

#### **INCOME FROM SALARY**

### 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

- 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.

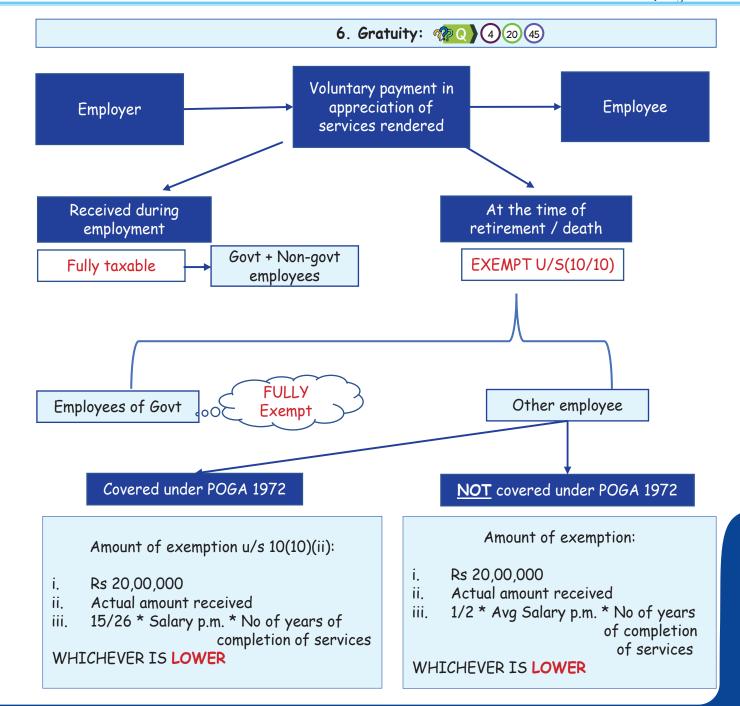
3. Commission (ANY) - Fully taxable

In almost all formulae - ONLY turnover commission is considered

- 4. Bonus = Taxable on receipt basis (not on due basis) (2) (37)
- 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





# 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

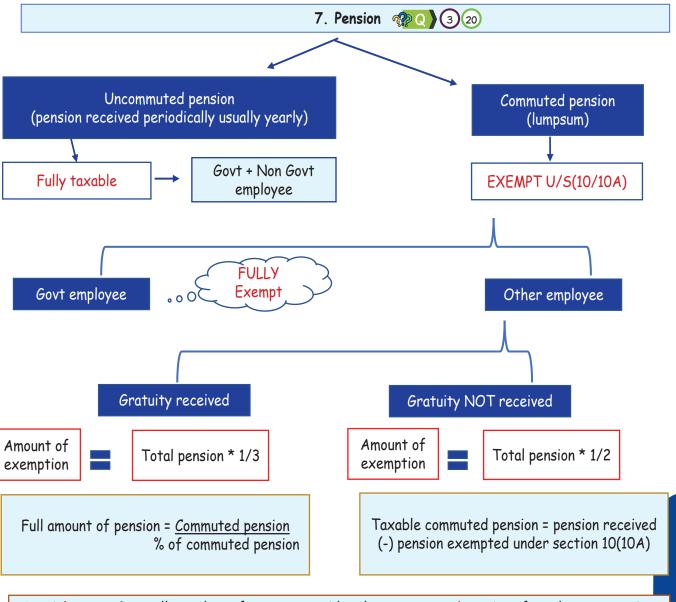
### Number of years of completion of service

**IGNORE** fractions

1 year 2 months = 1 year

1 years 7 months = 1 year

1 year 6 months = 1 year



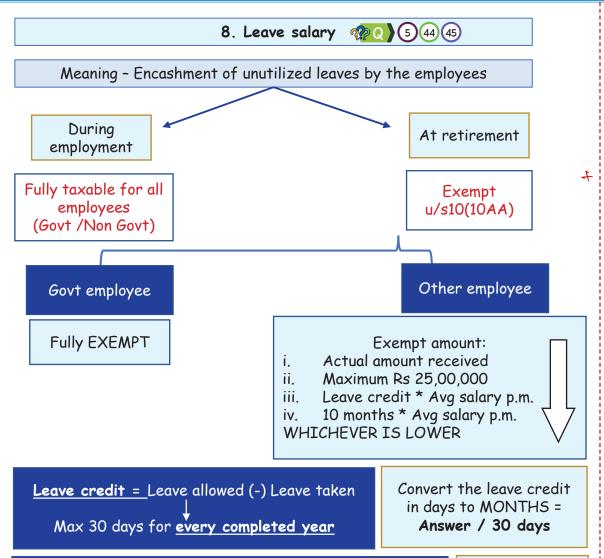
Special note - Generally students forget to consider the uncommuted pension after the computation.

