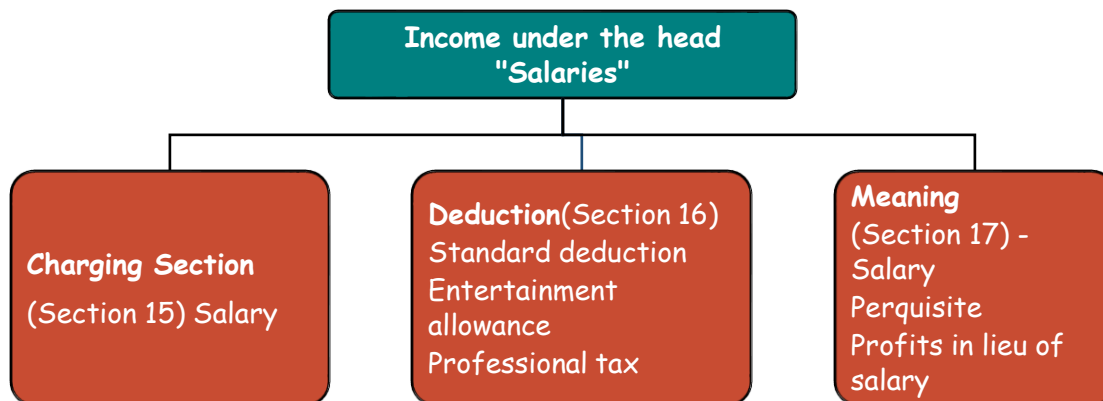


3. Salaries

1. Introduction



1. Employer-Employee Relationship:

- ✓ Payments made by an employer to an employee for services rendered are chargeable to tax as salaries.
- ✓ The relationship of employer and employee must exist for income to be chargeable under the head 'salaries'

2. Full-time or Part-time Employment: Income is charged under the head "salaries" whether the employee is a full-time or part-time.

3. Forgoing of Salary:

- ✓ After accrual, Waiving salary does not relieve the employee from tax liability.

Example:

Mr. A, an employee instructs his employer that he is not interested in receiving the salary for April 2024 and the same might be donated to a charitable institution.

4. Surrender of Salary:

- ✓ Salary surrendered to the Central Government under the Voluntary Surrender of Salaries Act (Exemption from taxation), 1961 is exempt from tax.

5. Salary Paid Tax-Free:

- ✓ If the employer pays the tax on the employee's salary, the employee's income includes both salary and the tax paid by the employer. In other words, the tax paid by employer is also treated as benefit and taxed as income.
- ✓ However, Income-tax paid by the employer on non-monetary perquisites is exempt under Section 10(10CC).

6. Place of accrual of salary and Section 9(1):

- ✓ Pension and Leave salary paid abroad for services rendered in India is deemed to accrue in India.
- ✓ Salaries payable by the Government to a citizen of India for services outside India are deemed to accrue in India.

**Exemptions for Non- Indian Citizens (Section 10(6))****1. Remuneration of Officials of Foreign Embassies (Section 10(6)(ii))**

The remuneration received by an official of an embassy, high commission, legation, commission, consulate, or trade representation of a foreign state, is exempt.

Conditions:

- ✓ Remuneration of our Corresponding officials in foreign countries must have similar exemption.
- ✓ The above officials must be subjects of the respective countries and not engaged in other business or employment in India.

2. Remuneration from Foreign Enterprises for services in India (Section 10(6)(vi))

Remuneration of a foreign national as an employee of a foreign enterprise for services rendered by him during their stay in India, is exempt.

Conditions:

- ✓ The foreign enterprise must not engage in business in India.
- ✓ The employee's stay in India must not exceed 90 days during the previous year.
- ✓ The remuneration must not be deductible from the employer's income under the Act.

3. Salary for Employment on Foreign Ships (Section 10(6)(viii))

Salary Income of a non-citizen non-residents for services rendered on a foreign ship is Exempt provided their stay in India does not exceed 90 days during the previous year.

4. Remuneration for Training (Section 10(6)(xi))

Remuneration received by foreign government employees during their training in India is exempt from tax if the training is undertaken at an establishment, office, or undertaking owned by:

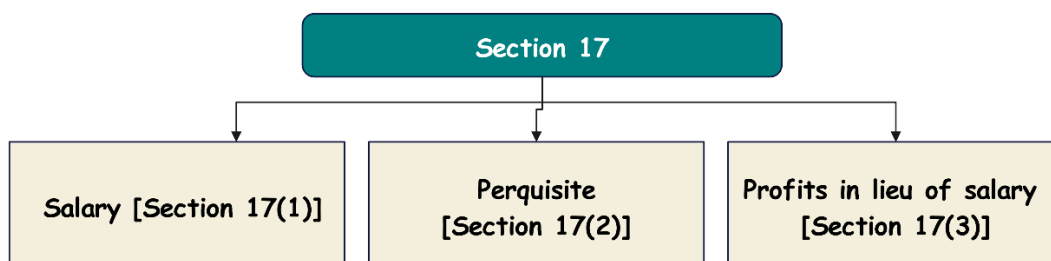
- ✓ The Central or State Government
- ✓ Government Company or statutory corporation
- ✓ Any society which is wholly financed by the Central Government or any State Government(s) or jointly by the Central and one or more State Governments.

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

2. Basis of Charge [Section 15]

- ✓ **Basic Charge:** Salary is chargeable to tax due basis or receipt basis, whichever is earlier.
- ✓ **Advance Salary:** Advance salary, it is taxed in the year of payment and cannot be taxed again when it becomes due. [taxed irrespective of due] [Relief u/s 89 is also available]
- ✓ **Arrears of Salary:**
 - If arrears of salary has been taxed on due basis, it cannot be taxed again when it is paid later.
 - Salary arrears must be charged on due basis. However, sometimes it may not be possible to tax it on due basis.
 - **Example:** If the Central Government announces an increase in HRA in the P.Y. 2024-25 which is effective from 1.1.2023, then the arrears from 1.1.2023 to 31.3.2024 will be taxed in the previous year in which they are paid. Here also, relief under section 89 is available. [As per Pay commission guidelines]
- ✓ **Advance Against Salary:** This refers to an advance taken by the employee from the employer, which is typically adjusted against future salary payments. This type of advance is not taxable on receipt basis.
- ✓ **Loan from Employer:** A loan taken by an employee from the employer, repayable in specified instalments, is also not taxable on receipt basis.

3. Salary, Perquisite and Profits in Lieu of Salary [Section 17]



Definition of Salary (Section 17(1))

The term "salary" includes:

1. Wages
2. Annuity or Pension
3. Gratuity
4. Fees, Commission, Perquisites, or Profits in lieu of salary or in addition to salary or wages
5. Advance of Salary
6. Leave Salary (leave encashment).
7. Provident Fund:
 - a. The portion of Annual accretion to the balance in a recognized provident fund to the extent is taxable.
 - b. Transferred balance in a recognized provident fund to the extent it is taxable.



8. **Pension Scheme Contributions:** Contributions made by the Central Government or any employer to an employee's pension scheme under Section 80CCD.
9. **Agniveer Corpus Fund Contributions:** Contributions made by the Central Government to the Agniveer Corpus Fund for individuals enrolled in the Agnipath Scheme under Section 80CCH.

