

Section 15 - Charging section

- There has to be **employer-employee relationship (full time / part time does not matter)**
- When is it taxable? **Due / Receipt basis** (whichever is **earlier**)
- What if I receive the salary in advance - Taxable when received. Not taxable AGAIN at the time of accrual
- **Forgoing of salary** - Always **taxable** (application of income)
- **Surrender of salary** - to central Govt - **NOT** to be treated as salary.
- Employer bears burden of tax = Taxable salary would be - SALARY + TAXES borne by employer
- Salary due and Salary accrued = different
- Salary paid to MPs and MLAs = ~~Salary~~ IFOS

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.

Calculation of Income from Salary

Particulars	Amounts
1. Basic Salary	XXX
2. Dearness Allowance (D.A.)	XXX
3. Commission	XXX
4. Bonus	XXX
5. Advance Salary / Arrears salary	XXX
6. Gratuity	XXX
7. Pension	XXX
8. Leave salary	XXX
9. Allowances	XXX
10. Provident Fund	XXX
11. Voluntary Retirement Compensation	XXX
12. Super Annuation fund	XXX
13. Retrenchment Compensation	XXX
14. Perquisite	XXX
Gross Salary	XXXX
(LESS) Deductions under Section 16	
- Professional taxes	(XXX)
- Entertainment allowance	(XXX)
- Standard deduction	(XXX)
Net Salary	XXX

Salary components in detail

1. **Basic salary** = FULLY taxable (Wages / Salary / Basic salary are used interchangeably)
2. **Dearness Allowance** = aimed at beating the impact of inflation

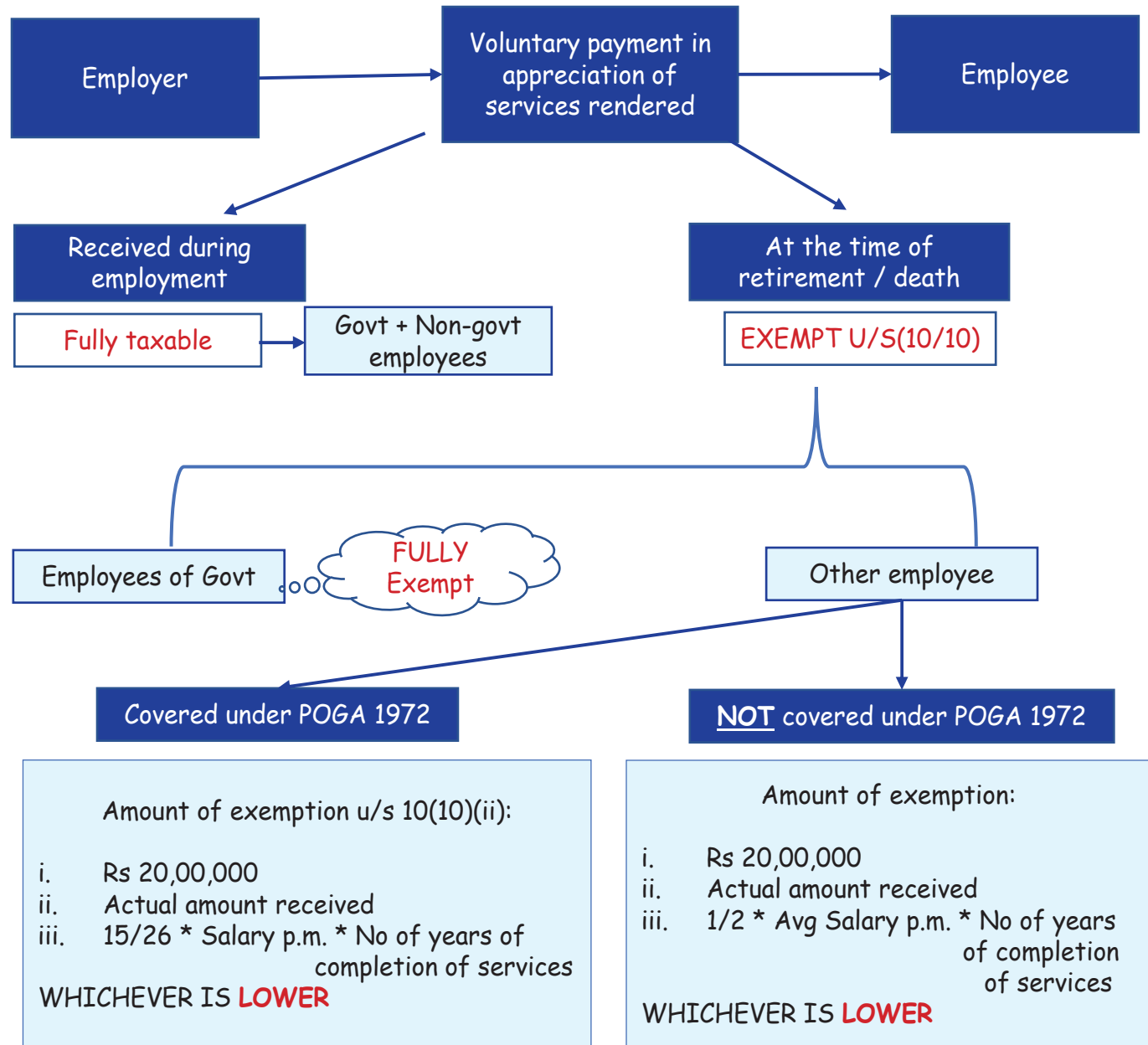
Treatment = Fully taxable whether it is 'in terms' or 'not in terms'

