1	Employer	Employer	Not perquisite* a	<table><tr><th>cc of engine</th><th>Perquisite value</th></tr><tr><td>upto 1.6 litres</td><td>₹ 1,800 p.m.</td></tr><tr><td>above 1.6 litres</td><td>₹ 2,400 p.m.</td></tr></table> <p>If chauffeur is also provided, ₹ 900 p.m. should be added to the above value.</p>	cc of engine	Perquisite value	upto 1.6 litres	₹ 1,800 p.m.	above 1.6 litres	₹ 2,400 p.m.
cc of engine	Perquisite value									
upto 1.6 litres	₹ 1,800 p.m.									
above 1.6 litres	₹ 2,400 p.m.									
2	Employee	Employer	Not perquisite* a	Actual amount of expenditure incurred by the employer as reduced by the perquisite value arrived at in (1) above.						
3	Employer	Employee	-	<table><tr><th>cc of engine</th><th>Perquisite value</th></tr><tr><td>upto 1.6 litres</td><td>₹ 600 p.m.</td></tr><tr><td>above 1.6 litres</td><td>₹ 900 p.m.</td></tr></table> <p>If chauffeur is also provided, ₹ 900 p.m. should be added to the above value.</p>	cc of engine	Perquisite value	upto 1.6 litres	₹ 600 p.m.	above 1.6 litres	₹ 900 p.m.
cc of engine	Perquisite value									
upto 1.6 litres	₹ 600 p.m.									
above 1.6 litres	₹ 900 p.m.									

\* Provided employer maintains the complete details of such journey and expenditure thereon and gives a certificate that such expenditure are incurred wholly for official use.

**Note:** Where car is owned by employer and expenses are also met by the employer, the taxable perquisites in case such car is used wholly for personal purposes of the employee would be equal to the actual expenditure incurred by the employer on running and maintenance expenses and normal wear and tear (calculated @10% p.a. of actual cost of motor car) less amount charged from the employee for such use.

<b>Meaning of Salary:</b>		
<b>S. No.</b>	<b>Calculation of exemption of Allowance/Terminal benefit/Valuation of perquisite</b>	<b>Meaning of salary</b>
1	Gratuity (in case of non-Government employees covered by the Payment of Gratuity Act, 1972)	Basic salary and dearness allowance.
2	a) Gratuity (in case of non- Government employee not covered by Payment of Gratuity Act, 1972) b) Leave Salary c) House Rent Allowance d) Recognized Provident Fund e) Voluntary Retirement Compensation	Basic salary and dearness allowance, if provided in terms of employment, and commission calculated as a fixed percentage of turnover.
3	Rent free accommodation and Accommodation provided to an employee at a concessional rate	All pay, allowance, bonus or commission or any monetary payment by whatever name called but excludes- (1) Dearness allowance not forming part of computation of superannuation or retirement benefit (2) employer's contribution to the provident fund account of the employee; (3) allowances which are exempted from the payment of tax; (4) value of the perquisites specified in section 17(2); (5) any payment or expenditure specifically excluded under the proviso to section 17(2) i.e., payment of medical insurance premium specified therein.

		(6) lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, leave encashment, voluntary retirement benefits, commutation of pension and similar payments.
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#### **Deductions from gross salary [Section 16]**

(1)	<b>Standard deduction [Section 16(ia)]</b> Standard deduction of upto ₹ 50,000. <b>Note</b> - Deduction would be available to an assessee irrespective of the regime under which he pays tax.						
(2)	<b>Entertainment allowance (allowable only in the case of government employees) [Section 16(ii)]</b> Least of the following is allowed as deduction: <table> <tr> <td>(1)</td><td>₹ 5,000</td></tr> <tr> <td>(2)</td><td>1/5<sup>th</sup> of basic salary</td></tr> <tr> <td>(3)</td><td>Actual entertainment allowance received</td></tr> </table> <b>Note</b> - Deduction would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).	(1)	₹ 5,000	(2)	1/5 <sup>th</sup> of basic salary	(3)	Actual entertainment allowance received
(1)	₹ 5,000						
(2)	1/5 <sup>th</sup> of basic salary						
(3)	Actual entertainment allowance received						
(3)	<b>Professional tax [Section 16(iii)]</b> Any sum paid by the assessee on account of tax on employment is allowable as deduction. In case professional tax is paid by employer on behalf of employee, the amount paid shall be included in gross salary as a perquisite and then deduction can be claimed. <b>Note</b> - Deduction would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).						