Allowances [These are part of wages and Salaries]

- ✓ Allowances are monetary payments made by employers to employees for specific expenditures, either personal or related to job performance.
- ✓ Most allowances are taxable unless specific exemptions apply.

| Fully Taxable under both regimes | Differential treatment | Fully Exempt under the optional tax regime | Fully Exempt under both tax regimes |
|--|---|--|---|
| <ol style="list-style-type: none"> 1. Entertainment Allowance [Govt Employee deduction available under OTR] 2. Dearness Allowance 3. Overtime Allowance 4. Fixed Medical Allowance 5. City Compensatory Allowance (to meet increased cost of living in cities) 6. Interim Allowance 7. Servant Allowance 8. Project Allowance 9. Tiffin/Lunch/Dinner Allowance 10. Any other cash allowances 11. Warden Allowance 12. Non-practicing Allowance 13. Transport allowance to employee other than blind/ deaf and dumb/ orthopedically handicapped employee | <ol style="list-style-type: none"> 1. House Rent Allowance [u/s 10(13A)] - Fully Taxable under DTR only 2. Special Allowances [u/s 10(14)] - Discussed later. <p>Exceptions:</p> <ol style="list-style-type: none"> a) Travelling allowance b) Daily allowance c) Conveyance allowance d) Transport allowance to blind/ deaf and dumb/ orthopedically handicapped employee [up to Rs. 3200/- p.m. is exempt] <p>Note: The exceptions in (a) to (d) above are partly exempt under both the tax regimes.</p> | <ol style="list-style-type: none"> i. Allowances to High Court Judges ii. Salary, Allowances and pension paid by the United Nations Organization iii. Sumptuary allowance granted to High Court or Supreme Court Judges | <p>Allowance granted to Indian citizens by Government for services rendered outside India [Section 10(7)]</p> |

4. Taxability Of House Rent Allowance [Section 10(13A)]

| Metro Cities (i.e., D,K,M,C) | Exemption in other Cities |
|--|---|
| Least of the following: | Least of the following: |
| 1. HRA actually received for the relevant period | 1. HRA actually received for the relevant period |
| 2. Rent paid minus 10% of salary [®] for the relevant period | 2. Rent paid minus 10% of salary [®] for the relevant period |
| 3. 50% of salary [®] for the relevant period | 3. 40% of salary [®] for the relevant period |
| [®] Salary = Basic Salary + D.A. (For Retirement benefits) + Commission (% of turnover) | |

Conditions for Section 10(13A) Exemption:

1. Exemption available only under Optional tax Regime.

2. **Exemption not available** if the taxpayer:
 - ✓ Lives in their own house
 - ✓ Has not paid rent [Not incurred rent expenditure].
3. **Exemption is available only** for the relevant period for which **rented accommodation is occupied**.

5. Special Allowances to meet expenses on duties or personal expenses [Section 10(14)]

Allowances for Performance of Duties [Section 10(14)(i)]

- ✓ Allowances granted exclusively **for official purposes**.
- ✓ Allowances as per Rule 2BB - Helper Allowance, Research Allowance, Uniform Allowance.
- ✓ Other examples, Travelling allowance, Daily allowance, Conveyance allowances.
- ✓ The **exemption is available to the extent of spent** for the official purpose.
- ✓ The Exemption is **available under Both Regimes**.

Allowances for Personal purpose [Section 10(14)(ii)]

- Allowances granted **to meet personal expenses**.
- **Exemptions are given for certain personal allowances only under Optional Tax Regime**.

| S. No. | Name of Allowance | Extent to which allowance is exempt |
|--------|---|--|
| 1. | <ul style="list-style-type: none"> ✓ Special Compensatory (Hilly Areas) Allowance 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. | <ul style="list-style-type: none"> ✓ Border area allowance or ✓ remote locality allowance or ✓ difficult area allowance or ✓ disturbed area allowance | ₹ 1,300 or ₹ 1,100 or ₹ 1,050 or ₹ 750 or ₹ 300 or ₹ 200 per month depending upon the specified locations |
| 3. | Tribal Areas/Schedule Areas/Agency Areas Allowance [Specified States] | ₹ 200 per month |
| 4. | Transport Sector Employee: Any allowance granted to an employee working in any transport system 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 | Lower of 70% of such allowance or maximum of ₹ 10,000 per month |
| 5. | Children Education Allowance | ₹ 100 per month per child upto a maximum of 2 children |



| | | |
|-----|---|---|
| 6. | Any allowance granted to an employee to meet the hostel expenditure on his child | ₹ 300 per month per child upto a maximum of 2 children |
| 7. | Compensatory Field Area Allowance [Specified areas in Specified States] | ₹ 2,600 per month |
| 8. | Compensatory Modified Field Area Allowance [Specified areas in Specified States] | ₹ 1,000 per month |
| 9. | Any special allowance in the nature of counter insurgency allowance granted to the members of the armed forces operating in areas away from their permanent locations | ₹ 3,900 per month |
| 10. | Underground Allowance 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 high Altitude allowance granted to the member of the armed forces operating in high altitude areas | For altitude of 9,000 to 15,000 feet: ₹ 1,060 per month For above 15,000 feet: ₹ 1,600 per month |
| 12. | Special compensatory highly active field area allowance granted to the member of the armed forces | ₹ 4,200 per month |
| 13. | Island (duty) allowance granted to the member of the armed forces in Andaman & Nicobar and Lakshadweep Group of Islands | ₹ 3,250 per month |

Any assessee claiming exemption at 7 & 8 and 9 shall **not be entitled** to exemption at 2.

Both Regimes - Transport Allowance for Disabled Employees

Granted to **an employee who is blind, deaf and dumb, or orthopedically handicapped** (with disability in the lower extremities) to cover commuting **expenses between residence and place of duty**.

Exempt up to ₹ 3,200 per month - irrespective of tax regime

Allowances which are fully exempt only under the optional tax regime

1. Allowance for High Court and Supreme Court Judges:

Allowances paid to **Judges of High Courts and the Supreme Court** under the specific provisions of the *High Court Judges (Conditions of Service) Act, 1954* and *Supreme Court Judges (Salaries and Conditions of Services) Act, 1958* are exempt from tax.

2. Allowances from the United Nations Organisation (UNO):

- ✓ **Salary and allowances received by employees of the UNO** are exempt from tax under the *United Nations (Privileges and Immunities) Act, 1947*.
- ✓ **Pensions received from the UNO** under the same Act are also **fully exempt**.

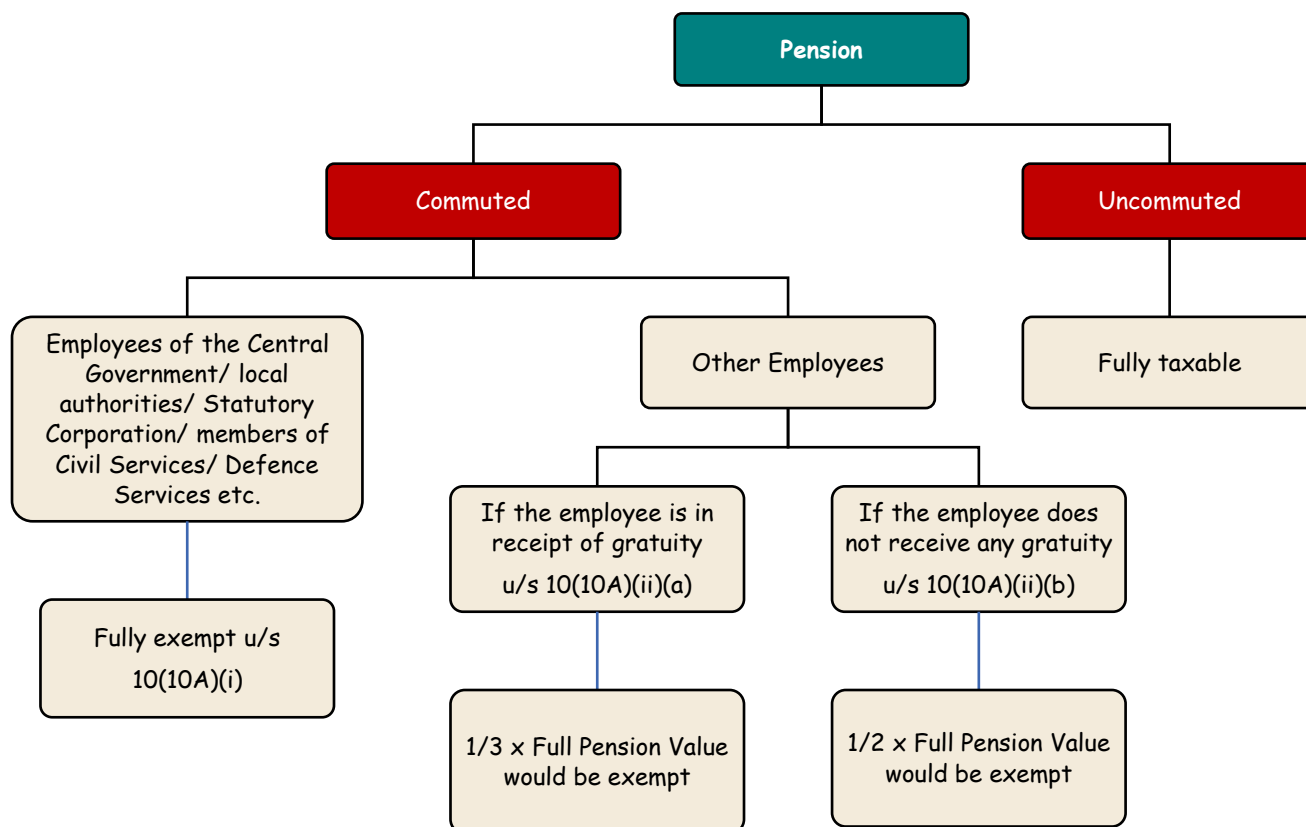
3. Sumptuary Allowance:

- ✓ High Court Judges and Supreme Court Judges receive a **sumptuary allowance, which is fully exempt** from tax under the relevant service Acts:
 - *High Court Judges (Conditions of Service) Act, 1954*
 - *Supreme Court Judges (Conditions of Service) Act, 1958*

Allowances payable outside India [Section 10(7)]: Allowances or perquisites paid outside India by the Government to a citizen of India for services rendered outside India are exempt from tax. This exemption is available irrespective of tax regime

6. Pension**Types of pensions:**

- i. Uncommuted Pension:**
 - ✓ Refers to **periodic** pension payments.
 - ✓ **Fully taxable** in the hands of both **government and non-government** employees.
- ii. Commuted Pension:**
 - ✓ Refers to a **lump sum amount received by commuting** the whole or part of the pension.

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

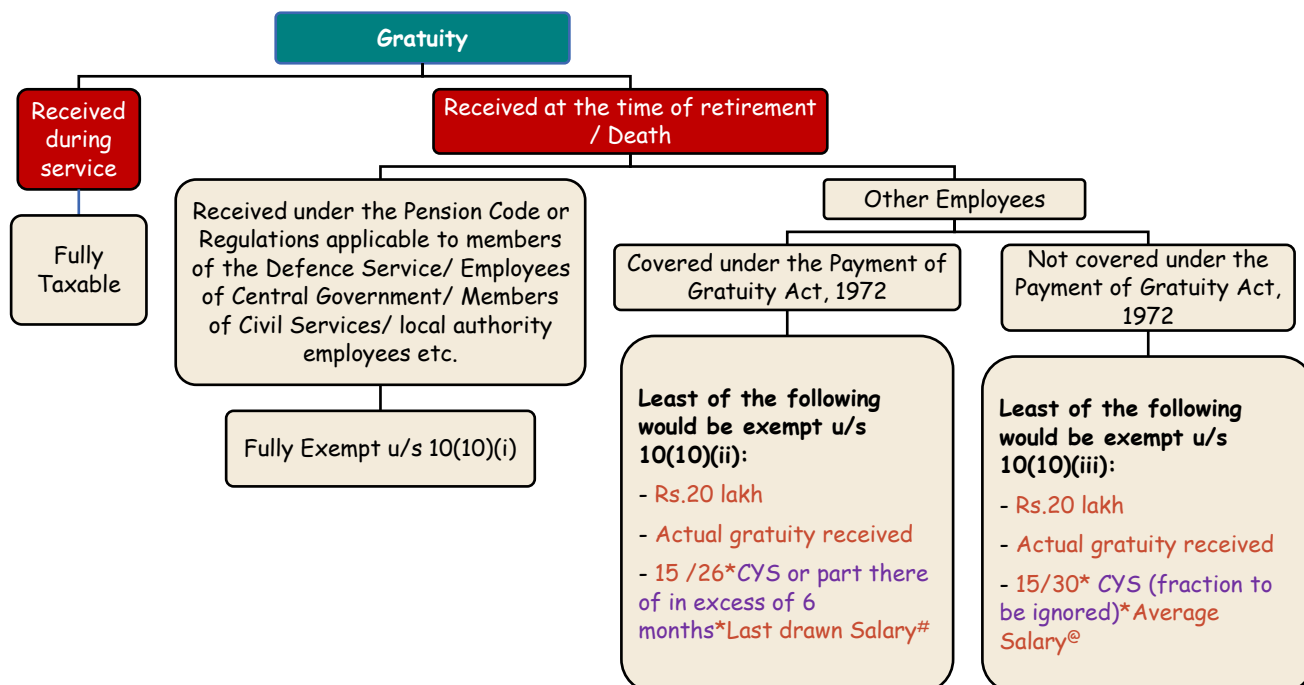
$$\text{Full Pension Value} = (\text{Commuted pension received} \div \text{Commutation percentage}) \times 100$$



Other Exemptions related to Pensions:

- ✓ Judges of the Supreme Court and High Court will be entitled to the exemption of the commuted portion u/s 10(10A)(i).
- ✓ Pension received by recipient of gallantry awards or family pension received by family members thereof is exempt u/s 10(18) subject to:
 - The receipt of award shall be an employee of the Central or State Government
 - A recipient of one of the following gallantry awards:
 - Param Vir Chakra, Maha Vir Chakra, Vir Chakra
 - Any other gallantry award notified by the Central Government
- ✓ Disability pension granted to disabled personnel of armed forces who have been invalided on account of disability attributable to or aggravated by such service is exempt. However, Personnel who retired normally (e.g., reached retirement age) or left for reasons other than a disability, are not exempt. [uncommuted pension]
Note: Disability pension includes for service element and disability element.
- ✓ Family Includes:
 - a) Spouse and children.
 - b) Parents, brothers, and sisters who are wholly or mainly dependent on the individual.
- ✓ All the above exemptions related to pensions are exempt irrespective of the regime under which he pays tax. [10(10A) - Commuted Pension, u/s 10(18)]

7. Gratuity [Section 10(10)]



CYS - Completed Years of Service

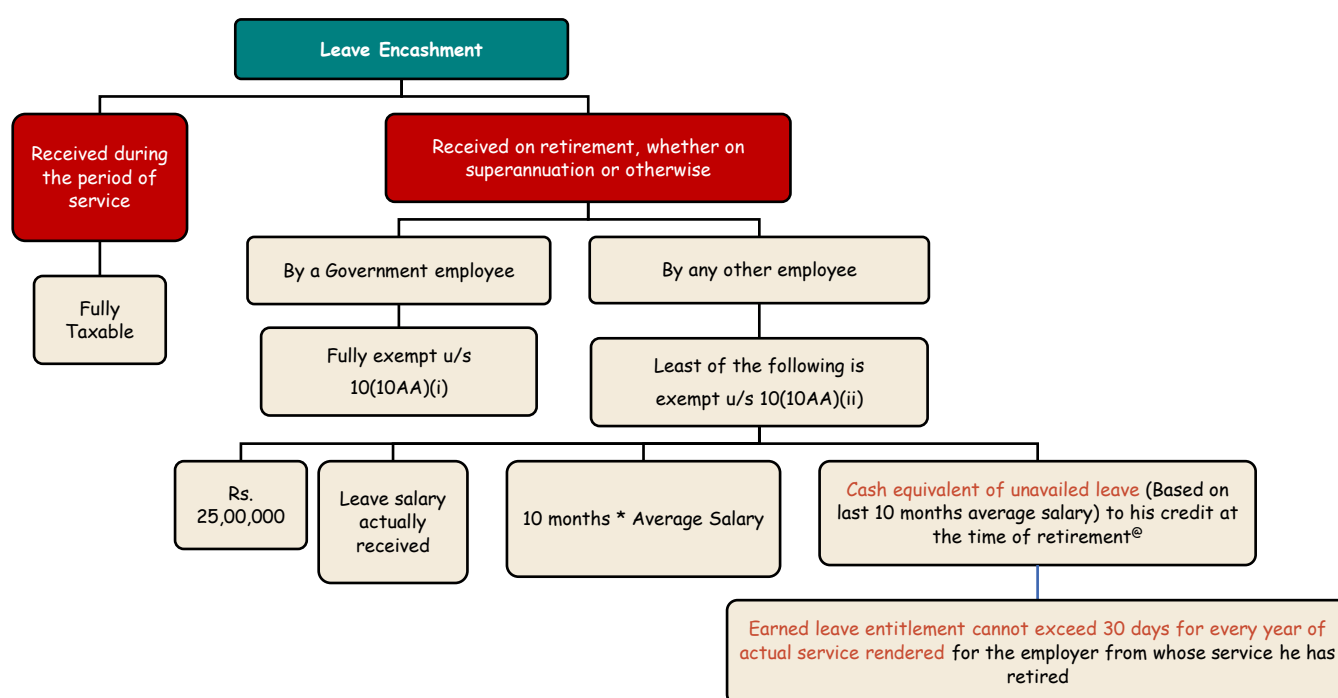
Meaning of Salary:

Salary = Basic + Any D.A.

@Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

Note: Average salary refers to average of 10 Months preceding month of retirement

- ✓ Only Death cum retirement gratuity is eligible for exemption as above and the Gratuity received during the service is fully taxable for both Government and nongovernment employee.
- ✓ The Exemption for Lumpsum gratuity is limited to Rs.20 Lakhs throughout the life time of the employee. [Received from 2 or more employers doesn't matter]
- ✓ Exemption under section 10(10) would be available irrespective of the tax regime.

8. Leave Salary or Leave Encashment [Section 10(10AA)]

@Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

Note: Average salary refers to average of 10 Months preceding date of retirement

- ✓ The Exemption for Leave encashment is limited to Rs.25 Lakhs throughout the life time of the employee. [Received from 2 or more employers doesn't matter]
- ✓ Exemption under section 10(10AA) would be available irrespective of the tax regime.

9. Provident fund

| Type of Provident Fund | Employer's Contribution | Employee's Contribution | Interest on Accumulated Balance | Lump Sum Withdrawal |
|---|---|--|-------------------------------------|--|
| Statutory Provident Fund (SPF) [For Govt Employees] | Fully exempt from tax | Eligible for deduction under Section 80C (OT Regime) | Fully exempt from tax [Note 1] | Fully exempt u/s 10(11) from tax |
| Recognized Provident Fund (RPF) [Recognised by CIT] | Exempt up to 12% of salary [@] , excess is taxable | Eligible for deduction under Section 80C (OT Regime) | Exempt up to 9.5% p.a. [Note 1] | Exempt u/s 10(12) if certain conditions are met. |
| Unrecognized Provident Fund (URPF) [Not recognised by CIT] | Not taxable | No tax benefit | Not taxable at time of contribution | Salary: ✓ Employer contribution ✓ Interest on Employer contribution Other Sources: ✓ Interest on Employee contribution Not Taxable: ✓ Employee Contribution |
| Public Provident Fund (PPF) [Open to all - self-employed or salaried] | Not applicable (no employer contribution) | Eligible for deduction under Section 80C (OT Regime) | Fully exempt from tax | Fully exempt u/s 10(11) from tax |

[@]Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

Note 1 - Interest Credited on Contribution by Such Person/Employee**1. New Limitations (Effective from April 1, 2021):**

- ✓ If an employee's annual contribution to the Provident Fund is exceeding ₹2,50,000, then the **interest earned on such excess** contribution is taxable.
- ✓ If contribution is made **without any employer contribution**, the annual limit is ₹5,00,000. **Interest earned on contribution below this limit is exempt from tax.**
- ✓ Further, **Interest** accrued on contributions made before March 31, 2021 is fully **exempt**, without any monetary limits for contribution **even if it is accrued after this date.**

In simple words, the yearly threshold limits are as below:

- ✓ ₹5,00,000 if there is **NO** employer's contribution.
- ✓ ₹2,50,000 if the fund has **contributions from both** the employee and the employer.

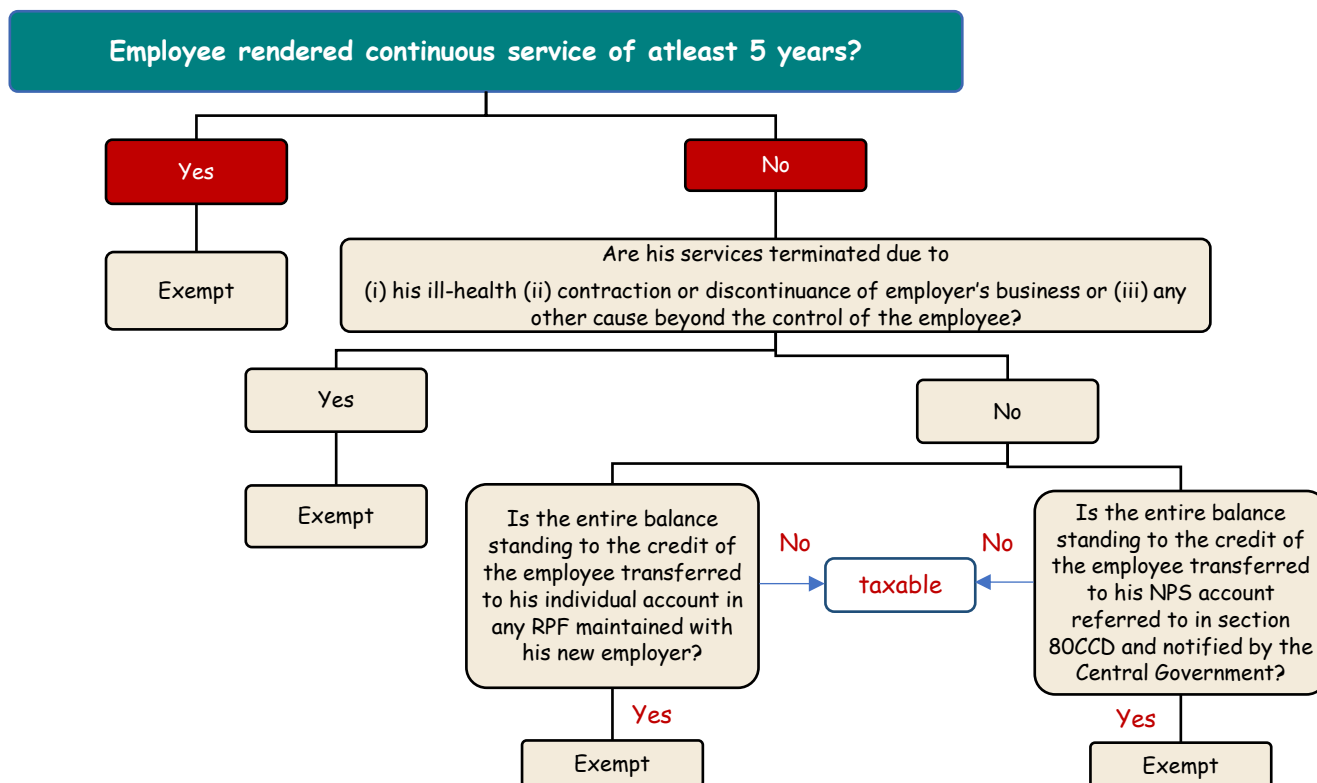
2. Separate Accounts for Taxable and Non-Taxable Interest (From 2021-22 Onwards):

- ✓ The Provident Fund account must maintain **2 separate sub-accounts**:
 - **Non-taxable Contribution Account:** Includes contributions and interest that are **within the exempt limit** (Contributions up to march 31, 2021 AND Contributions within the yearly threshold for or/after 1st April 2021).
 - **Taxable Contribution Account:** Includes **contributions exceeding the yearly threshold limit** (₹2,50,000 or ₹5,00,000) and **the interest earned** on this excess amount.

[After reducing withdrawal amount from the respective accounts]]



Exemption of Accumulated Balance of RPF, Payable to an Employee



Notes:

- ✓ Taxable RPF Withdrawal: Income is calculated as if the fund had been an Unrecognized Provident Fund (URPF) from the start.
- ✓ If the employee joins a new employer and transfers the accumulated RPF balance to the new employer's RPF, the balance remains exempt.
- ✓ The service period with the previous employer counts toward the 5-year requirement for exemption.

