



INCOME UNDER THE HEAD SALARIES

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PERQUISITES [Sec. 17 (2)]



- ▶ Perquisites are emoluments or benefits received from an employer, in addition to salary .
- ▶ Perquisites are included in salary income only if it is received by an employee from an employer . Perquisites , received from a person other than a employer ,are taxable under the head “Income from other sources”.

TYPES OF PERQUISITES

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graph TD; A[TYPES OF PERQUISITES] --- B[Perquisites taxable in the case of all employees]; A --- C[Perquisites taxable only in the hands of specified employees]; A --- D[Perquisites exempt in case of all employees];
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SPECIFIED EMPLOYEES:

- ▶ A Director employee– an employee who is a director in the employer company at any time during the previous year , is a specified employee.
- ▶ An employee who has substantial interest in the employer's company, i.e., if he/she is a beneficial owner of equity shares carrying 20% or more voting power in the employer company.
- ▶ Employee drawing in excess of Rs.50,000 (not covered in the above two categories), i.e. ,whose income chargeable under the head “Salaries” (excluding all benefits or amenities not provided by way of monetary payments) exceed Rs.50,000, is a specified employee.



Perquisites taxable in the case of all employees

Rent free unfurnished accommodation-

► For the purpose of valuation of perquisites in respect of unfurnished accommodation, employees are divided in the following 2 categories:

❑ **Central and State Government employees:** Valuation on the basis of **Licence Fees**.

Exception: *in some cases employees are fully exempt from tax like, Judges of High or Supreme Court; an official of parliament, a union minister, Leader of opposition in Parliament; serving Chairman/members of UPSC.*

❑ **Private Sector or Other Employees:** Valuation of the perquisites depends upon salary of the employee & lease rent of the accommodation.

Basis of Valuation & its Exceptions:

| Population of City as per 2001 Census where accommodation is provided | Where the accommodation is owned by employer | Where the accommodation is taken on Lease/Rent by the employer |
|---|---|---|
| Exceeding 25 Lakhs | 15% of salary in respect of the period during which the accommodation is occupied by the employee. | (a) 15% of Salary; or (b) Lease Rent (paid or payable by employer) Whichever is Less |
| Exceeding 10 Lakhs but not 25 Lakhs | 10% of salary in respect of the period during which the accommodation is occupied by the employee. | |
| Any other | 7.5% of salary in respect of the period during which the accommodation is occupied by the employee. | |

Salary for RFA – How to Calculate

Salary includes:

- ▶ *Basic salary*
- ▶ *D.A. (forming part of retirement benefits)*
- ▶ *Bonus*
- ▶ *Commission*
- ▶ *Fees*
- ▶ *All other taxable allowances*
- ▶ *Monetary payments which are chargeable to tax.*

It excludes value of perquisites specified in Section 17(2) of Income-tax Act; employer's contribution to provident fund account of employee; lump-sum retirement benefits etc.

- **Salary from 2 or more employers: In respect of the period in which accommodation is provided salary from all employers are taken into consideration.**

Exceptions:

- ▶ When accommodation is located in a 'Remote area' (i.e., an area located at least 40km away from a town having population not exceeding 20,000), usually in case of mine work or dams etc.
- ▶ If perquisite is acquired on temporary nature (and having plinth area of 800 sq. ft. or less) which is located at least 8km away from local limits of a municipality or cantonment board provided to an employee working at a mining site or an offshore site, is not chargeable to tax.
- ▶ When on the account of the transfer of an employee from one place to another and he/she is provided accommodation at new place of posting while retaining the accommodation at other place . Here the value of the perquisite is determined from only 1 such accommodation which has lower value for a period not more than 90 days after which the value of perquisite shall be charged for both such accommodations.

Valuation of a Rent-Free Furnished Accommodation:-

1. A furnished accommodation (not in a Hotel, Motel, Service Apartment or Guest House): Value of such perquisites can be calculated by using the following steps:-
 - ▶ Find out the value of the accommodation in an unfurnished condition.
 - ▶ Add: The value of the furniture. If the furniture is provided by the employer then add 10 % p.a. of the actual cost else add the actual hiring charges if furniture is hired from third party.