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.



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. 14.2021)

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:

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

Sec 80 CCH ;- Contribution to Agniveer corpus fund account - Newly added.

Contri to Agniveer employer's contribution to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme (referred to in section 80CCH) is fully taxable of employee

Avg salary per month:

Avg basic salary of last 10 months Avg DA (in terms) of last 10 months Avg turnover commission of last 10 month



10 months up to the date of retirement

# 9. Allowances 2 27 30 31 32 36

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	70% of allowance OR
undertaking	Rs 10,000 p.m.
House Rent Allowance - Exempt under	i. 40% / 50% of salary [Basic +
10(13A)	DA(T) + Turnover Commission]
(26 39)	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 *	
Conveyance allowance & sen karelling	Fromut on the basis of amount
Uniform allowance	Exempt on the basis of amount
Daily allowance	<u>spent actually</u>
Helper allowance (for office Purpose)	
Research allowance / Academy allowance	
OTHER allowances	TAXABLE

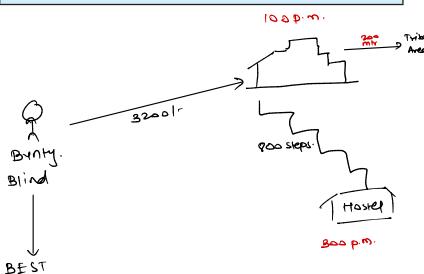
- . Telephone allowance.
- · Medical allowonce.

Taxable.

· etc.

- → Note: Conveyance, Daily, Travelling/Transfer allowances are exempt in both tax regime.
- Note: Transport allowance for handicapped employees is exempt in both schemes.
- → Note: HRA is Exempt in Old Scheme Only

#### Student's notes



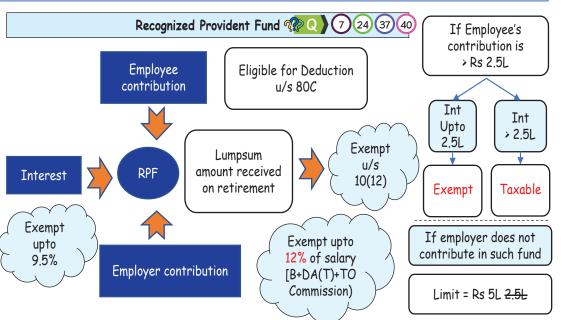
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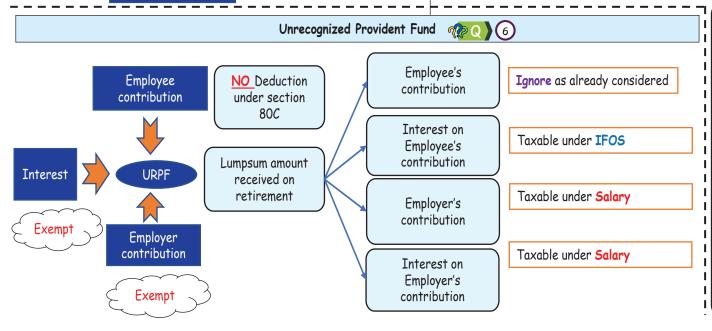
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#### 10. Provident fund

#### Statutory Provident Fund Eligible for Employee Deduction u/s contribution 80C Exempt Lumpsum amount u/s Interest received on 10(11) retirement Exempt Employer Exempt contribution





#### CONDITION -

Lumpsum amount from RPF is exempt ONLY IF = the employee has rendered service of  $\geq 5$  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
- ii. Employee retired due to ill health (connect this to Sec 193)
- iii. Employee has retired with the instruction that his balance in RPF should be transferred to new employer OR NPS a/c u/s 80CCD

