INCOME UNDER THE HEAD "SALARIES"

Ms. Harmanpreet Kaur Assistant Professor Department of Commerce BASIS OF CHARGE [SECTION 15] -Salary due - paid or allowed, though not due - Arrears of Salary

DEDUCTION [SECTION 16] -Standard deduction - Entertainment Allowance -Professional tax

MEANING [SECTION 17]

- Salary

-Perquisite -Profits in lieu of salary

Employer-Employee relationship must exist between payer and payee

For example: - Mr. X is an employee of Deloitte, lecturer working in college etc.

- Member of Parliament or State Legislature are not a Govt. Employee and therefore remuneration received by them is not taxable as salary income but as income from other sources
- Salary received by Ministers working in Govt. Dept. is taxable under head Salary
- Salary, bonus, commission or remuneration by whatever name called due to/received by partner of a firm shall not be regarded as Salary

Full time or Part-time Employment - it doesn't matter

□ For example: if employee works with more than one employer, all the salaries should be clubbed together for chargeability under the head salary

Surrender of Salary - if an employee surrenders his salary to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered would be exempt while computing his taxable income.

- Foregoing of Salary It means waiving the right to receive the salary i.e. work has been performed and salary has accrued but employee voluntarily says that he will not take salary. It is treated as application of income and thus would be taxable in the hands of an employee.
- Tax Free Salary it means the employer has paid the tax on salary due to such employee. Thus, the amount paid as tax by employer would also be considered as income of the employee and will be added in his salary.

Place of accrual - place where services are rendered

Exception- In case a Citizen of India who is Govt. employee and renders services outside India, salary received by him would be treated as income deemed to accrue or arise in India

Example: Mr. Z an Indian citizen posted in UK as Indian Ambassador, salary received by him for rendering services outside India shall be treated as deemed to accrue or arise in India

Salary paid by Foreign Govt./Enterprises - to its employees is taxable under the head salaries unless it is specifically exempt under section 10 like 10(6)

BASIS OF CHARGE [SECTION 15]

(a) any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not (b) any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him; (c) any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to incometax for any earlier previous year.

where any salary paid in advance is included in the total income of any person for any previous year it shall not be included again in the total income of the person when the salary becomes due.

Any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a partner of a firm from the firm shall not be regarded as "salary" for the purposes of this section.

NOTES:

Salary is chargeable to tax either on "due" basis or on "receipt" basis, whichever is earlier.

Any amount received as arrears of salary is taxable in the year of receipt, if it was not taxed earlier.

Accounting method of an employee is not relevant

- Example 1.1 Mr. Suresh is an employee of Alpha Ltd. getting a salary of ₹ 60,000 which is due on the last day of month but is paid on the 7th of next month. Salary for which months will be taxable for A.Y. 2020-21?
- Example 1.2: In the above case, assume that salary becomes due on 1st of next month and is paid on the 7th of next month. Salary for which months will be taxable for A.Y. 2020-21?
- Example 1.3: In the example 1.1, assume that salary of April, 2020 and May, 2020 in advance in March, 2020. What will be his gross income for the A.Y. 2020-21?

SALARY IN GRADE SYSTEM

Example 1.4: Mr. Y joined service on 1.8.2016 in the grade of ₹12000-300-13,800-400-17,800 and his salary was fixed at ₹ 14,200 from the date of joining. Compute the basic salary for the A.Y. 2020-21.





