

Taxation



Income from Salary

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salaries



- **Basic Concept:** Every Payment made by an employer to his employees for service rendered by him would be chargeable to tax as income from salaries. Provisions regarding income under head of salaries given under section 15, 16 and 17.

U/S 15- deals with chargeability
Salaries Due or paid or advance

U/S 16- Standard deduction ,
Entertainment allowance &
profession tax

U/S 17 – Salary includes perquisites
and profits in lieu of salary

Format of Taxable Income from Salary

Particulars	Amount	Amount
Basic Salary		Xxxx
Add: Bonus		XXX
Commission		XXX
Fees		
<u>Allowances-</u>	<u>XXX</u>	
- House Rent Allowance		
Less: Exempted under rule 2A (Least of the following)		
i) Actual HRA Received	XXX	
ii) Rent paid- 10% of salary	XXX	
iii) 40% or 50% of salary	<u>XXX</u>	XXX
- Education Allowance	XXX	
Less: Exempted upto (100 X 2 X 12)	<u>XXX</u>	XXX
- Hostel Allowance	XXX	
Less: Exempted upto (300 X 2 X 12)	<u>XXX</u>	XXX
- Transport Allowance	XXX	
Less: Exempted upto Rs. 3200 per month for physically handicapped person	<u>XXX</u>	XXX
- Entertainment Allowance		XXX

Continued..

Format of Taxable Income from Salary

Particulars	Amount	Amount
- Other taxable allowances		XXX
- Employer's Contribution to RPF	XXX	
Less: Exempted upto 12% of Salary	<u>XXX</u>	XXX
- Interest Credited to RPF Account	XXX	
Less: Exempted upto 9.5 %	<u>XXX</u>	XXX
<u>Valuation of Taxable Perquisites</u>		
- Valuation of Accommodation		XXX
- Valuation of Motor Car		XXX
- Other taxable perquisites		XXX
Gross Salary		XXX
Less : Deduction under section 16		
i) Standard Deduction	XXX	
ii) Entertainment Allowance(Exempted only for Govt. employees)	XXX	
iii) Profession Tax	XXX	XXX
Net Salary / Income from Salary		XXX
Less : Deduction under Chapter VI A		

Continued..

Format of Taxable Income from Salary

Particulars	Amount	Amount
<u>i) Deduction under section 80 C (Max. upto Rs. 1,50,000)</u>		
- LIC Premium	XXX	
- PPF	XXX	
- RPF	XXX	
- NSC	XXX	
- ULIP	XXX	
- Tuition Fees	XXX	
<u>ii) 80 D Deduction</u>		
- Health insurance premia	XXX	
<u>iii) 80 E Deduction</u>		
- Interest on educational loan	<u>XXX</u>	XXXX
Taxable income from salary		XXX

Types of Allowances



Fully Taxable Allowances	Partly Exempted Allowances	Fully Exempted Allowances
<ul style="list-style-type: none">• Dearness Allowance• City Compensatory Allowance• Fixed Medical Allowance• Tiffin Allowance• Washing Allowance• Warden Allowance• Entertainment Allowance• Servant Allowance	<ul style="list-style-type: none">• House Rent Allowance• Education Allowance• Hostel Allowance• Tribal Area Allowance• Underground Allowance• Transport Allowance (physically handicapped person)• Travelling Allowance• Assistance Allowance	<ul style="list-style-type: none">• Allowance to High Court Judges.• Allowance paid by UNO• Allowances granted to Govt. employee outside India

Partly Exempted Allowances



Partly exempted allowances are classified into category

To the extent and actual limit of exemption given in Act

- HRA
- Education Allowance
- Hostel Allowance
- Tribal Area Allowance
- Underground Allowance
- Transport Allowance

To the extent and actual expenses incurred

- Travelling Allowance
- Helper/ Assistance Allowance
- Conveyance Allowance
- Research and development Allowance

Partly Exempted allowances and their exemption



1. House Rent Allowance: Exemption criteria

(Least of the following)

- | | |
|------------------------------|------------|
| i) Actual HRA Received | XXX |
| ii) Rent paid- 10% of salary | XXX |
| iii) 40% or 50% of salary | <u>XXX</u> |

Note: 40% for non metro cities and 50% for metro cities i.e. Mumbai, Delhi, Kolkata and Chennai.