**INCOME FROM SALARY** 

# 11. Voluntary Retirement Scheme - Govt employee

# Exempt u/s 10(10C) 10(10C) 10(9)

#### Exempt amount:

- Actual amount received
- ii. Maximum Rs 5.00.000
- iii. Salary pm \* 3 months \* No of years of completion of service (Ignore the fraction)
- iv. 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



Interest



contribution



Exempt - Earlier provision

Employer contribution

ribution

Lumpsum amount received on retirement Exempt u/s 10(13)

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:

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

Compensation as IDA =  $15/26 \times Avg$  salary

Avg salary

of last 3 X

of service (if months)

months = round off)

OTT)

Salary = Basic + DA(T) + Turnover commission



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



Employer



Non-monetary benefits (Personal in nature)



Employe

Perquisite means benefits or facility provided by employer to the employee

Provision under NEW sub-clause (viia) 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)(viia)

# i. Leave Travel Concession (LTC) QQQ 11 12 29

MODE	EXEMPT
AIR O	<ol> <li>Actual Exp XX</li> <li>Economy class fare XX</li> </ol>
Any other mode	
1. Rail service is available	1. Actual Exp XX 2. 1st class fare XX
° 2 Q	
2. Rail service is NOT available	
i. Recognized <u>public transport</u> is available	1. Actual Exp XX 2. Deluxe class bus fare XX
ii. <u>No recognized public transport</u> is available	1. Actual Exp XX 2. 1st class Railway fare of similar distance XX

# Travel only within India

	Note: Exemption is available in Old Scheme Unity		
	LT C reco		TAKOLIC LTC
	₹ 70,000	ij Eright	(-) (0,000 90,000
\	Spent I 61,000	. Acres cost 65,000   10,000	60,000
	LTCYCO	2] HOT by Fright	
	₹ 70,000	· Train available -	70,000 (7,00) / 6300
	Spent If 65,000.	, Actual — 65,000 7000 115 115 Uass Ac — 7,000	'
	Biter	. Public Transport - 66,000   12k . Actual . Delyx class bus fore - 12,000	16,000) \ [6,000
		. Similar distance - GCK ACHIAN ACHIAN STORE AIC Frain Licket of - 15k	(15100) /55,000.

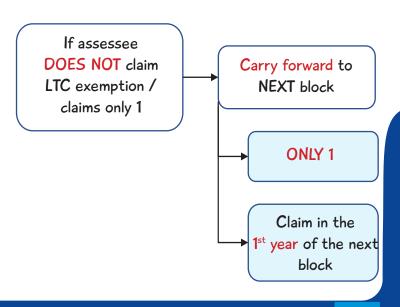
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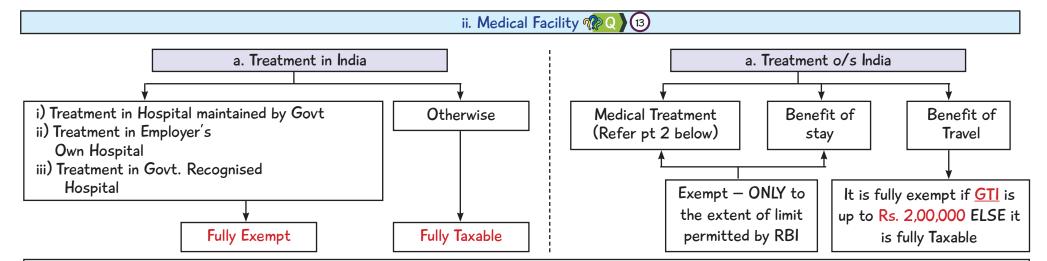
#### Notes:

- 1. 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 childTotal 3 children= Exemption Allowed to only 2 children
- 2. LTC exemption is available for 2 years during the block of 4 years (current block is 2022-25)
- 3.