PERQUISITE SEC. 17(2)]

PROFITS IN LIEU OF SALARY SEC. 17(3)]

SALARY [SETION 17 (1)]

- It is an inclusive definition and includes monetary payments as well as non-monetary facilities.
- (i) wages;
- (ii) any annuity or pension;
- (iii) any gratuity;
- (iv) any fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages;
- (v) any advance of salary;

(va) any payment received by an employee in respect of any period of leave not availed of by him;

SALARY [SETION 17 (1)]

(vi) the annual accretion to the balance at the credit of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax

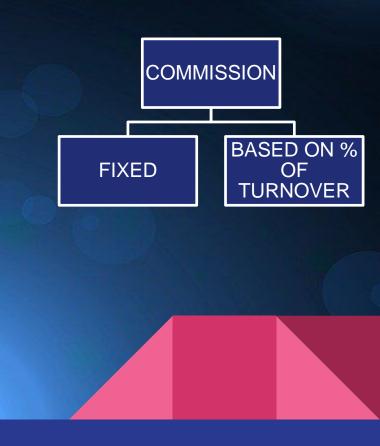
(Excess of employer's contribution over 12% of salary is taxable and excess of interest over 9.5% is taxable)

(vii) the aggregate of all sums that are comprised in the transferred balance of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax

(viii) the contribution made by the Central Government or any other employer in the previous year, to the account of an employee under a pension scheme referred to in section 80CCD;

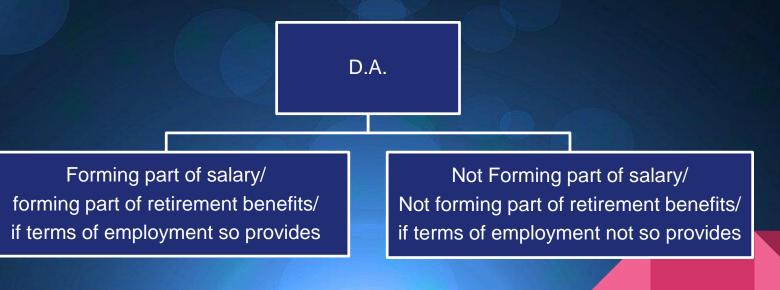
INCOMES TO BE INCLUDED IN GROSS SALARY

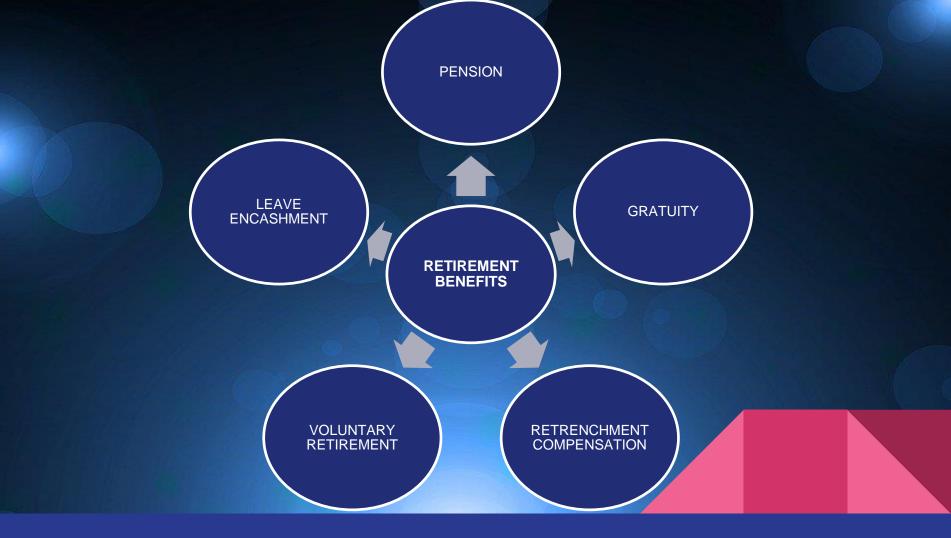
DIFFERENT RECEIPTS	TAX TREATMENT
Wages/ remuneration/basic salary	Taxable
Annuity from employer	Taxable
Bonus	Taxable on receipt basis if not taxed earlier on due basis
Salary in lieu of notice period	Taxable
Fee and Commission	Taxable
Overtime Payments	Taxable
Allowances	Taxable unless specific exemption is provided
Retirement benefits	Taxable in some specified cases*



DEARNESS ALLOWANCE/PAY

paid by the employer to its employees as well as a pensioner to offset the impact of inflation. It is **fully taxable.**





ALLOWANCES

It is fixed monetary amount paid by employer to the employee in addition to salary for meeting some particular expenses whether personal or for performance of his duties. They are generally taxable on receipt or due basis whichever is earlier unless specific exemption is provided.

