

UNIT 4 : SALARY

Assessee receives income from different sources during the year.

For the purpose of Income tax, income is classified under the following heads of income: -

1. Salaries
2. Income from House Property
3. Profits and gains of business / profession
4. Capital gains
5. Income from other sources

Any income earned by assessee is to be classified under one of the heads of income listed above. If certain income falls under more than one head assessee has a right to choose the most appropriate head for it. Income should not be put under a wrong head.

However, income tax is "one tax". It is levied on total income from all the heads and not separately (except in few cases) for each head of incomes.

SALARY (SECTION 15 TO 17)

Salary means remuneration received by an employee from employer or former employer in any form such as gift, pension, gratuity, usual remuneration etc. Some important points regarding income taxable under the head Salary: -

- 1) Employer—employee relationship.
- 2) For tax purpose there is no difference between salary & wages.
- 3) Even gift received from employer is considered as salary income.
- 4) MP or MLA is not considered as an employee of the Government. Therefore, Salary & allowances received by him are not chargeable under the head 'Salary'. They are to be included under the head 'Income from Other Sources'.

BASIS OF CHARGE:

Under section 15 following income is chargeable to tax under the head 'Salary':-

- (1) Any salary due from an employer or a former employer to an assessee in the previous year whether paid or not.
- (2) Any salary paid or allowed to him in the previous year by or on behalf of an employer or former employer though not due.
- (3) Any arrears of salary paid or allowed to him in the previous year by or on behalf of employer or former employer if not charged to tax earlier.
- (4) Any salary, bonus, commission or remuneration due to or received by Partner of the firm from the firm shall not be regarded as Salary for the purpose of this section.

Under Section 17(1), SALARY is defined as:

- a. Wages;
- b. any annuity or pension;

- c. any gratuity;
- d. any fees, commission, perquisite or profits in lieu of or in addition to any salary or wages;
- e. any advance of salary;
- f. any payment received in respect of any period of leave not availed by him;
- g. the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in Recognised Provident Fund to the extent it is taxable; and
- h. transferred balance in a Recognised Provident Fund to the extent it is taxable; and
- i. the contribution made by the Central Government in the previous year, to the account of an employee under a pension scheme referred to in section 80CCD.

PERQUISITES- SECTION 17 (2):

Perquisite is additional benefit received by an employee over and above his basic salary but it is different from allowance. Perquisite may be paid voluntarily or by virtue of service contract.

Under Section 17 (2) Perquisite includes: -

1. The value of rent-free accommodation provided to the assessee.
2. Value of concession given in rent relating to accommodation provided to the assessee.
3. Value of any benefit granted free of cost or at a concessional rate in respect of following persons: -
 - (a) By a company to an employee who is also a Director of the company.
 - (b) By a company to an employee being a person who has substantial interest in the company. (Person holding 20% or more equity shares carrying voting rights is known as person having substantial interest in the company.)
 - (c) By an employer to an employee whose income under the head salary exceeds ₹ 50,000 excluding the value of non-monetary perquisites.

For the purpose of this clause, use of any vehicle provided by a company or an employer for journey by the assessee from his residence to his office or other place of work, or from such office or place to his residence shall not be regarded as benefit granted free of cost or at a concessional rate.
4. Any sum payable by the employer in respect of any obligation but for which payment would have been made by the assessee.
5. Any sum payable by the employer whether directly or through a fund to effect an assurance on the life of an assessee excluding contribution made to recognised provident fund or any other prescribed funds.
6. The value of any other fringe benefit or amenity as may be prescribed.

TAXABILITY OF PERQUISITES

For this purpose Perquisites can be classified into 3 categories:

Perquisites taxable in all cases (i.e. Specified & Non-Specified employees): -

- 1) Rent-free furnished or unfurnished accommodation in cases other than:
 - a. Rent free accommodation given in a remote area.
 - b. A temporary accommodation of 800 sq.ft. given at a mining site.
 - c. Hotel accommodation given after transfer not exceeding 15 days.
 - d. Rent free official accommodation provided to a Judge of High Court or Supreme Court or an official of Parliament or a Union Minister and a Leader of opposition in Parliament.