#### Notes:

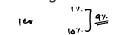
- Medical allowance → FULLY TAXABLE
- 1. Medical insurance premium is FULLY EXEMPT
- 2. Exemption for treatment is allowed for Employee, Spouse, Children & Dependent Relative (Mother, Father, Brother, Sister)
- 3. Exemption of stay & Travel is allowed only for one patient & one attendant

#### Employee to submit certain documents to employer

- (1) Covid-19 +ve report
- (2) All necessary document relating to
  - → Medical treatment of employee/family member for → covid-19
  - → Illness related to Covid-19→suffered

< 6 months from the date of being Covid +ve

(3) A certificate of all the expenditure expediture.





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

 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 7000 17 7000 17200

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

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

- Perquisite = FMV on Exercise Date Amount Paid by Employee.
- Taxable in year of Allotment of Shares.

Note: Sale of shares COA = FMV on Exercise Date [Sec 49(2AA)].

36

## Example for better understanding

Question - Housing loan @ 6% per annum. Amount outstanding on 14.2021 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

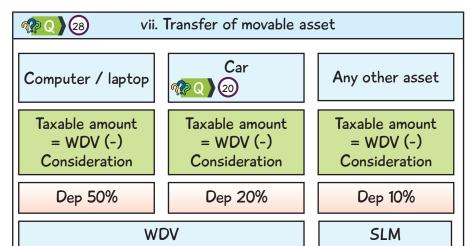
- a. Computer / laptop = Fully exempt
- b. Other assets (TV etc) =

If owned by employer

Hired by employer

Taxable amount = 10%

Taxable amount = Hire charges paid by employer



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

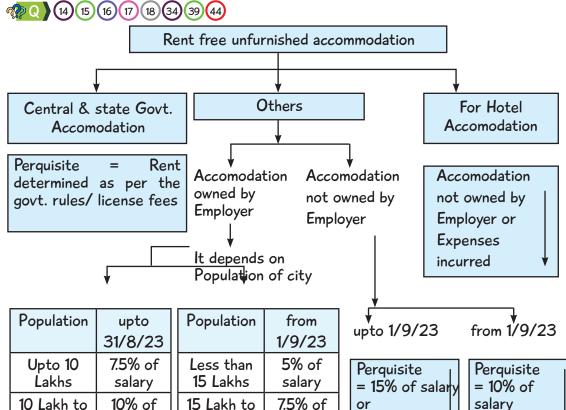
### viii. Lunch facility

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

#### Note-

- 1. Tea, coffee, breakfast provided in office NOT taxable
- 2. Lunch provided in remote area NOT taxable
- 3. Exemption of free food (Upto Rs. 50) is not available in new tax regime.

ix. Rent-free / concessional unfurnished accommodation The method of valuation of rent- Free accommodation is as follows



salary

10% of

salary

Lease Rent

#### Notes:

25 Lakh

Above 25

Lakh

1. Meaning of salary [A B2 C D M]

salarv

15% of

salarv

40 Lakh

Above 40

Lakh

- A Taxable Allowances
- B Basic salary B Bonus
- C Commission

Lease Rent

D - DA (in terms)

M - Other monetary income excluding perquisites Perquisites should not be considered

- 3. ABCDM should be calculated on due basis. Advance salary, arrears of salary should be ignored
- 4. For computing ABCDM, retirement benefits should not be considered i.e. gratuity, Pension, leave salary, VRS, Retrenchment compensation etc.
- 5. ABCDM should be considered at the time for which assessee had occupied such house.
- 6. Employer contribution towards PF & interest on PF should also be not considered.
- 7. If employee is provided with accommodation [on his transfer from one place to another], at the new place of posting while retaining the accommodation at the other place, the taxable amount shall be determined only for one accommodation which has the lower perquisite value, for a period upto 90 days and thereafter, the value of perquisite shall be charged for both such accommodations. (Imp)
- 8. Where accommodation is provided to the same employee for more than one PY, the value of perquisite shall not exceed the amount so calculated for first PY, as multiplied by amount which is a ratio of the

CII (cost inflation index) for PY for which the value is calculated and CII for the previous year in which the accommodation was initially provided to the employee. (Imp)