DA in terms = DA which is forming part of retirement benefit calculation.
3. **Commission (ANY)** - Fully taxable

In almost all formulae - ONLY turnover commission is considered
4. **Bonus** = Taxable on receipt basis (not on due basis)
5. **Advance salary** = Taxable on due or receipt basis, whichever is EARLIER

Arrears of salary = taxable in the year of receipt. Arrears may arise due to increase in salary retrospectively

6. Gratuity:



Salary per month (For POGA) :

Latest Basic salary p.m. XXX
 + Latest DA (BOTH) XXX
 XXX

Number of years of completion of service

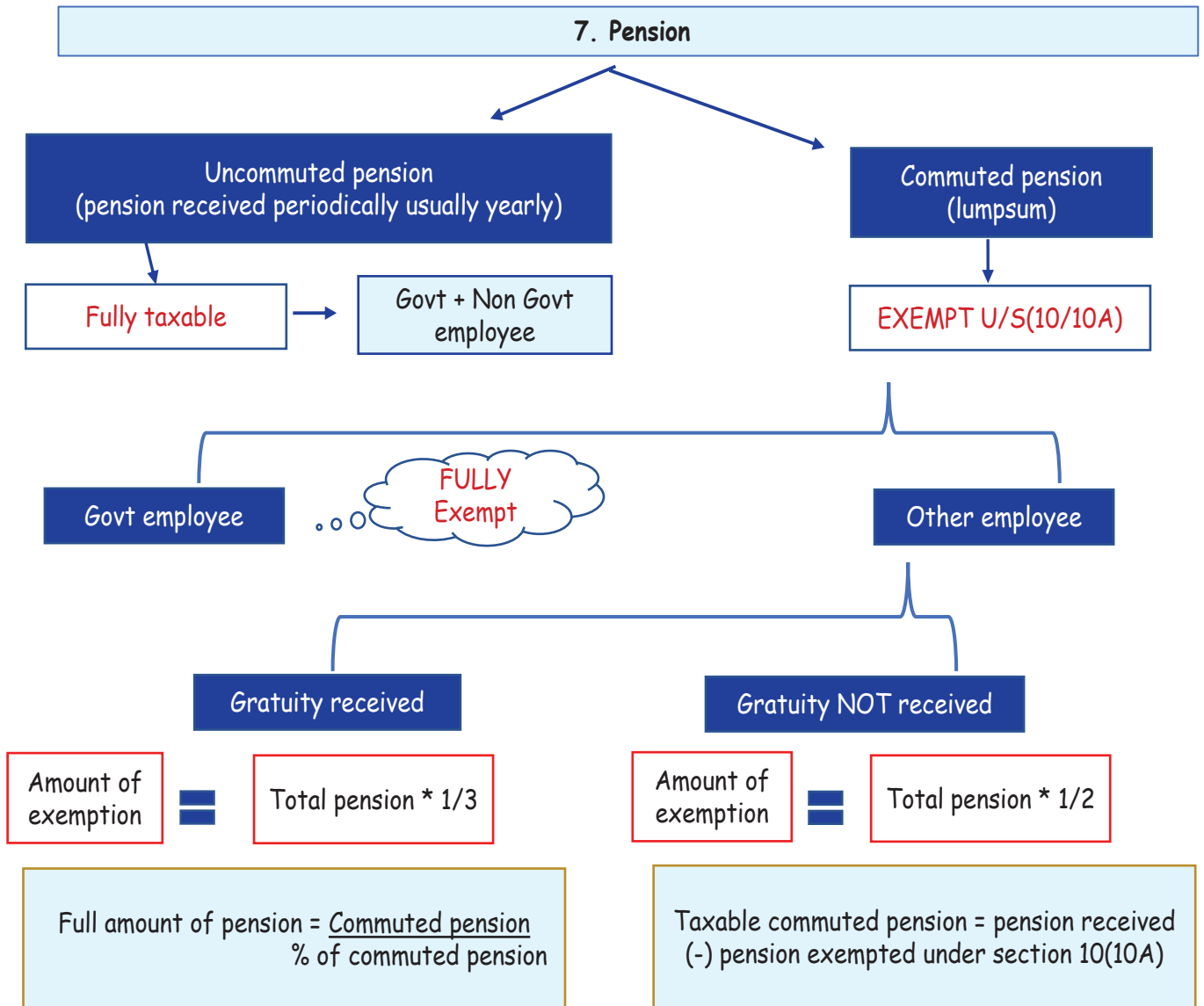
If fraction - Normal round off
 1 year 2 months = 1 year
 1 year 7 months = 2 years
 1 year 6 months = 1 year

Average salary per month (For NON POGA):

Avg basic salary of last 10 months XXX
 + Avg DA(T) of last 10 months XXX
 + Avg T/O commn of last 10 month XXX

Number of years of completion of service

IGNORE fractions
 1 year 2 months = 1 year
 1 years 7 months = 1 year
 1 year 6 months = 1 year



Special note - Generally students forget to consider the **uncommuted pension** after the computation.