- 2) Furnished or unfurnished accommodation is provided in above cases at a nominal rent
- 3) Service of a sweeper, a gardener, a watchman or a personal attendant provided by an employer to an employee without charge or with nominal charge if Domestic servant is engaged by employee and salary is paid by employer.
- 4) Supply of gas, electric energy or water for household consumption of employee without any charge or with nominal charge if connection is in the name of employee and bills are paid by employer [covered by sec. 17(2) (iv)]
- 5) Education facility to any household members of the employee without any charge or with nominal charge if bills are issued in the name of employee but paid by employer [covered by sec. 17 (2) (iv)]
- 6) Any sum paid by employer in respect of an obligation which for such payment, would have been payable by the employee.
- 7) Amount payable by an employer directly or indirectly to effect an assurance on the life of employee or to effect a contract of an annuity (not being payments to recognised provident fund, etc.)
- 8) Interest-free loan or concessional loan to an employee where loan exceeds ₹ 20,000.
- 9) Providing use of any other movable asset to an employee or any member of his household
- 10) Transfer of any movable asset to an employee or any member of his household
- 11) Any medical facility in India provided to an employee or any member of his family when bills are in the name of employee and paid or reimbursed by employer in excess of ₹ 15,000 per assessment year
- 12) Value of any specified security or sweat equity shares allotted or transferred by the employer or former employer free of cost or at concessional rate (applicable from the assessment year 2012-13).
- 13) Any contribution to an approved superannuation fund by the employer in respect of the employee to the extent it exceeds ₹ 1 lakh (applicable from the assessment year 2012-13).
- 14) Value of any other fringe benefit or amenity notified for the purpose of section 17(3) (viii) (applicable from the assessment year 2012-13).
- 15) Travelling, touring accommodation.
- 16) Free food and beverages except if provided in office hours and the expenditure is ₹ 50 per meal or less.
- 17) Gift or gift voucher of the value of not less than ₹ 5,000 (if gift is in kind).
- 18) Club expenditure incurred by the employer in respect of personal use.
- 19) Credit card payments by the employer in respect of household use.

Perquisites taxable only for specified employees: -

- 1) Services of a sweeper, a gardener, a watchman or a personal attendant provided by an employer to an employee without charge or with nominal charge if domestic servant is engaged by employer and salary is paid by employer.
- 2) Supply of gas, electric energy or water for household consumption of employee without any charge or with nominal charge if connection is in the name of employer and bills are paid by employer
- 3) Education facility to any household members of the employee without any charge or with nominal charge if bills are issued in the name of & paid by employer.
- 4) Any medical facility in India provided to an employee or any member of his family if bills are in the name of employer and paid or reimbursed by employer in excess of ₹ 15,000 per assessment year.
- 5) Car or any other automotive conveyance.
- 6) Transport facility by a transport undertaking (not being provided by railways or by an airline).

Perquisites not taxable in all cases: -

- 1) Rent-free furnished or unfurnished accommodation in cases mentioned below: -
 - a) Rent free-accommodation given in a remote area.
 - b) A temporary accommodation of 800 sq. ft given at mining site, etc.
 - c) Hotel accommodation given after transfer for not exceeding 15 days
 - d) Rent-free official accommodation provided to a Judge of High Court or Supreme Court or an official of Parliament or a Union Minister and a Leader of opposition in Parliament.
- 2) Leave travel concession to employees subject to provision of section 10(5)
- 3) Providing use of computer & laptop to an employee or any member of his household.
- 4) Providing medical facilities to an employee or any member of his family: -
 - a) in a hospital maintained by the Government or any local authority or approved by the Government for the medical treatment of Government employees.
 - b) in a hospital maintained by the employer.
 - c) in respect of prescribed diseases or ailments, in any hospital approved by the Chief Commissioner having regard to the prescribed guidelines.
- 5) Health insurance premium of the employee or any member of his household paid by the employer
- 6) Any other medical facility in India provided to an employee or any member of his family
 - a) Bills are in the name of employer and paid or reimbursed by employer up to ₹ 15,000 per assessment year
 - b) Bills are in the name of employee and paid or reimbursed by employer up to ₹ 15,000 per assessment year
 - c) Medical facility outside India if a few conditions are satisfied
- 7) Any perquisite other than taxable perquisites already mentioned (few examples are car, holiday home, club, free tea / refreshment / lunch, gift, etc.)