FULLY TAXABLE ALLOWANCES

Entertainment Allowance; Dearness Allowance; Overtime Allowance; Medical Allowance; City Compensatory Allowance; Lunch/Dinner/Tiffin Allowance; Family Allowance; Warden Allowance; Servant Allowance; Project Allowance Etc.

PARTLY TAXABLE ALLOWANCES

House Rent Allowance [Sec 10(13A)]
Special Allowances [Sec 10 (14)]

FULLY EXEMPT

Allowances to high court judges;

- Allowances paid by United Nations Organisation
- Compensatory allowance received by judge
- Sumptuary allowance given to High Court and Supreme Court judges

Allowance given to Govt. employees outside India

HOUSE RENT ALLOWANCE [SEC 10(13A)]

HRA is given by employer to employee to meet the expenses in connection with rent of the accommodation which the employee might have to take for his/her residence.

HRA given to an employee is **exempt** to the extent of **minimum** of the following:

Metro Cities (i.e. Delhi, Mumbai, Chennai, Kolkata)	Other Cities
1. HRA actually received	1. HRA actually received
2. Excess of Rent paid over 10% of salary i.e. (Rent paid – 10% of salary for relevant period)	2. Excess of Rent paid over 10% of salary i.e. (Rent paid – 10% of salary for relevant period)
3. 50% of the salary for the relevant period	3. 40% of the salary for the relevant period

Notes (for HRA):

Salary includes basic salary + D.A. (forming part of salary) + commission (if based on % of turnover)

Exemption is not available to an assesse who lives in his own house or in house for which he has not incurred the expenditure of rent

Relevant period means the period for which the said accommodation was occupied the assesse during the previous year

Salary to be taken on due basis in respect of which rented accommodation is occupied by the employee in the P.Y. Advance salary should be ignored.

SPECIAL ALLOWANCES [SEC. 10(14)]

Granted to meet expenses incurred wholly, necessarily and exclusively in the PERFORMANCE OF OFFICIAL DUTIES [SEC. 10(14)(i)]

EXEMPT to the extent of the minimum of the following:
Actual Allowance Received
Actual amount spent for official purpose

i.e. whiche ver is less Granted to meet his PERSONAL EXPENSES [SEC. 10(14)(ii)]

Either at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides

EXEMPT to the extent of the minimum of the following:
Actual Allowance Received
Specified limit

Actual expenditure in the above case has no relevance

SPECIAL ALLOWANCES [SEC. 10(14)]

[Section 10(14)(i)]

- Travelling Allowance
- 2. Daily Allowance
- 3. Conveyance Allowance
- 4. Helper Allowance
- 5. Academic Allowance
- 6. Uniform Allowance

SPECIAL ALLOWANCES [SEC. 10(14)]

[Section 10(14)(ii)]

