DEDUCTIONS FROM SALARIES

[SECTION 16]

Standard Deduction [Section 16 (ia)]

Amount of deduction:

1. Rs. 50,000
2. Gross Salary

whichever is less

Entertainment Allowance [Section 16 (ii)]

Points to Remember:

1. The deduction of entertainment allowance is allowed only to Government employees.

2. Entire entertainment allowance received by any employee is added in computation of gross Salary, then only in case of Govt. employees, minimum of the following amount will be considered as deduction:

(a) Actual entertainment allowance received.
(b) 20% of basic salary
(c) Rs. 5000

Professional Tax OR Tax on employment [Section 16 (iii)]

Points to Remember:

1. Any sum paid by the assessee on account of professional tax shall be allowed as deduction.

2. Where professional tax is paid by the employer on behalf of the employee, the amount will first be included in calculation of gross salary as a perquisite. Thereafter, a deduction on account of such professional tax will be allowed to the employee from his gross salary.

3. Professional tax due but not paid shall not be allowed as deduction.

Page No.
Date :

PROVIDENT FUND

Important points to remember :

1. Certain sum is deducted by the employer from the employee's salary as his contribution to the provident fund every month.

2. Employer also contributes a certain percentage of the salary of the employee to the provident fund.

3. Contribution made by the employees is out of their income and therefore, it is not taxable.

4. Contribution made by the employer is over and above the salary of the employee. Therefore, it is exempt upto certain limit.

5. Interest credited to provident fund account of the employee is also an income of the employee over and above his salary income. Therefore, it is also exempt upto certain limit.

Types of Provident Fund :

1. Statutory Provident Fund.

This fund is set up under the PF Act, 1925 and it is meant for Government employees, semi-govt. employees, university or educational institutions etc.

Page No.
Date :

2. Recognised Provident Fund
Any person who employs 20 or more employees is under an obligation to register himself under the PF Act, 1952 and start a PF scheme for the employees in his organisation.

3. Unrecognised Provident Fund
Any scheme started by the employer and the employees in an establishment whether approved by commissioner of provident fund or not, but not approved by the principal commissioner of income tax.

4. Public Provident Fund
This provident fund is covered under PPF Act, 1968. Any person can contribute to this fund whether employed or not. There is no employer's contribution. Employee can deposit money under PPF account in addition to other funds.

Treatment of provident fund

Particulars	SPF	RPF	URPF	PPF
1. Employee's Contribution	deduction under section 80C is available	deduction under section 80C is available	No deduction	Deduction under section 80C is available
2. Employer's Contribution	Fully exempt	Exempt upto 12% of Salary	Not taxable	Not applicable
3. Interest on PF	Fully exempt	exempt upto 9.5% p.a.	Not taxable	fully exempt

Salary = Basic + DA (as per the terms of employment) + Commission (fixed percentage of turnover)