2. A furnished accommodation in a Hotel, Motel, Service Apartment or Guest House: Value of such perquisite is determined in the following way:

- ▶ 24 % of the salary payable during such accommodation is provided in the previous year; or
- ▶ Actual charges paid by the employer to such hotel.

Whichever is less.

▶ **No perquisite value** if accommodation is provided in a hotel if the following 2 conditions are satisfied:

1. Such accommodation is provided for a period not exceeding 15 days and
2. It has been provided on the transfer of the employee from one place to another.

Valuation of Accommodation provided at Concessional Rent

1. Find out the valuation of the perquisite on the assumption that no rent is charged by the employer.
2. From Step 1) deduct the rent charged by the employer from the employee.

The remaining balance will be a taxable perquisite.

Monetary obligation of employee met by employer

- ▶ If any monetary obligation of employee has been fulfilled by employer on behalf of employee then whatever payment has been made by employer shall be treated as value of perquisite for employee.
- ▶ Taxable in the hands of all employees
- ▶ Examples:
 - ▶ Gas, electricity bill paid or reimbursed
 - ▶ Servant, watchman, etc. salary paid
 - ▶ Children education expenses paid or reimbursed
 - ▶ Medical expenses reimbursed
 - ▶ Income tax or professional tax paid by employer
- ▶ **Value of Perquisite = Actual amount Spent by employer**

Valuation of life insurance premium/deferred annuity premium paid/payable by employer

- ▶ Any sum payable by the employer, whether directly or through a fund other than a recognised provident fund or an approved superannuation fund or Deposit Linked Insurance Fund
 1. to effect an assurance on the life of the assessee or
 2. to effect a contract for an annuity

is a perquisite taxable in the hands of all employees.

- ▶ **Value of Perquisite = Actual expenditure incurred by employer**
- ▶ Since the payment of LIP was on behalf of the employee and the same has been included in the total income of the employee, such employee shall be entitled to a deduction under section 80C.
- ▶ **Exception:**

Employer pays insurance premium under certain schemes such as Employees' State Insurance Schemes, Fidelity Guarantee Scheme, it shall not be regarded as a perquisite for the employees

FRINGE BENEFITS

Interest free loan or at Concessional Rate of Interest

- ▶ Find out the outstanding monthly balance (on the last day of each month) and find out the interest rate by SBI on the first day of relevant previous year for the same purpose advanced by it.
- ▶ Calculate the interest of each month and deduct the amount actually recovered from the employee in the previous year.

Exception:

- ▶ If a loan is made available for the disease specified in Rule 3A. However, it is not applicable when loan has been reimbursed to the employee under any medical insurance scheme.
- ▶ When the amount of original loan does not exceed Rs 20,000.

VALUATION OF PERQUISITE IN RESPECT OF TRAVELLING, TOURING, ACCOMMODATION

| When such facility is available uniformly to all Employees | Where such facility is maintained by employer and When such facility is not available uniformly to all Employees |
|---|---|
| Taxable Value = Actual expenditure of the employer (–) Any amount recovered from the employee | Taxable Value = Value at which such facilities are offered by other agencies to the public (–) Any amount recovered from the employee |

Other points:

- 1) Where the employee is on an **official tour and the expenditure is incurred in respect of any member of his household accompanying him**, the amount of expenditure so incurred shall be taxable.
- 2) Where any **official tour is extended as an vacation**, the value of such perquisite will be limited to the expenses incurred in relation to such extended period of stay or vacation

Value of free food and non-alcoholic beverages

| CASES | VALUE OF PERQUISITE |
|---|---|
| Tea or snacks (refreshment) provided during working hours | Nil |
| Free food and non-alcoholic beverages during working hours provided in a: (i) Remote area (ii) An off shore installation | Nil |
| Free food and non-alcoholic beverages during working hours provided (i) At office or business premise ; or (ii) Through paid vouchers which are not transferable and usable only at eating joints | Exempt up to Rs. 50 per meal i.e. taxable in excess of Rs. 50 per meal |
| In any other case | Actual expenditure incurred by the employer |

Notes: 1. working hours include overtime, working on holidays, etc.
2. If any amount has been charged from employee then it should be deducted from value of perquisite.