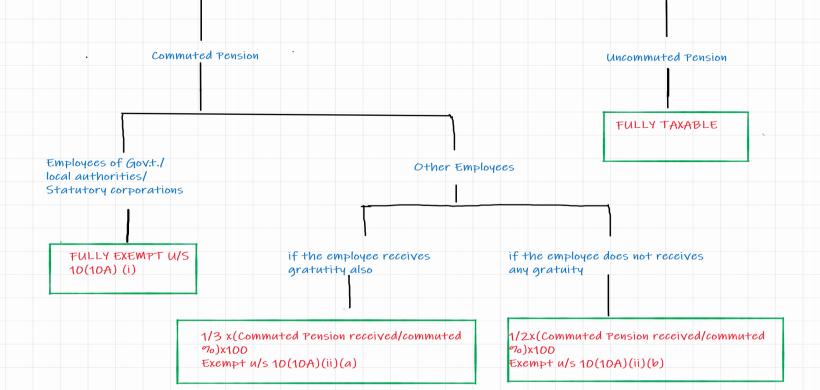
NAME OF ALLOWANCE [Section 10(14)(ii)]	EXTENT TO WHICH ALLOWANCE IS EXEMPT
Children Education allowance	₹100 p.m. per child upto maximum of 2 Children
Hostel expenditure allowance	₹ 300 p.m. per child upto maximum of 2 Children
Transport allowance (for the purpose of commuting between place of residence to place of his duty) In the case of an employee who is blind or deaf and dumb or orthopedically handicapped	₹ 3200 p.m.
Underground allowance	₹ 800 p.m.
Tribal area/Scheduled area allowance	₹ 200 p.m.
Allowance for transport employees working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another	70% of such allowance Or ₹ 10,000 p.m. Whichever is lower
High altitude (uncongonial climate) allowance given to	Alt of 0000ft To 15000ft ₹1060 pm

Treatment of Entertainment Allowance

Entertainment allowance received is **fully taxable** and is **first to be included in salary income** under the head "Salaries" and thereafter a deduction is given. **Deduction** in respect of Entertainment allowance is available **from Gross Salary only to Government employees.** The amount of deduction will be lower of :

- 1. ₹ 5,000
- 2. 20 percent of basic salary i.e. exclusive of any allowance, benefit or other perquisite; or
- 3. Amount of entertainment allowance received during the previous year
- In the case of a non-Governmental employee entertainment allowances is not deductible. Amount actually spent towards entertainment (out of entertainment allowance received) is not taken into consideration.







GRATUITY (OTHER EMPLOYEES)

<u>COVERED UNDER PAYMENT OF GRATUITY</u> <u>ACT, 1972</u>

 Gratuity is exempt from tax to the extent of minimum of the following:
 Actual Gratuity received
 ₹ 20,00,000
 Monthly salary* 26 or part thereof in excess of 6 months

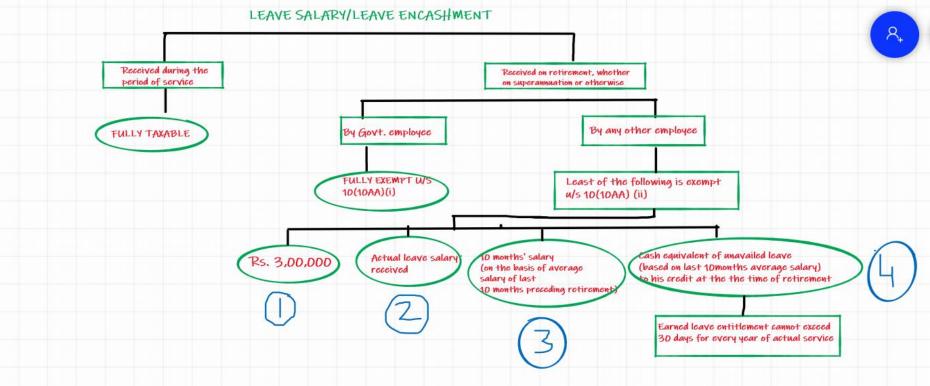
Note: *Salary= Basic salary + D.A.

NOT COVERED UNDER PAYMENT OF GRATUITY ACT, 1972

Gratuity is exempt from tax to the extent of minimum of the following:
Actual Gratuity received
₹ 20,00,000
Average salary*/2 × Completed year of service

Note: *Salary= Basic salary + D.A. (forming part) + Commission (%of turnover)

* Salary is based on last 10 months average salary immediately preceding the month of retirement or death



NOTES: LEAVES UNAVAILED= LEAVE ALLOWED -LEAVES AVAILED Leaves allowed= No. of completed years of service x (30 days per year/1 month)*

* Actual allowed by the employer or 30 days/1 month, whichever is less.