Section 17 (3) Profits in Lieu of Salary

It is not a regular payment received from the employer. It is received instead of salary.

It includes:

- 1) The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment or the modification of the terms and conditions relating there to;
- 2) Any payment other than any payment referred to in clause (10) (clause (10 A)) (Clause (10B), Clause (11) Clause (12) Clause (13) or clause (13A) of section 10, due to or received by an assessee from an employer or a former employer or from provident fund or other fund, to the extent to which it does not consist of contributions by the assessee or interest on such contributions;
- 3) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.
- 4) Any amount due to or received, whether in lump sum or otherwise, by an assessee from any person -
 - a) Before his joining any employment with that person, or
 - b) After termination of his employment with that person.

TAXABILITY OF PROVIDENT FUNDS

Particulars	Statutory Provident Fund	Recognised Provident Fund	Unrecognised Provident Fund	Public Provident Fund (PPF)
1) Who runs the Fund	Government	Respective employer	Respective Employer	Nationalised Banks
2) Contribution made by Employee	Not taxable. Deduction u/s 80C	Not taxable Deduction u/s 80C	Not taxable No deduction u/s 80C	Not Taxable Deduction u/s 80C
3) Contribution made by Employer	Totally exempt	Exempt only up to 12% of basic Salary	Totally exempt	Employer does not contribute
4) Interest earned on the fund	Totally exempt	Exempt upto 8.5% p.a.	Totally exempt	Exempt u/s 10(15)
5) Maturity on Retirement	Totally exempt	Totally exempt	1) Employee's own saving-tax free 2) Int. on his savings-fully taxed as other Income 3) employer's Contribution fully taxed as salary Income 4) Int. on Employer's contribution fully taxed as salary income	Term of this account is 15 years which may be extended upto 20/25 years maturity are fully exempt

Note :-

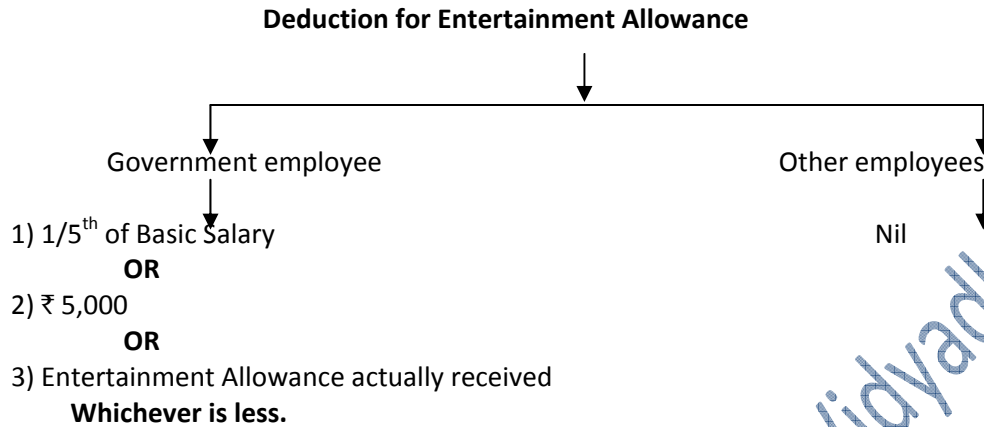
“Salary” referred above is basic salary. It includes D.A. if terms of employment so provide.

By adding salary, taxable perquisites and profit in lieu of salary we get Gross Salary of an employee. From Gross Salary certain deductions are allowed u/s 16 & only remaining amount is considered as Net Taxable Salary.

DEDUCTIONS FROM SALARY INCOME—SECTION 16

ENTERTAINMENT ALLOWANCE U/S 16 (ii):

If any entertainment allowance is granted to the assessee who is in receipt of salary from the government deduction is allowed against it u/s 16 (ii) as follows: -



TAX ON EMPLOYMENT U/S 16 (iii)

Any tax paid by an employee on employment to the state Govt. is fully deductible from taxable salary e.g. Profession tax charged by Govt. of Maharashtra.

If profession tax is paid by the employer, it is first included in taxable salary as perquisite and then deduction u/s 16 (iii) is allowed.