Note - Annuity received from a past employer is taxable as **profit in lieu of salary**

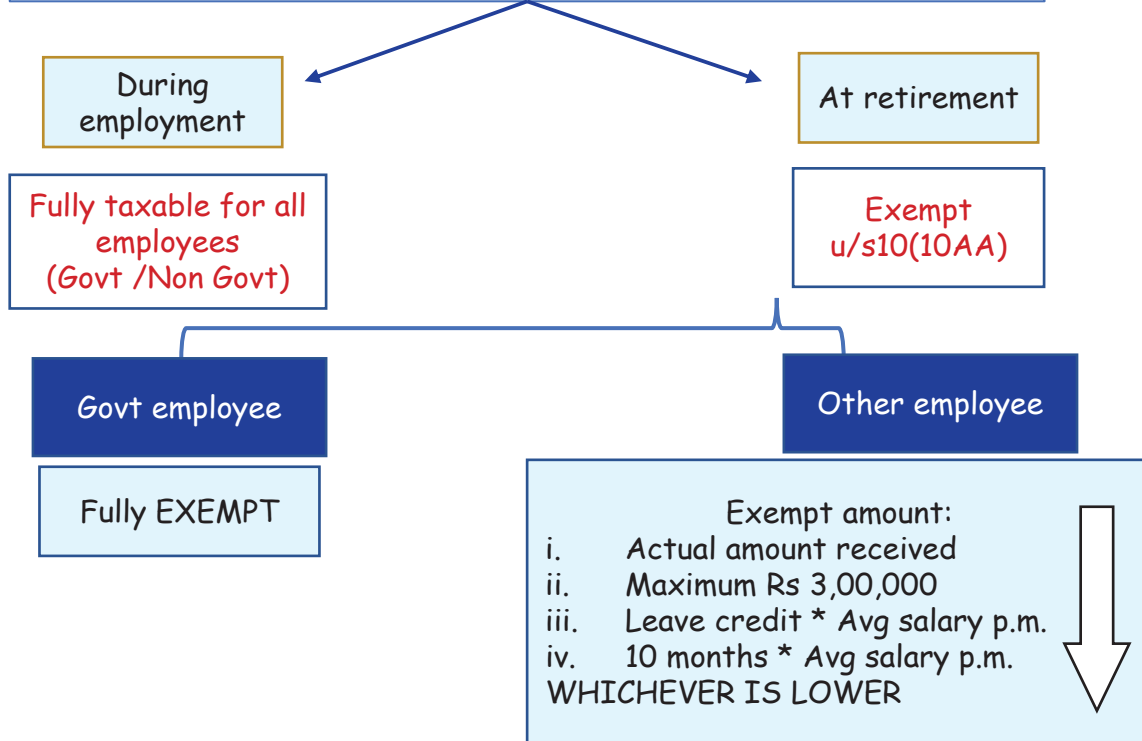
Examples on pension (very important)

Mr. Sagar who retired on 1.10.2021 is receiving 5,000 p.m. as pension. On 1.2.2022, he commuted 60% of his pension and received 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

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

8. Leave salary

Meaning - Encashment of unutilized leaves by the employees



Leave credit = Leave allowed (-) Leave taken
 Max 30 days for every completed year

Convert the leave credit in days to MONTHS = **Answer / 30 days**

Avg salary per month:





Avg basic salary of last 10 months	XXX	10 months up to the date of retirement
Avg DA (in terms) of last 10 months	XXX	
Avg turnover commission of last 10 month	XXX	
	XXX	

Mr. Gupta retired on 1.12.2021 after 20 years of service and received leave salary of 5,00,000. Other details of his salary income are:

Basic Salary	Rs 5,000 per month (1,000 was increased w.e.f. 1.4.2021)
Dearness Allowance:	Rs 3,000 p.m. (60% of which is for retirement benefits)
Commission:	Rs 7,500 p.m.
Bonus:	Rs 1,000 p.m.
Leave availed during service: 480 days. He was entitled to 30 days leave every year.	

