

# INCOME TAX-I

## INCOME FROM SALARY

# \*INTRODUCTION

- \* A **salary** is a form of periodic payment from an employer to an employee, which may be specified in an employment contract.
- \* Salary is a fixed amount of money or compensation paid to an employee by an employer in return for work performed.
- \* Salary is commonly paid in stages at fixed intervals, for example, monthly payments of one-twelfth of the annual salary.
- \* No allowance or perquisites or benefits are included in salary for this purpose.
- \* Salary is taken on due basis only.

The term salary is defined under section 17(1) of the income tax act to include following items as salary

- \* Wages
- \* Any Annuity or pension
- \* Any gratuity
- \* Any fee, commission, perquisite or profit in lieu of salary or in addition to any salary or wages
- \* Any payment received by an employee in respect of any period of leave not availed by him

**\* DEFINITION**

# \*CHARACTERISTICS

1. Relationship of employer and employee
2. Salary from more than one employer
3. Salary from present , past or prospective employer
4. Tax free salary
5. Salary received as member of parliament
6. Receipts from persons other than employer
7. Place of accrual of salary income
  - A pension payable outside India
  - A government of India employs Indian citizens for services to be rendered in foreign

8. Deductions made by the employer
9. Salary or pension received by UNO employees
10. Salary as partner
11. Payments received by legal heirs of a deceased employee
12. Payment made after cessation of employment
13. Voluntary foregoing: application of salary
14. Previous year of salary
15. Taxability of salary on due or receipts whichever is earlier basis
16. Salary grade/pay scale
17. Advance salary received
18. Arrears of salary received
19. Salary in lieu of notice

# SALARY



Salary  
[17(1)]

+

Allowances  
[17(3)(ii)]

+

Perquisites  
[17(2)]

+

Profits in lieu of  
salary  
[17(3)]



Less



Entertainment  
Allowance  
[16(ii)]

+

Tax on  
employment  
[16(iii)]



Income under the Head  
salary

# \*PROVIDENT FUND

## Meaning:

This is the compulsory savings scheme in which employer deducts a certain sum of money from employees salary.

- \* There are four components involved
- \* Employees contribution
- \* Employer contribution
- \* Interest credited by fund
- \* Lump sum received



# \***TYPES & ITS TREATMENT**

## 1. Statutory provident fund

\* This fund is applicable for government employees, this fund is maintained by government or semi-government departments like railways, RBI, colleges etc.

- a) Employees contribution – taxable as gross salary, deduction under section 80c will be offered
- b) Employers contribution – exempt
- c) Interest credited by fund – exempt
- d) Lump sum received – exempt



## 2. Recognized provident fund

\* A fund which is approved by the chief commissioner of income tax is known as recognized provident fund. This fund is maintained by industrial undertakings, business houses, banks etc

- a) Employer's contribution – taxable as gross salary deduction under section 80c is available
- b) Employer's contribution – exempt upto 12% of salary
- c) Interest credited by fund – exempt upto 9.5%
- d) Lump sum received – exempt provided employee completes 5 year of service.

### 3.unrecognized provident fund

\*It is the provident fund which is not recognized by the commissioner of income tax. Employee and employer both contribute towards this fund

a)Employees contribution – it is added in the salary, deduction under section 80c will not be offered

b)EmployeRs contribution – it is ignored because taxed when it was contributed

c)Interest credited by fund –it will be taxable as “income from other sources” and not as salary income

d)Lump sum received – exempt

## 4. Public provident fund

\* This fund is started for the self-employed people for example doctors, lawyers, accountants, actors etc.

a) Employees contribution -

b) Employer contribution – excess of 12% of the salary of the employee

c) Interest credited by fund – over interest is calculated at prescribed rate at 9.5%

d) Lump sum received -

Meaning:

# \* **ALLOWANCES**

Fixed monetary payments for a specific purpose is known as allowance. Employer provides to employee a fixed sum of money and also specifies the purpose for which it has to be used.

# \* TYPES OF ALLOWANCES

## 1. Fully exempted allowances

\* These allowance are not at all taxable.

i. Foreign allowance given by govt. to employees posted abroad

ii. House rent Allowance given to judges of high court and supreme court

iii. Sumptuary allowance given to judges of high court and supreme court.

## 2. Fully taxable allowances

\* It is fully taxable

i. Dearness allowance

ii. City/capital /compensatory allowance

iii. Lunch/Tiffin/marriage/family/deputation/wardship/non practising/project/overtime/medical allowance

iv. Entertainment allowances: least of the following

\* statutory limit Rs5000

\*  $\frac{1}{5}$ <sup>th</sup> of basic salary only

\* Actual entertainment allowance received during the year.