PROBLEMS

- Mr. Sanjay is working as an accountant in Central Railway. The following are the particulars of his income for the year ending 31st March 2014:
 - Monthly Basic Salary ₹ 5,800.
 - Dearness Allowance ₹ 500 per month.
 - Special Allowance of ₹ 300 per month.
 - Bonus ₹ 2,000.
 - Entertainment allowance of ₹ 800 per month since 1-4-1989 of which he actually spent ₹ 8,000.
 - He spent ₹ 1,500 on books and paid profession tax ₹ 720.You are required to compute taxable income from salaries of Mr. Sanjay for assessment year 2014-2015.
- Mr. Harilal is working as inspector of Central Excise Department. He provides you the following information for the year ended 31st March 2014.

(a) Basic salary per month	₹ 7,800
(b) Dearness Allowance per month	₹ 4,000
(c) Ex-gratia	₹ 8,840
(d) Entertainment Allowance of ₹ 1,000 p.m. from 1-4-1991 Amount actually spent ₹ 7,000.	
(e) House rent allowance ₹ 22,000 (Exempt u/s 10 (13A) ₹ 7,000)	

- (f) Arrears of salary ₹ 6,000.
(g) Profession Tax was deducted at source from salary ₹ 1,440.
He was on leave for one month and went to Kashmir on 31st March 2014. He took the salary (Basic & D.A.) of April in advance.
Compute his taxable salary.
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3. Mr. Manjrekar who was working as Commissioner of Income Tax, retired on 31st December 2013. Following are the particulars of his income relating to the year ending on 31st March 2014.
- (a) Salary received ₹ 9,000/- per month.
(b) Entertainment Allowance received ₹ 450/- p.m. He spent on entertainment ₹ 350/- p.m. on an average.
(c) During the month of January, 2014 he received gratuity amounting to ₹ 95,000/-
(d) He received ₹ 70,000/- the value of commuted Pension on 15th January 2014.
(e) He received uncommuted Pension from Government with effect from 1st January, 2014 which becomes due on every last day of the month at the rate of ₹ 3,200/- p.m.
(f) He received arrears of salary ₹ 9,400/- on 29th March, 2014.
(g) He incurred the expenses incidental to Employment such as purchase of books, car expenses etc. amounting to ₹ 15,280/-
You are required to compute his taxable income for the assessment year 2014-2015.
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4. Mr. Varun is working as an accounts officer in a Government Department at Mumbai, since 1976. During the year he received ₹ 48,000/- as salary, ₹ 1,000/- as ex-gratia & ₹ 4,500 as entertainment allowance. He was provided with rent free furnished accommodation perquisite value of which was ascertained at ₹ 18,500. Transport allowance of ₹ 4,000 was received and actual expenses incurred were ₹ 4,200/-. Profession Tax paid during the year was ₹ 1,080/-
You are required to ascertain the income chargeable to tax under the head, "Salaries" of Mr. Varun for the assessment year 2014-2015.
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5. Miss. Mandira is employed with Soni Sales & Services as sales representative. She furnishes you the following information for the assessment year 2014-2015.
- a. Salary @ ₹ 25,000 per month.
b. Commission on sales ₹ 47,000/-.
c. Bonus equal to one month's salary was paid.
d. ₹ 16,000/- as compensation for termination of services.
e. Entertainment allowance @ ₹ 1,250 per month since 1st January 1994
f. House rent allowance ₹ 5,000 per month (Exempt ₹ 3,000 per month).
On 1st December, 2013 she was appointed as sales manager in Set Max Ltd. on the following terms and conditions:
- a. Salary @ ₹ 6,000 per month, and
b. Car facility exclusively during office hours.
c. H.R.A. ₹ 1,650 per month. (Exempt ₹ 400 p.m.)
You are required to compute the taxable income of Miss. Mandira for the assessment year 2014-2015.
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6. Mr. Rajesh is an employee of M/s Modern Laboratories who furnishes you the following information for the assessment year 2014-2015:

- (a) Net Salary per month ₹ 25,750 for 11 months and ₹ 25,650 in the last month.
- (b) Income tax deducted at source per month ₹ 8,000 & Profession Tax ₹ 200 per month for 11 months and ₹ 300 in the last month.
- (c) Provident fund contribution deducted from salary ₹ 5,000 per month.
- (d) Employer paid ₹ 33,500 being the rent of the house occupied by Mr. Rajesh.
- (e) Award from Thane Municipal Corporation for presentation of best design, ₹ 5,000/-.