#### **Relief when salary is paid in arrears or in advance [Section 89]**

Step 1	Calculate tax payable of the previous year in which the arrears/advance salary is received by considering: <table> <tr> <td>(a)</td><td>Total Income inclusive of additional salary</td></tr> <tr> <td>(b)</td><td>Total Income exclusive of additional salary</td></tr> </table>	(a)	Total Income inclusive of additional salary	(b)	Total Income exclusive of additional salary
(a)	Total Income inclusive of additional salary				
(b)	Total Income exclusive of additional salary				
Step 2	Compute the difference the tax calculated in Step 1 and Step 2 [i.e., (a) – (b)]				

Step 3	Calculate the tax payable of every previous year to which the additional salary relates:	
	(a)	On total income including additional salary of that particular previous year
	(b)	On total income excluding additional salary.
Step 4	Calculate the difference between (a) and (b) in Step 3 for every previous year to which the additional salary relates and aggregate the same.	
Step 5	Relief under section 89(1) = Amount calculated in Step 2 – Amount calculated in Step 4	



## TEST YOUR KNOWLEDGE

- Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2024. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2024. Rent paid by him during the P.Y.2023-24 is as under:

April and May, 2023- Nil, as he stayed with his parents

June to October, 2023 - ₹ 6,000 p.m. for an accommodation in Ghaziabad

November, 2023 to March, 2024 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2024-25, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

- Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2023-24:

	Particulars	₹
1	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(A) On treatment of her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000



6	<p><i>Expenses in relation to foreign travel of Rakhi and her son for medical treatment</i></p> <p><b>Note</b> - Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.</p>	1,20,000
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*Examine the taxability of the above benefits and allowances in the hands of Rakhi.*

3. *Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:*

- (i) *A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2023.*
- (ii) *A personal loan of ₹ 5,00,000 on 1.7.2023 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2023 was 12.75% p.a.)*
- (iii) *His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2020. The motor cycle was finally sold to him on 1.8.2023 for ₹ 30,000.*
- (iv) *Professional tax paid by Mr. X is ₹ 2,000.*

*Compute the income from salary of Mr. X for the A.Y. 2024-25 assuming Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).*

4. *Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2024:*

- (i) *Basic salary upto 31.10.2023      ₹ 50,000 p.m.*  
*Basic salary from 01.11.2023      ₹ 60,000 p.m.*

**Note** - *Salary is due and paid on the last day of every month.*

- (ii) *Dearness allowance @ 40% of basic salary.*
- (iii) *Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.*
- (iv) *Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.*

- (v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2023.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2023 to 31.03.2024, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

5. From the following details, find out the salary chargeable to tax for the A.Y.2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) -

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2023 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

He is provided free housing facility which has been taken on rent by the company at ₹ 10,000 per month. He is also provided with following facilities:

- (i) Facility of laptop costing ₹ 50,000.
- (ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.
- (iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.

- (iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
  - (v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.
  - (vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
  - (vii) He is getting telephone allowance @ ₹ 500 per month.
6. You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2024:
- (i) He retired on 31-12-2023 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
  - (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
  - (iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
  - (iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
  - (v) He is receiving ₹ 5,000 as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
  - (vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.
7. Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2023-24:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000

<i>Entertainment allowance</i>	9,000
<i>Medical expenses reimbursed by the employer</i>	18,000
<i>Profession tax (of this, 50% paid by employer)</i>	4,000
<i>Health insurance premium paid by employer</i>	8,000
<i>Gift voucher given by employer on her birthday</i>	10,000
<i>Life insurance premium of Akansha paid by employer</i>	26,000
<i>Laptop provided for use at home. Actual cost of Laptop to employer</i>	45,000
<i>Children of the assessee are also using the Laptop at home]</i>	
<i>Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer</i>	
<i>Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]</i>	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25 if she pays tax under default tax regime.

## ANSWERS

### 1. Computation of gross salary of Mr. Mohit for A.Y. 2024-25

Particulars	₹
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance ( <b>See Note below</b> )	21,300
<b>Gross Salary</b>	<b>2,65,300</b>

#### Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000

Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2023)	-	30,000 (40% × ₹ 75,000)	15,000 (50% × ₹ 30,000)	7,500 (50% × ₹ 15,000)	16,500 (50% × ₹ 33,000)
50% of salary (Residence at Delhi– Nov, 23 - March, 24)					
<b>Exempt HRA (B)</b>	<b>Nil</b>	<b>22,500</b>	<b>12,000</b>	<b>6,500</b>	<b>12,700</b>
Taxable HRA [Actual HRA (–) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300

**2. Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2024-25**

	Particulars
1.	<p>Reimbursement of medical expenses incurred by Ms. Rakhi</p> <p>(A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.</p> <p>(B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.</p> <p>(C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite.</p> <p>The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite</p>
2.	<p>Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).</p>
3.	<p>Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.</p>
4.	<p>As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.</p>
5. & 6.	<p>As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions –</p> <p>(i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses <b>[₹ 1,05,000, in this case];</b></p> <p>(ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment <b>[₹ 1,20,000, in this case].</b></p> <p>The conditions subject to which the above expenditure would be exempt are as follows –</p>