### 3. Partially taxable allowances

#### a) House rent allowance

Allowance paid to meet the cost of accommodation is known as HRA .

The minimum of the following exempt

- Actual HRA received
- Excess of rent paid over 10% of salary
- 50% of salary if the accommodation is in metropolitan cities and 40% in case of other cities
- Taxable HRA= actual HRA received – exempted amount



## **b) Allowance covered under section 10(14)**

- ❖ **Helper allowance** :exempted up to actual amount spent on engaging a helper to perform the official duties.
- ❖ **Uniform allowance** : exempted upto the actual amount incurred on acquiring and maintaining. Excess will be taxable
- ❖ **Academic research allowance**: exempted upto actual amount
- ❖ **Conveyance allowance** : exempted upto actual amount
- ❖ **Travelling . Transfer or daily allowance** : exempted upto actual amount incurred for purpose of employment.

- ❖ Any special allowance in the nature of composite Hill Compensatory allowance/ high Altitude Allowance/ Uncongenial climate allowance/ snow bound area / avalanche allowance :
- ❖ exemption allowed upto Rs 300 p.m to Rs 7000 p.m
- ❖ Compensatory field area allowance : exemption upto Rs 2600 p.m
- ❖ Any special compensatory allowance in the nature of border area allowance/ remote area allowance/ difficult area allowance/ disturbed area allowance: exemption allowed upto Rs 200 p.m to Rs 1,300 p.m
- ❖ Compensatory modified field area allowance : exemption upto Rs 1000 p.m
- ❖ Counter insurgency allowance/ compensatory field area allowance : exemption upto Rs 3900 p.m
- ❖ Highly active field area allowance : exemption upto Rs 4200 p.m
- ❖ Underground allowance given to coal mine workers : exemption allowed upto Rs 800 p.m
- ❖ Island duty allowance given to armed forces posted in andaman and nicobar and lakshdweep group of islands : exemption upto Rs 3200 p.m

- ❖ Transport allowance : exempted upto Rs 800 p.m
- ❖ Tribal area allowance : exempted upto Rs 200 p.m in stated of MP, TN, UP, KARNATAKA, TRIPURA, ASSAM, WEST BENGAL, BIHAR, ORISSA
- ❖ Any running flight allowance : exempted upto 70% of such allowance or Rs 10,000 p.m whichever is less.
- ❖ Children education allowance : exempted upto Rs 100 per child for two children only
- ❖ Hostel expenditure allowance: exempted upto Rs 300 p.m for per child, max two children only
- ❖ Domestic servant allowance : fully taxable
- ❖ Any special allowance : exempted upto Rs 1,300 p.m



# \* **MEANING OF SALARY FOR DIFFERENT PURPOSES**

1. For H.R.A./PF/Gratuity and leave encashment

\* Pay +D.P +D.A (which enters) +commission on turnover achieved by him

2. For specified cases

\* All what he gets in cash less exemptions ,if any, less deductions u/s 16,must be more than Rs.50,000

\* Only basic salary

3. For deduction u/s 16(ii)

\* Pay +D.P +D.A(Which enters)+any fee, commission, bonus(except gratuitous bonus)+all fully taxable allowances + Taxable portion of other allowances+ Taxable E.A+ Leave encashment pertaining to current year.

4. For gratuity under payment of Gratuity Act

For rent free house

# \* **PERQUISITES**

## Meaning:

It is defined as any casual emolument, free or profit attached to an office or position, in addition to salaries or wages. It is simply known as non- monetary benefits provided by an employer to an employee.

## UNDER SECTION 17(2) PERQUISITES ARE OF THE FOLLOWING TYPES

- a.** The value of rent- free accommodation provided to the assessee by his employer.
- b.** The value of any concession in matter of rent respecting any accommodation provided to the assessee by his employer.
- c.** The value of any benefit or amenity granted or provided free of cost or at any concessional rate in any of the following cases:
  - By a company to an employee who is a director thereof.
  - By a company to an employee being a person who has a substantial interest in the company.
  - By any employer.



d. Any sum paid by the employer in respect of any obligation which, but for such payment would have been payable by the employee.

e. Any sum payable by the employer, whether directly through a fund, other than a recognised provident fund or any approved superannuation fund to affect an assurance on the life of the assessee or to affect a contract for an annuity.

f. The value of any specified security or sweat equity shares allotted or transferred directly or indirectly, by the employer or former employer, free of cost or at concessional rate to the assessee.



**g. The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee to the extent it exceeds Rs.1,00,000 and**

**h. The value of any other fringe benefit or amenity as may be prescribed.**