10. Contribution to NPS and Agnipath Scheme

Contribution to National Pension Scheme [Sec. 80CCD]

- ✓ Employer's contribution to NPS account is taxed employee's salary under Section 17(1).
- ✓ However, a deduction under Section 80CCD is allowed for both the employer's and employee's contributions when calculating the employee's total income.
- ✓ Detailed discussion on deductions in Chapter VIA Deductions.

Contribution by Central Government to Agniveer Corpus Fund (Sec 80CCH)

- ✓ Central Government's contribution to Agniveer Corpus Fund would be taxed as salary section 17(1).
- ✓ Section 80CCH allows a deduction for both the Agniveer's and the Government's contributions to the Agniveer Corpus Fund when calculating total income.
- ✓ Detailed discussion on deductions in Chapter VIA Deductions.



11. Profits in lieu of salary [Sec.17(3)]

- i. **Compensation for Termination:**
Any amount **due or received on the termination** of employment.
- ii. **Compensation for Changing Employment Terms:**
 - ✓ Compensation due or received from an employer or former employer **in connection with changes to the terms and conditions** of employment.
 - ✓ **Exception:** Payments **unrelated to the employer-employee relationship** are not taxed as salary.
- iii. **Payments from Unrecognised Funds:**
Payments from an employer or former employer **from a provident or other fund are generally taxable**, to the extent **does not consist of employee's contributions or interest on such contributions**.
This clause **does not cover** the following funds:
 - ✓ **Gratuity** [Section 10(10)]
 - ✓ **Pension** [Section 10(10A)]
 - ✓ **Retrenchment Compensation** under Industrial Disputes Act, 1947 [Section 10(10B)]
 - ✓ Payments from **Provident Fund or Public Provident Fund** [Section 10(11)]
 - ✓ Payments from **Recognized Provident Fund** [Section 10(12)]
 - ✓ Payments from **Approved Superannuation Fund** [Section 10(13)]
 - ✓ **House Rent Allowance** [Section 10(13A)]
- iv. **Keyman Insurance Policy:**
Any sum from a Keyman Insurance Policy received by employee, is considered part of salary income and is fully taxable.
- v. **Any other Lump Sum Payments:**
Any lump sum received from the employer **either before beginning** the employment or **after its conclusion** is taxable as salary income.

12. Retrenchment compensation [Section 10(10B)]

Exemption Limits

The **lower** of the following amounts is exempt:

- ✓ **15 Days average pay × completed years of service** (part thereof if over 6 months)
 - ✓ **Statutory limit of ₹5,00,000** (as notified by the Central Government)
 - ✓ **Actual amount received**
1. The above **limits do not apply** if compensation is **paid under** a Central Government **approved scheme** for special protection of workers.
 2. **Average Pay Calculation:** [Average of wages payable to workmen]
 - ✓ **Monthly paid workers:** Average of the **last 3 complete calendar months**
 - ✓ **Weekly paid workers:** Average of the last 4 calendar weeks
 - ✓ **Daily paid workers:** Average of the last 12 full working weeks

Preceding the date on which average pay becomes payable.

 - ✓ If not worked the full period, calculate based on actual days worked.
 3. **Wages Include:**

- ✓ All remuneration expressible in money, including:
- ✓ Allowances (including Dearness Allowance)
- ✓ Value of house accommodation, utilities, any amenity or concessional supply of food, etc.
- ✓ Travel concessions
- ✓ Sale related commissions

Exclude:

- ✓ Bonuses
- ✓ Contributions to retirement benefit schemes
- ✓ Gratuity payable on termination

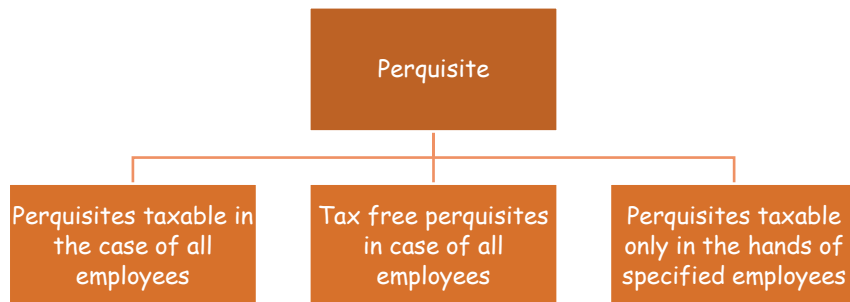
- ✓ Exemption under Section 10(10B) is available **irrespective of the tax regime.**

13. Voluntary Retirement Receipts [Section 10(10C)]

| | |
|--|--|
| Eligible Undertakings | <p>Employees of the following undertakings are eligible for exemption:</p> <ul style="list-style-type: none"> i. CG, SG or Local authority ii. All Companies, Statutory Corporations & Authorities iii. Co-operative societies iv. Universities established/incorporated under a Central/State or Provincial Act [including IITs & IIMs] |
| Conditions for Exemption | <ul style="list-style-type: none"> ✓ Compensation must be received at the time of voluntary retirement or termination of service as per VR Scheme. ✓ Exemption applies even if compensation is received in instalments. |
| Guidelines | <ul style="list-style-type: none"> ✓ Exemption available to employees who have completed 10 years of service or are 40 years of age. ✓ This requirement does not apply to employees of public sector companies under voluntary separation schemes. |
| Exemption limit | <p>Lower of the following:</p> <ul style="list-style-type: none"> ✓ Equivalent to 3 months' Salary@ for each completed year of service ✓ Salary@ at retirement × remaining months of service before retirement or superannuation. ✓ Statutory limit of Rs. 5,00,000/- ✓ Actual Amount |
| Exemption Restrictions | <ul style="list-style-type: none"> ✓ The exemption is only ONE TIME during life time of the assessee. ✓ No Exemption If relief is allowed under Section 89 for any assessment year regarding voluntary retirement. |
| <p>@Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)</p> | |
| <p>Exemption under Section 10(10C) is available irrespective of the tax regime.</p> | |

14. Perquisites [Section 17(2)]

- ✓ A perquisite is an additional benefit provided to an employee beyond their regular salary or wages. Common examples include housing, a car, and other allowances.
- ✓ They can be provided in cash or in kind.
- ✓ Reimbursements for expenses related to official duties are not treated as perquisites. Example: If an employee continues to use a company-provided benefit, like a house, after leaving their employment, it's no longer treated as part of their salary. It's considered extra income and taxed under "Income from Other Sources."



1. Rent-Free Accommodation,
2. Accommodation provided at concessional rate,
3. Any personal expenses paid by the employer on behalf of the employee, such as household staff salaries, constitute taxable perquisites.
4. Amount payable by an employer to affect an assurance on the life of the assessee.
5. The value of Specified security or sweat equity shares allotted or transferred, by the employer at a concessional rate or free as part of compensation.
6. Clause 17(2)(vii): Amount or the aggregate of amounts of any contribution made to the account of the assessee by employer
 - ✓ in a recognised provident fund [RPF],
 - ✓ in Pension scheme referred under 80CCD [NPS],
 - ✓ in an approved superannuation fund [ASF]
 exceeding Rs. 7,50,000 is taxed and included in gross salary [i.e., Total Income] [Say, Excess employer's contribution]
7. Clause 17(2)(viii): Annual Accretion to Recognized Provident Fund/NPS/Approved Superannuation Fund (Employer's Contribution):
 - ✓ Annual accretion to the balance in the recognized provident fund, NPS, or approved superannuation fund, which relates to excess employer's contribution is treated as a perquisite.
 - ✓ In other words, interest, dividend, or any similar amount to the balance of the fund related to excess employer's contribution is treated as a perquisite.
 - ✓ **Computation Method:** The CBDT Rule 3B provides a formula to compute the annual accretion:

$$\text{Taxable Perquisite [TP]} = (\text{PC}/2) * R + (\text{PC1} + \text{TP1}) * R$$