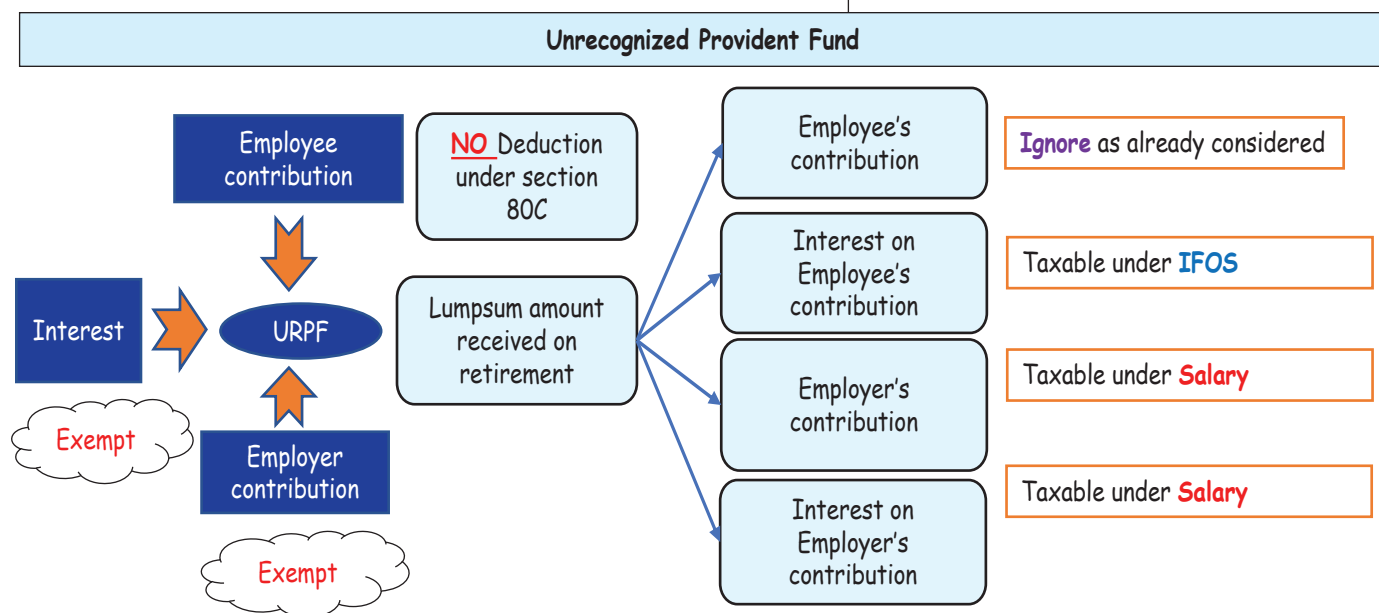
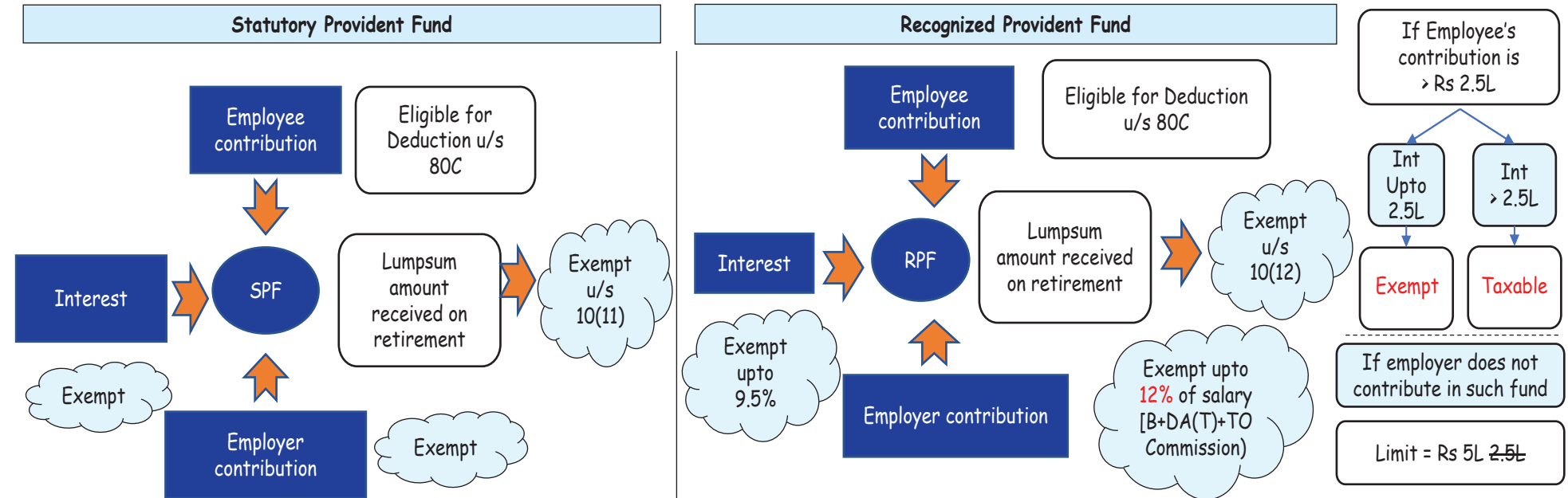
Compute his taxable leave salary assuming:

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

9. Allowances	
Allowance	Exemption
Children Education Allowance	Max Rs 100 p.m. per child (max 2 child)
Children Hostel Allowance	Max Rs 300 p.m. per child (max 2 child)
Commutation / Transport allowance	Max Rs 3200 p.m. (in case of blind/deaf/handicapped/dumb)
Underground Allowance (Mines)	Max Rs 800 p.m.
Tribal area Allowance	Max Rs 200 p.m.
Allowance to employees of Transport undertaking	70% of allowance OR  Rs 10,000 p.m.
House Rent Allowance - Exempt under 10(13A)	i. 40% / 50% of salary [Basic + DA(T) + Turnover Commission] ii.  Actual amount received iii.  Rent paid - 10% of salary [Basic + DA(T) + Turnover Commission]  50% = Metro cities [Mumbai, Delhi, Chennai, Kolkata], 40% = Other cities
Traveling or Tour allowance	Exempt on the basis of <u>amount spent actually</u>
Conveyance allowance	
Uniform allowance	
Daily allowance	
Helper allowance (for office Purpose)	
Research allowance / Academy allowance	
OTHER allowances	

Student's notes

10. Provident fund



CONDITION -
 Lumpsum amount from RPF is exempt ONLY IF = the employee has rendered service of **≥ 5 years** . ELSE, it would be taxable.
 If employee rendered the service < 5 years then exemption allowed in respect of employer's contribution and interest shall be withdrawn and made it taxable.

EXCEPTION - Exemption shall not be withdrawn even though the employee served < 5 years:

- Retired due to shut down of employer's business
- Employee retired due to ill health (connect this to Sec 193)
- Employee has retired with the instruction that his balance in RPF should be transferred to new employer OR NPS a/c u/s 80CCD

11. Voluntary Retirement Scheme - Govt employee

Exempt u/s 10(10C)

Exempt amount:

- Actual amount received
- Maximum Rs 5,00,000
- Salary pm * 3 months * No of years of completion of service (Ignore the fraction)
- Salary p.m. * No of remaining months of service

WHICHEVER IS LOWER

Salary = Basic + DA(T) + Turnover commission

12. Super Annuation Fund

I. Approved Super Annuation Fund

The diagram shows the flow of contributions into an ASAF (Approved Super Annuation Fund). It starts with 'Eligible for Deduction u/s 80C' leading to 'Employee contribution'. 'Interest' also flows into the ASAF. 'Employer contribution' also flows into the ASAF. A cloud indicates 'Exempt - Earlier provision' for the employer contribution. The ASAF then provides a 'Lumpsum amount received on retirement', which is 'Exempt u/s 10(13)'. A box notes that an 'AGGREGATE of EMPLOYER's Contribution to any of the following accounts in EXCESS of Rs. 7.5 Lacs is considered a Perquisite:- i) RECOGNISED Provident Fund; ii) NPS referred to u/s 80CCD(1); AND iii) APPROVED Superannuation Fund'.