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

#### x. Hotel benefit / Accommodation benefit

Taxable amount =

i. 24% of salary (ABCDM)

ii. Hire / rent charges paid by employer

- 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 **QQ** 33

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

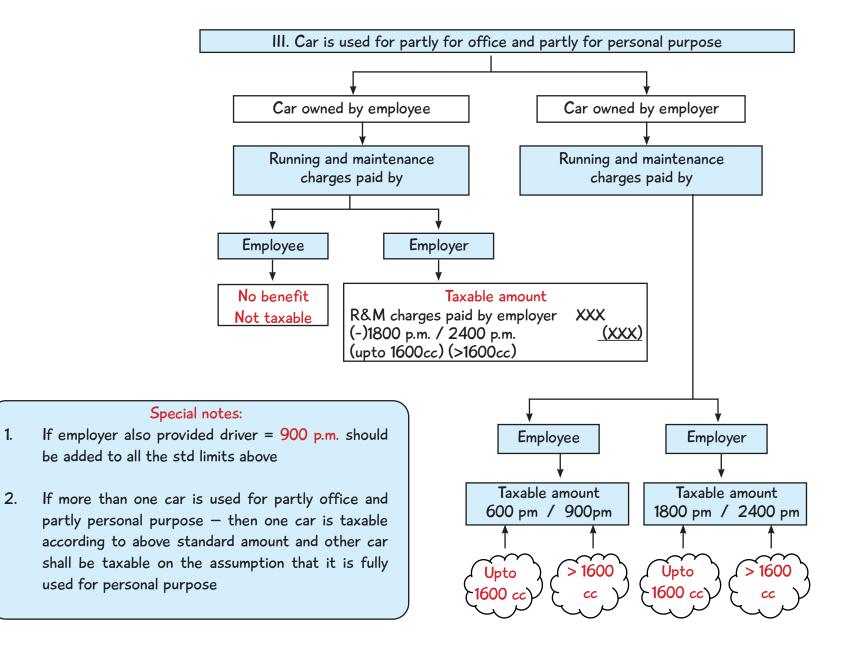
Car is owned by Employer = 10% of cost

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)



# 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

- i. For employee Fully **EXEMPT**
- ii. 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.
- iii. 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 QQQ 42

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.

MCQs Point: SG cannot impose profession tax > 2,500 p.a.

# 16. Entertainment allowance only for Govt. employees (2) (3) (4)

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

- i. 20% of basic salary
- ii. Actual amount received
- iii. Maximum Rs 5,000

17. Standard deduction of Rs 75,000 or the amount of salary, whichever is LOWER

( Q ) 24 25 If oped for normal scheme → ₹50,000.



### 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 =  $(12000^{\circ}2) + (14000^{\circ}10) = \text{Rs } 1,64,000$ 

Note: Deduction for Entertainment Allowance & Professional Tax is available only in Old Scheme. Standard deduction is allowed in both tax regime.

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

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) > 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	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	
1	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 14.2020, 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)(viia) for the A.Y. 2021-22 and A.Y. 2022-23.

# Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) 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
- PC1 = NIL
- 3. TP1 = NIL
- 4. R = I/Favg = 5,56,500 / 60,90,850 = 0.0914 I = 5,56,500 [71,46,700 (-) 7,77,600 (-) 7,77,600 (-) 50,35,000] Favg = 50,35,000 + 71,46,700 = 60,90,850

# Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) 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/Favg = 7,55,800 / 83,02,200 = 0.0910 I = 7,55,800 [94,57,700 (-) 7,77,600 (-) 7,77,600 (-) 71,46,700] Favg = 71,46,700 + 94,57,700 = 83,02,200

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

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

 $\downarrow$ 

Rs 3.882

# Salary Shortcuts

	·	
S.NO.	Particlars	Salary Means
1	HRA	Basic+DA(R)+C(T)
2	Gratuity	Covered: Basic+DA> Monthly
		Not Covered: Basic+DA(R)+C(T)
3	Retrenchment	Basic+DA(R)
	Compensation	
4	VRS	Basic+DA(R)+C(T)
5	Leave Encashment	Basic+DA(R)+C(T)
6	PF(RPF)	Basic+DA(R)+C(T)
7	RFA	Basic+DA(R)+Bonus+
		Commission+ All Taxable
		Allowances
8	Entertainment	Basic
		* Different in 4 cases