On 1st October 2013 Mr. Rajesh was appointed as a director. During 6 months period ended 31st March 2014, six Board Meetings were held out of which Mr. Rajesh attended five. Board meetings fees ₹ 400/- per meeting attended is paid to him. Calculate the taxable income under the head, "Salaries" of Mr. Rajesh for the assessment year 2014-2015.

7. Miss. Paro is employed with M/s Devdas Electronics. Salary for the month is paid on 1st day of the following month. She furnishes you the following particulars for the assessment year 2014-2015.

- (a) Received salary @ ₹ 14,000 p.m. for the period from 1st March 2013 to 28th February 2014
 - (b) Reimbursement of car expenses in respect of office use ₹ 12,000/-. (She used her own car for herself as well as for office use)
 - (c) Her contribution to Recognised P.F. was 13% of salary with employer making equal contribution.
 - (d) She was credited with interest @ 9% p.a. on her P.F. Account which was ₹ 18,000.
- She was also doing a part time job with Anand Dham Co-operative Society on a monthly remuneration of ₹ 1,000/-. Bonus equal to one month's salary was declared.

You are required to ascertain the taxable income from salaries of Miss Paro for the assessment year 2014-2015.

8. Mr. Dipak, the chief accountant in a factory at Baroda, furnishes you with the following information and asks you to compute his income taxable under the head, "Salaries" for the assessment year 2014-2015.

- (a) Salary ₹ 1,47,000.
 - (b) Arrears of Salary for earlier year received during the year ₹ 6,000/-
 - (c) Salary for April, 2014 received on 31st March 2014 ₹ 12,250/-
 - (d) Purchased car by taking a loan of ₹ 15,000/-
 - (e) A gift by the employer for excellent work ₹ 7,500/-
 - (f) Reimbursement of expenses incurred by him for attending company's work at Delhi ₹ 25,000/-
 - (g) He spent for books ₹ 1,500/-, profession tax ₹ 1,080 and fees for membership of a professional body ₹ 300/-
 - (h) L.I.C. Premium paid by the employer ₹ 4,500/-.
 - (i) Bonus equal to one month's salary was declared.
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9. Shri Ganesh Deshpande is working as an accountant of M/s Kamini Industries Pvt. Ltd. He furnishes you the following information for the assessment year 2014-2015:

He received salary of ₹ 60,000 per month. He is provided with furnished accommodation, the perquisite value of which is considered to be ₹ 14,400/- per annum.. Company deducted Profession Tax ₹ 2,500/- from his salary during the year.

He was on leave for 25 days. During the period of his leave he went to Dehradun and stayed at the guesthouse of the employer company.

The company paid the Railway fare from Mumbai to Dehradun and back for Shri Ganesh, his wife and children.

The Railway fare amounts to ₹ 7,500/-, which is within the specified limits.

You are required to ascertain his taxable income under the head, "Salaries" for the assessment year 2014-2015.

10. Mr. Vikas is the branch manager of The Thane Janata Sahakari Bank Ltd. He furnished the following information for the previous year ending on 31st March 2014.

- (a) Received salary at ₹ 9,000/- per month.
- (b) An award as the "Best Manager" of ₹ 11,000/- was received on 26th January 2014 from the Board of Directors of the Bank.
- (c) Notified Special Allowance for half yearly closing of ₹ 1,500/- was received twice during the year. He incurred the expenses of ₹ 1,080/- on each occasion to give refreshments to the staff of the branch, to complete the work of half-yearly closing in time.
- (d) Shri Vikas received an award of ₹ 5,000/- from commissioner of Police, Thane for showing the necessary courage to prevent the terrorist who intended to kill the members of the staff.
- (e) Transport Allowance ₹ 800 p.m. Actual expenses ₹ 700 p.m.
- (f) Profession Tax for the year was ₹ 960/- & it was paid by the employer.

You are required to ascertain the taxable income under the head, "Salaries" of Mr. Vikas for the assessment year 2014-2015



M.Com. Notes-Income Tax CA Vikas Joshi