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CHAPTER 4

INCOME UNDER THE HEAD "SALARIES"

IMPORTANT POINTS TO REMEMBER :

1. An income can be taxed under the head Salaries only if there is a relationship of an employer and employee between the payer and payee.

2. [Salary will be deemed to accrue or arise at a place where services are rendered.] But in case of a citizen of India who is a Government employee and renders any service outside India, salary received by him would be treated as income deemed to arise in India. But, any allowances or perquisites paid or allowed outside India by the Government for rendering services outside India, are exempt.

3. 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.

4. Arrears of salary which have not been taxed in the past, such arrears will be taxed in the year in which these arrears are paid.

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5. The waiver of salary by employee would be treated as application of the income and salary though waived would be taxable in his hand.

6. Where salary becomes due at the end of the Month then we shall tax the salary from April to March.

7. Where salary becomes due on the first day of the next month then we shall tax the salary from march to Feb.

Computation of taxable salary (AY 2020-21)

Particulars	Amount	Amount
Basic Salary		XXX
Bonus		XXX
Commission		XXX
Arrears of salary		XXX
Advance salary		XXX
All taxable allowances		XXX
Value of taxable perquisites		XXX
GROSS SALARY		XXX
Less : Deductions u/s 16		(XXX)
NET TAXABLE INCOME FROM SALARY		XXX

Rs. 20,000 p.m | + Other allowances / perks / benefits

Basic

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ALLOWANCES

Fixed monetary amount paid by the employer to the employee for meeting some particular expenses, whether personal or for the performance of his duties.

TYPES OF ALLOWANCES

SECTION 10(13A)

- HOUSE RENT ALLOWANCE

SECTION 10(14)

PRESCRIBED SPECIAL ALLOWANCE

Special allowances for performance of official duties.
Section 10(14)(i)

- Travelling Allowance
- Daily Allowance
- Conveyance Allowance
- Helper Allowance
- Academic Allowance
- Uniform Allowance

Allowances to meet personal expenses.
Section 10(14)(ii)

- Children Education Allowance.
- Hostel Expenditure Allowance
- Transport Allowance

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- HOUSE RENT ALLOWANCE (HRA)

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CONDITIONS (Exempted Value)

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1. Actual HRA received
2. Rent paid − 10% of salary
3(a). 50% of salary (Delhi, Mumbai, Kolkata, Chennai)

OR

(b). 40% of salary (Any other place)

whichever is less, will be the exempted value.

* Salary = Basic Salary + Dearness Allowance (As per the terms of employment) + Commission (fixed percentage of turnover)

Ques. R is employed with XY Ltd. on a basic salary of Rs. 5,000 per month. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary for as per terms of employment. The company gives him HRA of Rs. 3000 p.m which was increased to Rs. 3500 w.e.f 1.1.2020. He also got an increment of Rs. 500 in his basic salary w.e.f 1.2.2020. Rent paid by him during the previous year 2019-20 is as under :

April and May, 2019 → NIL, as he stayed with his parents

June to Oct., 2019 → Rs. 3000 p.m (Ghaziabad)

Nov., 2019 to March 2020 → Rs. 4000 p.m (Delhi)

Compute his gross salary for AY 2020-2021.