VALUATION OF PERQUISITE IN RESPECT OF GIFT, VOUCHER OR TOKEN

- ▶ Gift may be made either to an employee or any member of his household on ceremonial occasions or otherwise.
- ▶ Taxable Value: Actual expenditure incurred by the employer.
- ▶ Gift in kind up to Rs. 5,000 (in aggregate) per annum is exempt.
- ▶ However, if it is in monetary terms (Cheque, cash, draft etc.) then it is fully taxable.

VALUATION OF PERQUISITE IN RESPECT OF CREDIT CARD FACILITIES

| Cases | Value of Perquisite |
|--|---|
| Where expenditure (including membership fees and annual fees) are incurred by the employee or any other member of his household, which is charged to a credit card (including any add-on-card) provided by the employer and Such expenses are incurred wholly and exclusively for official purposes only | Nil |
| For any purpose other than mentioned above | Actual expenditure incurred or reimbursed by employer |

Conditions to be satisfied to find out 'Expenditure for Official Use':

- Complete details related to date of expenditure and nature of expenditure should be maintained by employer.
- The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

Note: If any amount has been charged from employee then it should be deducted from value of perquisite

VALUATION OF PERQUISITE IN RESPECT OF CLUB FACILITIES

| Cases | Value of Perquisite |
|--|---|
| The payment or reimbursement by the employer of any expenditure incurred (including amount of annual or periodical fee) in a club by the employee or any other member of his household, Such expenses are incurred wholly and exclusively for official purposes only | Nil |
| For any purpose other than mentioned above | Actual expenditure incurred or reimbursed by employer |

Conditions to be satisfied to find out 'Expenditure for Official Use':

- Complete details related to date of expenditure and nature of expenditure and its business expediency should be maintained by employer.
- The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

Note: 1. If any amount has been charged from employee then it should be deducted from value of perquisite.
2. There would be no perquisite for use of health club, sports and similar facilities Provided uniformly to all employees by the employer.

PERQUISITE IN RESPECT OF USE OF MOVABLE ASSETS

Computer/laptop is provided by an employer to his employee

- ▶ Nothing is chargeable to tax in the hands of employee.

If any other movable asset is provided to an employee

- ▶ 10 per cent per annum of actual cost of asset to the employer;
or
- ▶ Hire charges paid or payable by employer

The above amount shall be reduced by any amount recovered from the employee and balance is a taxable perquisite in the hands of an employee.

PERQUISITE IN RESPECT OF TRANSFER OF MOVABLE ASSETS

Value of perquisite is determined as under:

| Assets transferred | Value of perquisite |
|--------------------------------|---|
| Computers and electronic items | Depreciated value of asset [depreciation is computed @ 50% on WDV for each completed year of usage] |
| Motor cars | Depreciated value of asset [depreciation is computed @ 20% on WDV for each completed year of usage] |
| Any other asset | Depreciated value of asset [depreciation is computed @ 10% on SLM for each completed year of usage] |

Note: Where the employee is paying any amount in respect of such asset, the amount so paid shall be deducted from the value of perquisite determined above.

PERQUISITE IN RESPECT OF TRANSFER OF MOVABLE ASSETS

VALUE OF PERQUISITE = BOOK VALUE* - ACTUAL SALE PRICE

*Book Value = Actual Cost- Depreciation

Notes:

-> Normal Wear & Tear will be calculated only if the assets is used by the employer for his business purposes.
Only for completed years not for fraction of years.

->Electronic Gadgets means data storage and handling devices like computer, digital diaries and printers.

Other benefit or amenity



The value of any other benefit or amenity, service, right or privilege provided by the employer shall be determined on the basis of cost to the employer under an arm's length transaction as reduced by the employee's contribution, if any

Provided that nothing contained in this clause shall apply to the expenses on telephones including a mobile phone actually incurred on behalf of the employee by the employer.