| | |
|---|---|
| PC | Excess Employers contribution to RPF, NPS and ASF during the Current Previous Year [CPY] |
| PC1 | Excess Employer contribution for the previous years commencing on or after 1st April, 2020 other than the Current P.Y. [Opening Balance as on 1/4/RPY] |
| TP1 | Aggregate of taxable perquisite under section 17(2)(viiia) for the previous year commencing on or after 1st April, 2020 other than the Current P.Y. [Preceding years taxable accretion value] |
| R | I / Favg [i.e., Average rate during the year] |
| I | Amount or aggregate of amounts of income accrued during the Current P.Y. in [RPF, NPS and ASF] |
| Favg [^] | $[\text{Aggregate Fund Balance}^{\$} \text{ on first day of the CPY} + \text{Aggregate Fund Balance on last day of the CPY}] \div 2$ |
| <p>Note:</p> <p>[^]Favg means Fund Average Balance during CPY</p> <p>^{\$}Aggregate Fund balance = Aggregate Balance to the credit of RPF, NPS and ASF</p> <p>Further, Where the aggregate of amounts of TP1 and PC1 exceeds the Aggregate Fund Balance on first day of the current previous year, then, the excess shall be ignored for the purpose of computing the aggregate of amounts of TP1 and PC1.</p> | |
| 8. Any other fringe benefit or amenity. [Such as Gift, Credit card, Movable Assets, Loans, Telephone, Club, Food etc.,] | |

15. Exemption under superannuation funds [Section 10(13)]

Any payment received by any employee from an approved superannuation fund shall be exempt if the payment is made:

- ✓ On the Death of a Beneficiary
- ✓ Payments received by the employee in place of, or in commutation of, an annuity when they retire at a specified age or become incapacitated before retirement.
- ✓ If a refund of contributions is made upon the death of the beneficiary, it is tax-exempt.
- ✓ Payments transferred to notified pension scheme under Section 80CCD.

16. Tax free perquisites in All cases

1. Telephone Facility:

- ✓ Telephone or mobile services provided at the employee's residence are tax-free.
- ✓ Telephone allowance is always taxable

2. Transportation:

- ✓ Transport facility provided by an employer involved in passenger or goods transport (free or discounted) is exempt.



3. Privilege Passes:

- ✓ Privilege passes and tickets issued by Indian Railways for employees are exempt.

4. Overseas Perquisites by Government:

- ✓ Perquisites provided by the government for services rendered abroad are tax-exempt for Indian citizens. [remember allowances are also exempt u/s 10(7)]

5. Insurance Contributions:

- ✓ Employer contributions to a staff group insurance plan are tax-free.

6. Personal Accident Insurance:

- ✓ Annual premiums paid by an employer on personal accident policies for employees are exempt.

7. Office Refreshments:

- ✓ Refreshments during working hours on office premises are tax-free.

8. Subsidized Meals:

- ✓ Subsidized meals up to ₹50 per meal are exempt if the employee opts out of the default tax regime.

9. Recreational Facilities:

- ✓ General recreational or club facilities provided to employees are exempt, provided they're not restricted to few selected employees.

10. Training Expenses:

- ✓ Costs for employee training or refresher courses, including boarding and lodging, are exempt.

11. Welfare Fund Contributions:

- ✓ Contributions to recognized provident funds, superannuation funds, or deposit-linked insurance funds are tax-free up to specified limits.

12. Leave Travel Concession (LTC):

- ✓ LTC is exempt under conditions specified, applicable if the employee opts out of the default tax regime

Note: 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).

13. Medical Facilities:

- ✓ Medical facilities within specified limits are tax-exempt.

14. Rent-Free Official Residence:

- ✓ Judges of High Courts and the Supreme Court enjoy exemption for official residences under certain conditions.

15. Conveyance for Judges:

- ✓ Conveyance provided to High Court and Supreme Court judges is exempt if they choose to optional tax regime.



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

i. Eligibility:

- ✓ The exemption applies **only under optional tax regime**.
- ✓ When an employee **travels within India**:
 - a. On leave,
 - b. After retirement, or
 - c. After termination of employment.

ii. What expenses are exempt:

- ✓ The **exemption is available for travel expenses** of the employee and family (spouse, children, and dependent parents, dependant brothers or sisters).
- ✓ The exemption applies **only to 2 surviving children** if born after October 1, 1998.
- ✓ **Boarding and Stay expenses are fully taxable** if reimbursed by employer

iii. Limit of Exemption:

- ✓ Exemption is **restricted to the amount actually spent** on travel, subject to specific conditions.
- ✓ LTC exemption applies to a maximum of **2 journeys in a block of 4 calendar years**, starting from 1986. **[Current Block 2022 to 2025]**
- ✓ If LTC is not used even once in a block, **1 unused journey can be carried forward to the next block**.

iv. Mode of Travel:

- ✓ **Air Travel: Limited to the economy fare** of the National Carrier by the shortest route to the destination.
- ✓ **Other Modes:**
 - a. **Where Rail Service is Available:** Exempt up to the **first-class air-conditioned rail fare** by the shortest route.
 - b. **Where Rail Service is Unavailable:**
 1. If there is a recognized public transport system, **exemption is limited to the first-class or deluxe fare** by the shortest route.
 2. If no public transport exists, exemption is based on the **equivalent first-class air-conditioned rail fare** for the journey.

18. Medical Facility [Proviso to 17(2)]

- ✓ **Employee and Family members** are covered.
- ✓ **Family:** Spouse, children, and dependent parents, dependant brothers or sisters

The following medical benefits are exempted:

1. **Any medical treatment** provided to an employee or their family **in a hospital maintained by the employer**.
2. **Reimbursements for treatment costs** incurred in:
 - Government hospitals and Government Approved hospitals,
 - Local authority hospitals, or
 - Hospitals approved by the government specifically for employee treatment.



- For **specific diseases** or ailments, treatment in **any hospital** approved by the Chief Commissioner.
- For COVID-19 treatment, the Central Government allows exemptions if employees provide the following details:
 - A COVID-19 positive test report,
 - Medical records if clinically diagnosed within 6 months of diagnosed with COVID 19 positive,
 - Certification of all treatment expenses.
- 3. **Premiums paid or reimbursed** by employers for health insurance.
- 4. **Medical Treatment Abroad** and expenses incurred for:
 - **Medical treatment expenses** - Exempt to the extent permitted by RBI
 - **Travel and stay costs** for the patient and one attendant - Exempt only if employee **GTI doesn't exceed Rs. 2 Lakhs**

Note: If an employer takes **personal accident insurance for employees** and pays the premium, **no immediate benefit** is provided to the employees. The insurance premium paid by the employer is **not considered a taxable benefit** for the employees.

19. Perquisites taxable only for specified employees [Section 17(2)(iii)]

The following are facilities which are provided to employee **are taxable if he is a specified employee:**

- ✓ Provision of a sweeper, gardener, watchman, or personal attendant.
- ✓ Facility of gas, electricity, or water provided by the employer for personal use.
- ✓ Free or Concessional Tickets
- ✓ Use of a motor car.
- ✓ Free or concessional education facilities.