II. Unapproved Super Annuation Fund

Same treatment as Unrecognized Provident Fund

13. Retrenchment compensation

Exempt u/s 10(10B)

Exempt amount:

- Compensation as per Industrial Dispute Act
- Maximum of Rs 5,00,000

Compensation as IDA = $15/26 \times \text{Avg salary of last 3 months} \times \text{No of years of completion of service (if fraction is > 6 months = round off)}$





Salary = Basic + DA(T) + Turnover commission

14. Perquisites - Section 17(2) r.w. Rule 3

The diagram shows 'Employer' providing 'Non-monetary benefits (Personal in nature)' to the 'Employee'. A definition box states: 'Perquisite means benefits or facility provided by employer to the employee'.

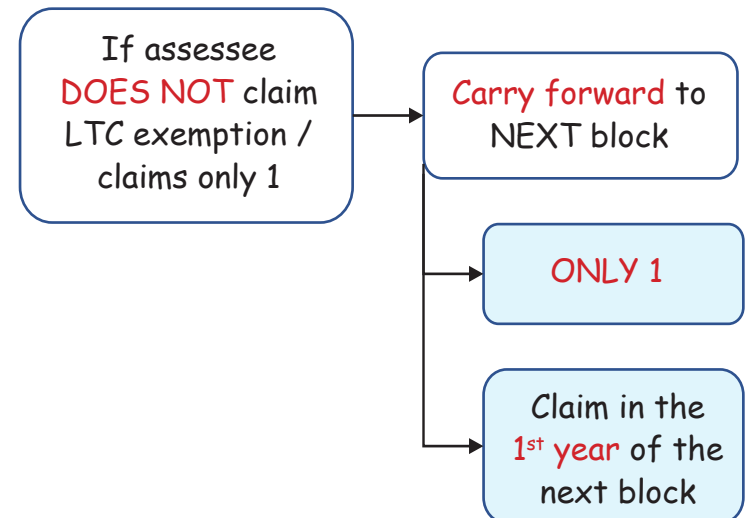
Provision under NEW sub-clause (viiia) to Section 17(2):-

IF any Employer's Contribution to a fund becomes a perquisite in the hands of Employee u/s 17(2)(vii) (contribution exceeded 7.5 Lacs), Annual Accretion on SUCH Amount by way of "Interest, Dividend or any other amount of similar nature" during the PY shall be considered as a Perquisite in the hands of employee u/s 17(2)(viiia)

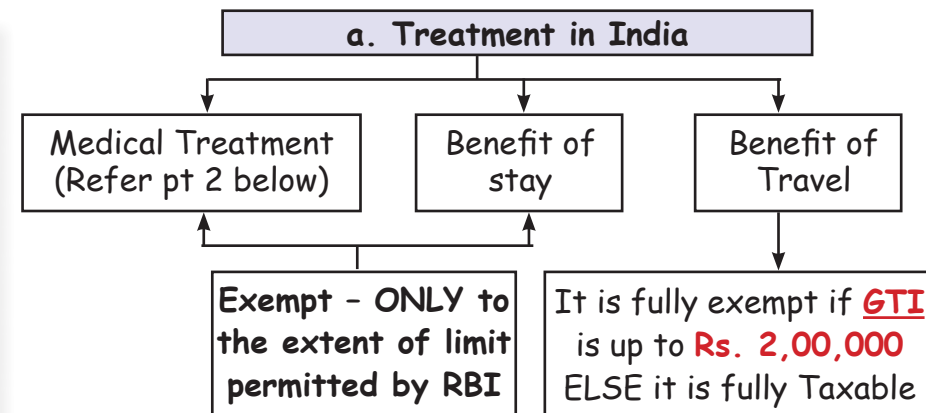
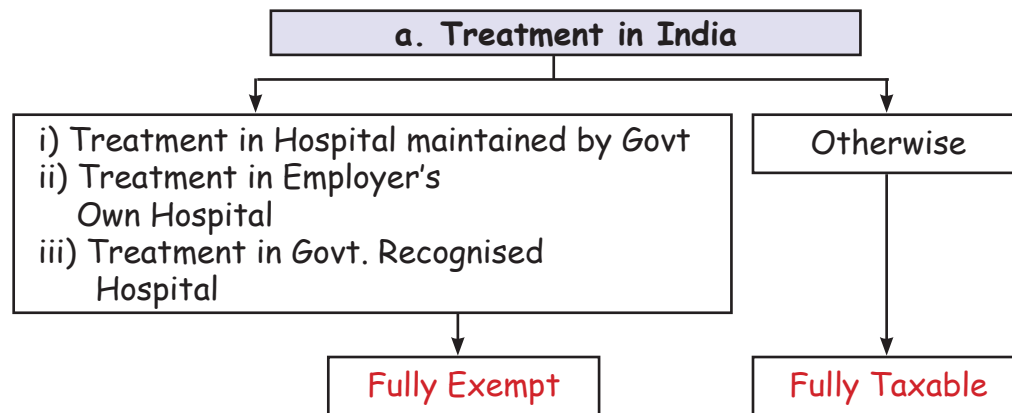
i. Leave Travel Concession (LTC)			
MODE	EXEMPT		
AIR 	1. Actual Exp	XX	↓
	2. Economy class fare	XX	
Any other mode 			
1. Rail service is available 	1. Actual Exp	XX	↓
	2. Economy class fare	XX	
2. Rail service is NOT available 			
i. Recognized public transport is available	1. Actual Exp	XX	↓
	2. Deluxe class bus fare	XX	
ii. No recognized public transport is available	1. Actual Exp	XX	↓
	2. 1st class Railway fare of similar distance	XX	