Salary = Basic + D.A.(If part of retirement benefit)+Commission (fixed percentage)

- 2. Education Allowance :** Exempted upto Rs.100 per month per child maximum for two children.
- 3. Hostel Expenditure Allowance:** Exempted upto Rs.300 per month per child maximum for two children.
- 4. Tribal Area Allowance:** Exempted upto Rs.200 per month.
- 5. Underground Allowance:** Exempted upto Rs.700 per month.

Valuation of Perquisites



Valuation of Rent free unfurnished accommodation

- For valuation of rent free unfurnished accommodation employees are classified as
 - i) Government Employees: Government employees includes Central Govt. employees and State Govt. employees.
 - ii) Other Employees: Local authority employees and private employees.

Valuation of Accommodation:

- i) Government employees = Licence Fees determined by govt.
– Rent actually paid by employer.

Add: 10 % cost of furniture or hire charges (if furnished accommodation is provided)

Valuation of Rent free unfurnished accommodation



ii) For other employees : Valuation of rent free unfurnished accommodation is as follows

Population	Valuation(If property is owned by employer)	Valuation(If property is hired/not owned by employer)
Cities having population above 25 Lakh	15 % of Salary	15% of Salary or Rent paid by employer whichever is less
Cities having population above 10 Lakh and below 25 lakh	10 % of Salary	
Cities having population below 10 lakh	7.5% of Salary	

Add: 10% cost of furniture or Hire charges (if furnished accommodation is provided)

Less : Amount Recovered from employee

Apply this for above both cases

Valuation of perquisites

Valuation of Motor Car



A) If motor car is owned by employer and running & maintenance met by employer		A) If motor car is owned by employer and running & maintenance born by employee		A) If motor car is owned by employee and running & maintenance reimbursed or met by employer	
Purpose	Valuation	Valuation	Valuation	Valuation	Valuation
Official	Not Taxable	Not Taxable	Not Taxable	Not Taxable	Not Taxable
Private Purpose	Actual expenditure incurred by employer+ salary paid to driver+ 10% cost of car or Hire charges Less : amount recovered from employee	10% cost of car or Hire charges Less : amount recovered from employee	10% cost of car or Hire charges Less : amount recovered from employee	Actual expenditure incurred by employer Less : amount recovered from employee	Actual expenditure incurred by employer Less : amount recovered from employee
Partly official partly private purpose	i) Rs.1800 p.m. for upto 1600 CC ii) Rs 2400 p.m. above 1600 CC iii) Rs.900 p.m. salary if driver/chauffer is provided	i) Rs.600 p.m. for up to 1600 CC ii) Rs 800 p.m. above 1600 CC iii) Rs.900 p.m. salary if driver/chauffer is provided	i) Rs.600 p.m. for up to 1600 CC ii) Rs 800 p.m. above 1600 CC iii) Rs.900 p.m. salary if driver/chauffer is provided	i) Actual exp. Incurred by employer Less : ii) Rs.1800 p.m. for up to 1600 CC iii) Rs 2400 p.m. above 1600 CC iv) Rs.900 p.m. salary if driver/chauffer is provided Less: Amount recovered from employee	i) Actual exp. Incurred by employer Less : ii) Rs.1800 p.m. for up to 1600 CC iii) Rs 2400 p.m. above 1600 CC iv) Rs.900 p.m. salary if driver/chauffer is provided Less: Amount recovered from employee

Other perquisites



1. Reimbursement of medical expenditure- Fully Taxable
2. Gas, electricity or water supplied by the employer- Fully Taxable
3. Specified security or sweat equity shares allotted
4. Education facilities provided to children of the employee only if the value of such benefit per child exceeds Rs 1,000 per month (No restrictions on number of children)
5. Facility of food and non-alcoholic beverages over and above the amount of Rs. 50 per meal provided
6. Gift, token or voucher in lieu of such gift only if the value exceeds Rs. 5,000 in aggregate during the year

Deduction under section 16



- i. Standard Deduction u/s 16(i) – Rs.50,000
- ii. Entertainment Allowance u/s 16(ii) – this allowance is exempted under this section only for Government employees.
Least of the following
 - a) Rs.5,000
 - b) $1/5^{\text{th}}$ of basic salary
 - c) Actual entertainment allowance received
- iii. Profession Tax u/s 16 (iii) – paid by employer or employee



Thanking You