Note: **Reimbursements are taxable for all employees**

Meaning of Specified Employee:

- ✓ **Director Employees:** Any employee who also **serves as a director** of the company.
- ✓ **Substantial Interest:** Employees holding **at least 20% of voting rights** in the company. [Beneficial ownership only considered]
- ✓ **High-Income Employees:** Those with **a salary exceeding ₹50,000, excluding non-monetary benefits and exempt benefits and after reducing deductions u/s 16.** [entire salary from all employers is considered for the limit]



20. Valuation of RFA [Rule 3(1)]

| Particulars | Amount |
|---|--------|
| Gross Value of Perquisite [2 Cases discussed below] | XXXX |
| Less: Amount Recovered for Accommodation and Movable assets | (XXX) |
| Taxable Perquisite Value | XXXX |

Case 1 - Accommodation Provided by the Government to their employees

| Benefit Provided | | Value |
|---|---|-------|
| Value of Accommodation | Perk Value | |
| Owned or rented by Government | License fee determined | |
| Hotel Accommodation | Lower of ✓ 24% of Salary [@] or ✓ Actual Rent Expenses | XXXX |
| Add: Furniture and Appliances ✓ 10% p.a. of Original Cost of Movable Assets, if owned by employer ✓ Rental Expenses in case assets are hired | | XXX |
| Gross Value of Perquisite | | XXXX |

Case 2 - Where accommodation is provided by any other employer

| Benefit Provided | | Value |
|---|---|-------|
| 1. Accommodation Owned by employer: | | |
| City Population [2011 census] | Value | |
| > 40,00,000 | 10% of Salary [@] | |
| > 15,00,000 <= 40,00,000 | 7.5% of Salary [@] | |
| other areas | 5% of salary [@] | |
| 2. Accommodation Rented by employer - | | |
| | Lower of ✓ 10% of Salary [@] or ✓ Actual rental expenses | |
| 3. Hotel Accommodation - | | |
| | Lower of ✓ 24% of Salary [@] or ✓ Actual Rent Expenses | |
| Add: Furniture and Appliances [Same as Case 1] | | XXX |
| Gross Value of Perquisite | | XXXX |

[@]Salary = Basic + D.A. [For retirement benefits] + Bonus + Any Commission + Taxable portion of allowances only



Accommodation Provided on Account of Transfer:

If an employee is provided with accommodation at the new place of posting while retaining accommodation at the previous location due to transfer:

- ✓ First 90 days, the perquisite value will be based on the lower value of the 2 accommodations.
- ✓ After 90 days, the perquisite value will be charged for both accommodations.

Subsequent year valuation of Perquisite in case of Non-Government Employer [Only for Case 2]:

If the accommodation is continuing to be provided to the same employee for more than one year, The perquisite value for subsequent years will not exceed:

$$\text{Value of Accommodation} = \text{Value in FPY} * \frac{\text{CII of Current Previous Year}}{\text{CII of First Previous Year}}$$

"First previous year" means the P.Y. 2023-24 or the previous year in which the accommodation was provided to the employee, whichever is later.

Employee Serving on Deputation:

For employees on deputation with a body or undertaking controlled by the Central or State Government:

- ✓ The deputation employer (body/undertaking) will be considered the actual employer for calculating the perquisite value.
- ✓ The value of the accommodation will be calculated as if the accommodation is owned by the employer [Mentioned in Case 2 above]

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 choose optional tax regime.

Meaning of Salary for Valuation Rules:

For Theory Question probability the detailed meaning is given [Not Important]

Meaning of "Salary" includes all monetary payments such as pay, allowances, bonuses, and commissions from one or more employers.

However, it excludes:

1. Dearness allowance/pay NOT considered for retirement benefits.
2. Employer's provident fund contributions.
3. Tax-exempt allowances.
4. Value of specific perquisites under Section 17(2).
5. Payments excluded under Section 17(2) proviso.
6. Lump-sum payments at termination (e.g., gratuity, severance, leave encashment, commuted pension).



21. Motor Car [Rule 3(2)]

| Car Owner | Expenses Met By | Used for | Gross Value of Perquisite | |
|-----------|-----------------|----------------------------|--|---------------------------|
| Employer | Employer | Only Official | No taxable perquisite (Records must be maintained) | |
| Employer | Employer | Only Personal | Own car | 10% p.a. of Original Cost |
| | | | Rented Car | Actual Rent |
| | | | Running Expenses | Actual Expenses |
| Employer | Employer | Both Official and Personal | Up to 1.6CC (litre) Engine: ₹1,800 p.m. or part of a month (Additional ₹900 p.m. if chauffeur is provided) | |
| | | | Up to 1.6CC (litre) Engine: ₹2,400 p.m. or part of a month (Additional ₹900 p.m. if chauffeur is provided) | |
| Employer | Employee | Both Official and Personal | Up to 1.6CC (litre) Engine: ₹600 p.m. or part of a month (Additional ₹900 p.m. if chauffeur is provided) | |
| | | | Up to 1.6CC (litre) Engine: ₹900 p.m. or part of a month (Additional ₹900 p.m. if chauffeur is provided) | |
| Employee | Employer | Only Official use | No taxable perquisite (Records must be maintained) | |
| Employee | Employer | Only personal use | Running expenses reimbursed by employer | |
| Employee | Employer | Both Personal and Official | Perk = Actual expenses reimbursed minus standard perquisite value (₹1,800 p.m. for up to 1.6 litres, ₹2,400 p.m. for above 1.6 litres engine) | |
| | | | <p>Note: For more deduction for official expenses, the employer has to maintain additional records and give a certificate in this regard.</p> | |



- ✓ Month means "Calendar month".
- ✓ Motor Car Provided by Employer: Taxable for Specified Employees.
- ✓ Reimbursement of Car Expenses: If the employee owns the car but uses it for personal purposes, and the employer reimburses the running and maintenance costs, it will be treated as a perquisite and taxed in the hands of all employees.
- ✓ Journey from Residence to Office: If a vehicle (provided by the employer) is used for travel between the employee's residence and office or workplace, it is not considered a perquisite, and thus not taxable as a benefit.
- ✓ Further, if any amount is recovered from employee, the same will be deducted from Gross value of perquisite.

If an employee is provided with more than one motor car (owned or hired by the employer) for personal and official use, the perquisite value is calculated as follows:

- ✓ For one car: Valued as above [Official and Person].
- ✓ For additional cars: Valued as exclusively for personal use.

22. Valuation provision of domestic servants [Rule 3(3)]

- ✓ If the employee engages domestic servants and the employer pays or reimburses the employee for their wages, this is considered a perquisite for all employees. Gross Perquisite Value shall be Actual Value Reimbursed.
- ✓ If the employer engages domestic servants and provides their services to the employee, this is considered a perquisite only for specified employees. Gross Perquisite value shall be Salary incurred by employer.
- ✓ Further, if any amount is recovered from employee, the same will be deducted from Gross value of perquisite.

23. Valuation of gas, electricity or water [Rule 3(4)]

Taxability:

- ✓ If the employee takes gas, electricity, or water connections and the employer reimburses the expenses, it is considered a perquisite for all employees.
- ✓ If these services are provided in the employer's name, it is a perquisite only for specified employees.

Value of Benefit:

- ✓ The Gross perquisite value of the benefit from gas, electricity, or water supplied by the employer will be:

| | |
|----------------------------------|--|
| Payment to Agency | If the employer pays an agency for these services, the value is equal to the amount paid by the employer. |
| Supply from Employer's Resources | If the supply is from resources owned by the employer, the value is based on the manufacturing cost per unit incurred by the employer. |

- ✓ Further, if any amount is recovered from employee, the same will be deducted from Gross value of perquisite.

24. Valuation of educational facilities [Rule 3(5)]

Taxability:

School Fees Paid or Reimbursed: If the employer pays or reimburses the school fees of the employee's children (or any member of the household), it is a **perquisite in the hands of all employees.**

Educational Facility Provided by Employer:

If the **education facility is provided** at a school maintained by the employer or at a concessional rate due to the employee's employment, **it is a perquisite only** for specified employees.

Valuation of the Benefit:

| Circumstance | Gross Value of Perquisite |
|---|--|
| Educational institution maintained and owned by the employer | Cost of similar education in a comparable institution in or near the locality. |
| Educational facility at any other institution due to employment | No perquisite if the cost of education per child is less than ₹1,000 per month |
| Other Cases | Expenditure incurred by the employer |

Further, if **any amount is recovered** from employee, the same will be deducted from **Gross value of perquisite.**

Note: The exemption of Rs. 1,000 p.m. is **not allowed** in case education facility is provided to other household members.

25. Free or concessional tickets [Rule 3(6)]

| | |
|------------------------|--|
| Engagement of Services | Free or concessional tickets provided by employers engaged in the carriage of passengers/goods for personal journeys: Considered a benefit. |
| Value of Benefit | <ul style="list-style-type: none"> ✓ Value is the fare offered to the public, reduced by any amount paid by the employee. ✓ No perquisite for employees of airlines or railways. |

26. Other Fringe benefits or amenities [Rule 3(7)]

1. Interest-Free or Concessional Loans

Valuation Basis: The benefit of interest-free or concessional loans provided to employee or family member is valued **using the interest rates set by the State Bank of India (SBI)** on similar loans.