Notes:

- LTC exemption is available for the travel of employee, his spouse, children* & dependent relative- (Mother, Father, Brother, Sister)
 *Exemption of LTC is available only for 2 children born on or after 1/10/1998.
 - i) 1st time= 1 child 2nd time= Twins
 Total 3 children = Exemption Allowed to all 3 children.
 - ii) 1st time= Twins 2nd time= 1 child
 Total 3 children= Exemption Allowed to only 2 children
- LTC exemption is available for 2 years during the block of 4 years (current block is 2022-25)
-



ii. Medical Facility



Notes:

1. Medical insurance premium is **FULLY EXEMPT**
2. Exemption for treatment is allowed for Employee, Spouse, Children & Dependent Relative (Mother, Father, Brother, Sister)
3. Exemption of stay & Travel is allowed only for one patient & one attendant

iii. Loan given by employer to employee at concessional rates of interest or without rate of interest

Taxable amount = Loan amount * (SBI Interest rate - Actual interest rate)

Notes

- i. If Loan amount is upto Rs 20,000 THEN interest benefit not taxable
- ii. If loan taken for treatment of specified disease - then interest benefit is not taxable even if the loan amount is more than Rs 20,000
- iii. Consider the outstanding loan amount on the last day of each month

iv. Gift

- In cash = Taxable
- In kind = FMV will be Taxable - If < Rs 5,000 p.a. - Exempt

v. ESOP - Co offers shares to employee at concessional rates

Taxable amount = FMV of shares (-) Issue price
 FMV should be taken on the date on which option is exercised by employee

Example for better understanding

Question - Housing loan @ 6% per annum. Amount outstanding on 1.4.2021 is 6,00,000. Mr Kala pays 12,000 per month towards principal, on 5th of each month. Lending rate of SBI as on 1/04/2021 for housing loan may be taken as 10%.

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

Month	Maximum outstanding balance as on the last day of the month	Perquisite value @ 4% for the month
April 2021	5,88,000	1960
May 2021	5,76,000	1920
June 2021	5,64,000	1880
July 2021	5,52,000	1840
August 2021	5,40,000	1800
September 2021	5,28,000	1,760
October 2021	5,16,000	1720
November 2021	5,04,000	1680
December 2021	4,92,000	1640
January 2022	4,80,000	1600
February 2022	4,68,000	1560
March 2022	4,56,000	1520
Total value of this perquisite		20,880

vi. Use of movable asset

a. Computer / laptop = Fully exempt
 b. Other assets (TV etc) =

If owned by employer	Hired by employer
Taxable amount = 10% of cost	Taxable amount = Hire charges paid by employer

vii. Transfer of movable asset

Computer / laptop	Car	Any other asset
Taxable amount = WDV (-) Consideration	Taxable amount = WDV (-) Consideration	Taxable amount = WDV (-) Consideration
Dep 50%	Dep 20%	Dep 10%
WDV		SLM

Depreciation should be calculated for every completed year and not FY wise

viii. Lunch facility

Exempt upto Rs 50 per meal, if lunch is provided in office premises or through paid voucher

Note-

- Tea, coffee, breakfast provided in office - NOT taxable
- Lunch provided in remote area - NOT taxable

ix. Rent Free Accommodation (House facility)

1	2
Govt employee	Other employee
Taxable as per licence fees decided by govt	Owned by employer Hired by employer
	Taxable amount = 1. 15% of salary 2. Hire charges paid
Taxable amount = 7.5% / 10% / 15% of Salary	
Applicable to 2 and 3	
In case furniture is also provided	10% p.a of cost
	Hire charges paid by employer

Notes

- Population upto 10 lakhs = 7.5%
 Population upto 25 Lakhs = 10%
 More than 25 Lakhs = 15%
- Meaning of salary [A B2 C D M]
A - Taxable Allowances
B - Basic salary B - Bonus
C - Commission
D - DA (in terms)
M - Other monetary income excluding perquisites
Perquisites should not be considered
- ABCDM should be calculated on due basis. Advance salary, arrears of salary should be ignored
- For computing ABCDM, retirement benefits should not be considered i.e. gratuity, Pension, leave salary, VRS, Retrenchment compensation etc.
- ABCDM should be considered at the time for which assessee had occupied such house.
- Employer contribution towards PF & interest on PF should also be not considered.