- (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
- (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

### 3. Computation of Income from Salary of Mr. X for the A.Y. 2024-25

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation <b>[Note 1]</b>	48,600	
Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	64,600
Interest on personal loan <b>[Note 2]</b>		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle <b>[Note 3]</b>		12,000
<b>Gross Salary</b>		<b>4,25,100</b>
Less : Deduction under section 16		
Under section 16(ia) – Standard deduction	50,000	
Under section 16(iii) - Professional tax paid	2,000	52,000
<b>Income from Salary</b>		<b>3,73,100</b>

#### Notes:

#### 1. Value of rent-free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 48,600

**2. Value of perquisite for interest on personal loan**

$$= [₹ 5,00,000 \times (12.75\% - 6.75\%) \text{ for 9 months}] = ₹ 22,500$$

**3. Depreciated value of the motor cycle**

= Original cost – Depreciation @ 10% p.a. for 3 completed years.

$$= ₹ 60,000 - (₹ 60,000 \times 10\% \text{ p.a.} \times 3 \text{ years}) = ₹ 42,000.$$

$$\text{Perquisite} = ₹ 42,000 - ₹ 30,000 = ₹ 12,000.$$

**4. Computation of Taxable Salary of Mr. Balaji for A.Y. 2024-25**

Particulars	₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) ( <b>See Note 1</b> )	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 ( <b>See Note 2</b> )	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) ( <b>See Note 4</b> )	12,000
<b>Gross Salary</b>	<b>10,20,000</b>
Less: Deduction under section 16	
Standard deduction u/s 16(ia) ₹ 50,000	
Professional tax u/s 16(iii) ( <b>See Note 6</b> ) ₹ 2,500	
<b>Taxable Salary</b>	<b>9,67,500</b>

**Notes:**

1. Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to



the employee from 01.11.2023, therefore the perquisite value has been calculated for 5 months.

5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

#### 5. **Computation of taxable salary of Mr. X for A.Y. 2024-25**

Particulars	₹
Basic pay [(₹ 20,000×9) + (₹ 21,000×3)] = ₹ 1,80,000 + ₹ 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% =3% of ₹ 2,67,300) <b>[See Note 1 below]</b>	8,019

<b>Taxable allowances</b>	
Telephone allowance	6,000
<b>Taxable perquisites</b>	
Rent-free accommodation <b>[See Note 1 &amp; 2 below]</b>	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher <b>[See Note 5 below]</b>	10,000
<b>Gross Salary</b>	<b>3,93,464</b>
Less: Deduction under section 16(ia) – Standard deduction	50,000
<b>Salary income chargeable to tax</b>	<b>3,43,464</b>

**Notes:**

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

- (i) Basic salary i.e., ₹ 2,43,000
- (ii) Dearness allowance i.e. ₹ 24,300
- (iii) Bonus i.e., ₹ 21,000
- (iv) Telephone allowance i.e., ₹ 6,000

Therefore, salary works out to

$$₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.$$

$$15\% \text{ of salary} = ₹ 2,94,300 \times 15/100 = ₹ 44,145$$

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 15% of salary (i.e., ₹ 44,145).

Therefore, the perquisite value is ₹ 44,145.

3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

**Note** - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.

6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

**6. Computation of income under the head "Salaries"  
of Mr. Raja for the A.Y.2024-25 under default tax regime**

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service $[15/26 \times ₹ 25,000 \times 26] = ₹ 3,75,000$		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 25,00,000		

(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times ₹ 25,000 = ₹ 3,12,500$ [Leave Due = Leave allowed – Leave taken] = 750 (30 days per year × 25 years) – 375 days (15 days × 25) = 375 days]		
Uncommuted Pension received [₹ 5,000 × 1) + (₹ 5,000 × 2 × 40%)]		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
$1/3 \times ₹ 3,00,000/60\% \times 100\%$	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
<b>Gross Salary</b>		<b>4,86,333</b>

Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less] [Allowable under default tax regime]	50,000
<b>Net Salary</b>	<b>4,36,333</b>

7.

**Computation of income chargeable under the head “Salaries”  
of Ms. Akansha for A.Y.2024-25 under default tax regime**

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+ 900) ×12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
<b>Gross Salary</b>	<b>12,26,600</b>

Less: <b>Deductions under section 16</b>	
- Standard Deduction as per section 16(ia)	50,000
<b>Income chargeable under the head "Salaries"</b>	<b>11,76,600</b>

**Note:** As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.