Calculation: The **Gross value of perquisite** is calculated **equal to the interest applied to the maximum outstanding monthly balance.**

Exemptions from taxability:

- ✓ If the total loan amount does not exceed ₹20,000 or
- ✓ If the loan is for medical treatment for specified diseases unless reimbursed by insurance.



2. Travel, Touring, and Accommodation

Reimbursement: When an employer incurred the holiday expenses other than LTA of an employee and their family, it is considered a taxable benefit.

Facilities to particular employees: If facility is maintained by employer and is not available to all employees, Gross value of perquisite shall be value of such facility offered by other agencies to public.

Official Tour:

- ✓ Expenses for any family member traveling with employee on an official tour, will be a taxable perquisite.
- ✓ If an official tour extends into a holiday, only the expenses for the extended stay are taxed.

3. Food and Beverages:

Food and Non-alcoholic beverages provided to employees by the employer are typically taxable.

Exemptions:

- ✓ Meals costing up to ₹50 per meal during working hours or through paid vouchers are non-taxable.
- ✓ Meals served at remote worksites or offshore installations is fully exempt.
- ✓ Exemption in respect of free food and non-alcoholic beverage provided by such employer through paid voucher would be available only under Optional tax regime.

4. Gifts and Vouchers

Gifts or vouchers provided by the employer are exempt provided the aggregate value does not exceed to ₹5,000.

5. Credit Card Expenses

- ✓ If an employer bears the expenses of credit card provided to employee, the entire expenses are taxable.
- ✓ Expenses incurred solely for official purposes are not taxable, provided there is adequate documentation.

6. Club Memberships

Club membership fees or annual charges covered by the employer are taxable.

Exceptions:

- ✓ Club memberships provided exclusively for official purposes are non-taxable.
- ✓ Initial Fee paid for acquiring corporate membership in a club is not taxable in hands of employee.

7. Use of Movable Assets

| Asset given | Value of benefit |
|---|--|
| a. Use of laptops and computers | Nil |
| b. Movable assets, other than laptops and computers | Own Asset: 10% p.a. of the actual cost Rented Asset: The amount of rent |



8. Transfer of Movable Assets

When an employer transfers movable assets to an employee, the taxable value shall be:

| Particulars | Amount |
|---|--------|
| Original Cost | XXXX |
| Less: Notional Depreciation at rate specified for every completed year of usage | (XXX) |
| WDV Value [Gross Value of Perquisite] | XXXX |
| Less: Amount Recovered from Employee | (XXX) |
| Taxable Perquisite Value | XXXX |

Specified Rates

| Computers and electronics | Rate of Depreciation | Method |
|---------------------------|----------------------|--------|
| Computers and electronics | 50% | WDV |
| Motor cars | 20% | WDV |
| Any other assets | 10% | SLM |

9. Other Benefits or Amenities

- ✓ The value of any other benefit, amenity, service, right, or privilege provided by the employer is determined based on the cost to the employer under an arms' length transaction.
- ✓ Telephone Facility - Exempt: If the employer pays or reimburses expenses related to telephone (including mobile phone) actually incurred on behalf of the employee, it will not be a taxable perquisite.
- ✓ Remember, Telephone allowance is fully taxable.

General Rule: Any amount recovered from employee will be reduced from the above perquisite value (All 9 subrules) to arrive taxable perquisite.

27. Valuation of specified security or sweat equity share [Being Equity Share] [Section 17(2)(vi)] [Rule 3(8)]

- ✓ Year of Taxability: Discussed below at Rule 3(9)
- ✓ Value of Perquisite: Fair Market Value
- ✓ Date for Fair Market Value Determination: The fair market value of specified securities or sweat equity shares is determined on the date on which employee exercises the option.

Fair Market Value determination

| Particulars | FMV Determination |
|--|--|
| Shares Listed on Stock Exchange: | |
| ✓ Single Exchange | Average of Opening and Closing Price |
| ✓ Multiple Exchanges | Average of Opening and Closing Price of the exchange with highest volume |
| If NO trading on date of exercising option | |



| | |
|-------------------------------------|---|
| ✓ Single Exchange | Closing Price on immediately preceding date [Sell price and NOT buy Price] |
| ✓ Multiple exchanges | Closing Price on immediately preceding date of the exchange with highest volume |
| Shares NOT Listed on Stock Exchange | Value of Share determined by merchant banker on specified date ^{\$} . |

^{\$} The specified date, which can be:

- ✓ The date of exercising the option or
 - ✓ Any date up to 180 days prior to exercising the option.
- ✓ Any amount recovered from the employee will be deducted to arrive at the value of perquisites.

28. Valuation of specified security, NOT being an equity share in a company [Section 17(2)(vi)] [Rule 3(9)]

- ✓ The fair market value of specified securities (not equity shares) is value determined by a merchant banker on specified date the employee exercises the option.
- ✓ Specified Date:
 - i. The date of exercising the option.
 - ii. Any date up to 180 days prior to the option exercising date.

Year of Taxability:

- ✓ Tax on the perquisite of specified securities and sweat equity shares is payable in the year the option is exercised.
- ✓ However, If the shares or securities are allotted by an eligible start-up, the perquisite is taxable in the earliest of the following years:
 - i. After 48 months from the end of the relevant assessment year.
 - ii. In which the sale of such securities or shares is made by the employee.
 - iii. The employee ceases to be employed by the employer, whichever occurs first.

29. Deductions from Salary [Section 16]

Standard Deduction [Section 16(ia)]:

- a) Optional Tax Regime: ₹50,000 or the amount of salary, whichever is lower.
- b) Default Tax Regime: ₹75,000 or the amount of salary, whichever is lower.

Entertainment Allowance [Section 16(ii)]: This allowance is fully taxable but eligible for a deduction in the case of government employees. The deduction amount is the

Lower of:

- ✓ $1/5^{\text{th}}$ of the basic salary,
- ✓ ₹5,000, or
- ✓ The actual entertainment allowance received.

Note: This deduction is only available if the employee chooses Optional tax regime.



Professional Tax [Section 16(iii)]:

- ✓ Professional tax paid by the employee is deductible if the employee chooses **optional tax regime**.
- ✓ If the employer reimburses or pays professional tax, the amount is **first included in salary income and then allowed as a deduction** under Section 16.

30. Relief [Section 89]

Relief for Arrears or Advance Salary

- ✓ If **arrears, advance salary, or salary for more than 12 months**, or payment under Section 17(3) causes income to be taxed at a higher rate, **relief can be claimed**.
- ✓ Relief granted by the Assessing Officer upon application.
- ✓ Procedure for computing relief is **specified in Rule 21A**.

Relief for Family Pension

- ✓ Relief is available **for arrears of family pension** (as defined in Section 57(iia)).

No Relief for if exemption claimed for Voluntary Retirement

- ✓ **No relief for amounts received on voluntary retirement or service termination if the exemption under Section 10(10C)**.

31. Key Observations under Salaries Chapter

Meaning of Salary for various purposes

For Rent Free Accommodation

Salary = Basic + D.A. [For Retirement Benefits] + Any Commission + Bonus + Taxable portion of allowances

For Contribution to RPF u/s 17(1), VRS u/s 10(10C), Gratuity (Act NOT Applicable) u/s 10(10)(iii), HRA u/s 10(13A)

Salary = Basic + D.A. (For Retirement benefits) + Commission (% of Turnover)

For Gratuity (Act is Applicable)

Salary = Basic + D.A. [Any]

For Retrenchment Compensation

Wages = All Monetary Payments [Except Bonus] + Allowances + Value of RFA + LTC + Commission

Summary of deductions NOT allowed under Default Tax Regime [115BAC]

- ✓ Allowances for Judges, Salaries and pensions paid by UNO
- ✓ Rent free official residence to Judges.
- ✓ Leave travel concession [10(5)]
- ✓ House rent allowance [10(13A)]
- ✓ Special allowances for personal expenses [10(14)(ii)]
[Except transport allowance for differently abled]
- ✓ Entertainment allowance and profession tax [Sec 16(ii) & (iii)]
- ✓ Exemption for free food voucher up to 50/- per meal.