IMP - Exemption of 90 days for allotment of 2 houses - Where employee is transferred from one place to another and he has been provided accommodation at new place too - value of perq - taken for ONLY 1 such house for a period not exceeding 90 days. Thereafter, value of both the houses would be taxable

x. Hotel benefit / Accommodation benefit

Taxable amount =

- i. 24% of salary (ABCDM)
- ii. Hire / rent charges paid by employer



1. If hotel facility is provided at the time of transfer of employee & if it is upto 15 days, then it is not taxable.
2. In house facility & hotel facility if employer recover any rent from employee then such rent should be deducted from above taxable amount.

xi. Car facility

I. Car used for office purpose only - Fully exempt
Employer to maintain all the records of each journey and employer issues a certificate that the car is used exclusively for office purpose

II. Car is used for fully personal

Car is owned by Employer = 10% of cost

OR

Hired by employer = Hire charges paid by employer

+

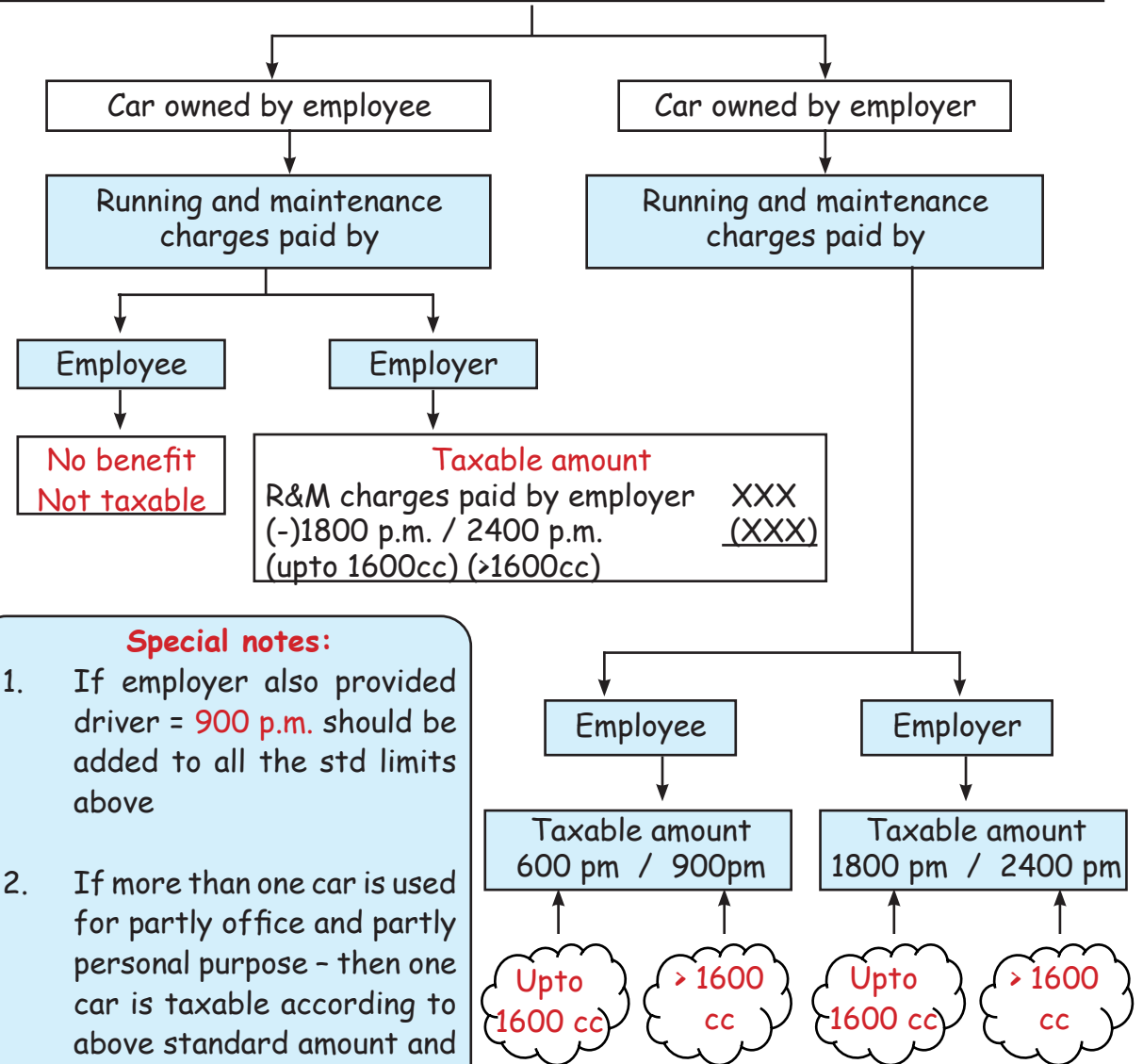
Driver's salary (if paid by employer) = XXX

+

Running and maintaining charges = XXX
(If paid by employer)

XXX

III. Car is used for partly for office and partly for personal purpose



Special notes:

1. If employer also provided driver = 900 p.m. should be added to all the std limits above
2. If more than one car is used for partly office and partly personal purpose - then one car is taxable according to above standard amount and other car shall be taxable on the assumption that it is fully used for personal purpose

xii. Transport facility for transport employee (free tickets)

- For airlines & railway employee - Airlines & Railway facility is fully **EXEMPT**
- For other employees - It is fully **TAXABLE**

xiii. Education facility

- For employee - Fully **EXEMPT**
- For children - It is **exempt** if value of education is upto **1000 p.m. per child** & education is provided in **employer's own institution** or institution where employer have **tie-ups**, otherwise fully taxable.
- For other relatives - Fully **TAXABLE**.

xiv. Gas, Electricity & water supply = FULLY taxable

xv. Free servant = FULLY taxable

xvi. Any other perquisite = FULLY taxable

Following perquisites are fully exempt:

- Telephone / mobile bill paid or reimbursed by Employer.
- Scholarship to employees children.
- Goods sold by employer to employee at reasonable price.
- Tax on Non - monetary perquisites paid by employer.


15. Professional Tax

It means tax on employment.
 If it is paid by employer on behalf of employee, then first it should be taxable and there after deduction allowed u/s 16.
 If it is paid by employee then only deduction is allowed.

16. Entertainment allowance

It is fully taxable for all employees. But deduction is allowed to government employees u/s 16 as follows:

- 20% of basic salary
- Actual amount received
- Maximum Rs 5,000



17. Standard deduction of Rs 50,000 or the amount of salary, whichever is LOWER

CONCEPT - Pay scale

Example - Mr Amit joined railways as on 1/6/2011 on a pay scale of 10,000 - 1,000 - 12,000 - 2000 - 18,000 - 3000. Compute salary for AY 2015-16

1/6/2011 to 31/5/2012	10,000
1/6/2012 to 31/5/2013	11,000
1/6/2013 to 31/5/2014	12,000
1/6/2014 to 31/5/2015	14,000

Salary for FY 2014-15 = (12000*2) + (14000*10) = Rs 1,64,000

Valuation of a "Specified Securities & Sweat Equity Shares" taxable u/s 17(2)(vi)]

GENERAL RULE - Tax on perquisite of Specified Securities and Sweat Equity Shares is required to be paid IN THE YEAR of Exercise of Option.

However, where such shares/securities are allotted BY the "Current employer, being an eligible startup referred to u/s 80-IAC", the perquisite will be taxable by the EARLIEST of the following Years:-

- i. Year AFTER the Expiry of **48 months** from the END of the Relevant AY;
- ii. Year of the **SALE** of such "specified security or sweat equity share" by the assessee; OR
- iii. Year in which the assessee **CEASES** to be the employee of the "employer who allotted or transferred him such specified security or sweat equity share"

Consequential Provision:-

As per Section 191(2) - IF the income of employee includes perquisite taxable u/s 17(2)(vi) AND such shares/securities are allotted BY the "Current employer, being an eligible startup referred to u/s 80-IAC",

THEN, Income tax on such income has to be PAID by him **WITHIN 14 Days** from EARLIEST of the following dates:-

- i. Expiry of 48 months from the END of the Relevant AY;
- ii. Date of the **SALE** of such "specified security or sweat equity share" by the assessee; OR
- iii. Date of the assessee **CEASING** to be the employee of the "employer who allotted or transferred him such specified security or sweat equity share"

Section 17(2)(vii)	Employer's contribution towards RPF, NPS referred u/s 80CCD, Approved Super annulation Fund (ASF) > Rs 7,50,000 is treated as perquisite in hands of Employee.
Section 17(2)(viia)	Annual Accretion by way of Interest/dividend/similar interest on contribution of > Rs 7,50,000 by employer also treated as perquisite in hands of employee.

Calculation of Annual Accretion of Interest, dividend etc in PY

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

TP	Taxable perquisite under section 17(2)(viia) for the current previous year
PC	Employer's contribution > 7.5 lakh to RPF, NPS u/s 80CCD and ASF during the PY
PC1	Employer's contribution > 7.5 lakh to RPF, NPS u/s 80CCD and ASF for the previous year or years commencing on or after 1 April, 2020 other than the current previous year
TP1	Aggregate of taxable perquisite under section 17(2)(viia) for the previous year or years commencing on or after 1 April, 2020 other than the current previous year
R	I / Favg
I	Amounts of income accrued during the current previous year in RPF, NPS u/s 80CCD and ASF
Favg	(Balance to the credit of RPF, NPS u/s 80CCD and ASF on 1/04/2021+ Balance to the credit of RPF, NPS u/s 80CCD and ASF 31/03/2022)

IMPORTANT

Mr. Sunil is the CEO of Sheetal Textiles Ltd.

- 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 RPF and the company contributes the same amount.
- The accumulated balance in RPF as on 1.4.2020, 31.3.2021 and 31.3.2022 is 50,35,000, 71,46,700 and 94,57,700, respectively.

Compute the perquisite value chargeable to tax in the hands of Mr. Sunil u/s 17(2)(vii) and 17(2)(viiia) for the A.Y. 2021-22 and A.Y. 2022-23.

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viiia) for A.Y. 21-22

1. $PC =$ Perquisite value taxable u/s 17(2)(vii) = 7,77,600, being employer's contribution to RPF during the P.Y. 2020-21 (-) 7,50,000 = 27,600
2. $PC1 =$ NIL
3. $TP1 =$ NIL
4. $R = I/F_{avg} = 5,56,500 / 60,90,850 = 0.0914$
 $I = 5,56,500$ [71,46,700 (-) 7,77,600 (-) 7,77,600 (-) 50,35,000]
 $F_{avg} = \frac{50,35,000 + 71,46,700}{2} = 60,90,850$

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

$$(27,600/2) \times 0.0914 + 0$$

Rs 1,261

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viiia) for A.Y. 22-23

1. $PC =$ Perquisite value taxable u/s 17(2)(vii) = 7,77,600, being employer's contribution to RPF during the P.Y. 2021-22 (-) 7,50,000 = 27,600
2. $PC1 =$ Rs 27,600
3. $TP1 =$ Rs 1,261
4. $R = I/F_{avg} = 7,55,800 / 83,02,200 = 0.0910$
 $I = 7,55,800$ [94,57,700 (-) 7,77,600 (-) 7,77,600 (-) 71,46,700]
 $F_{avg} = \frac{71,46,700 + 94,57,700}{2} = 83,02,200$

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

$$[(27,600/2) \times 0.0910] + [27,600 + 1,261]*0.0910$$

Rs 3,882