

Marudhar Kesari Jain College for Women Vaniyambadi

PG Department of Commerce CA

E-Notes

Subject Name: Income Tax Law and Practice- I

Subject Code: CEC55C

Unit II - Income from Salary

Income from salary is the income or remuneration received by an individual for services he is rendering or a contract undertaken by him. This clause essentially assimilates the remuneration received by a person for the services provided by him under the contract of employment.

This amount of remuneration will be considered as income for the purposes of Income Tax Act only if there is an Employer and employee relationship between the person who is making the payment and the person who is receiving the payment.

Employer and Employee Relationship – Any payment that is received by a person will be treated as Income under Income Tax Act if there exist an Employer and employee relationship between the payer and payee. For the purpose of qualifying income as income from salary, their relationship should be that of a master and servant. Where a master is a person who directs his employee that what is to be done and how it is to be done and servant is the person who is liable to conduct that work in the manner told by his employer.

Meaning of Salary

The salary for the purpose of calculation of income from salary includes:

- Wages;
- Pension;
- Annuity;
- Gratuity;
- Advance Salary paid;
- Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages;
- Annual accretion to the balance of Recognized Provident Fund;
- Leave Encashment;
- Transferred balance in Recognized Provident Fund;
- Contribution by Central Govt. or any other employer to Employees Pension A/c as referred in Sec. 80CCD.

What is CTC?

CTC is one of the generic term when a person talks about salary. CTC stands for Cost To Company. It is the amount that the company is spending on hiring and sustaining an employee. CTC includes the salary as well as the other benefits provided to an employee which can be meal coupons, office space rent, **Provident Fund**, Medical Insurance, **House Rent Allowance(HRA)** and any other element that cost to the company.

It may be noted that CTC varies from the actual income from salary that a person receives as CTC also includes variables over and above the actual salary that a person is receiving.

Calculation of Income from salary

Particulars	Amt
Basic Salary	—
Add:	—
1. Fees, Commission and Bonus	—
2. Allowances	—
3. Perquisites	—
4. Retirement Benefits	—
5. Fees, Commission and Bonus	—
Gross Salary	—
Less: Deductions from Salary	—
1. Entertainment Allowance u/s 16	—
2. Professional Tax u/s 16	—
Net Salary	—

Allowances

Fully Taxable allowances:

- **Dearness Allowance:** The allowance is paid to the employees to cope with inflation.
- **Entertainment Allowance:** This is an allowance that is provided to the employees to reimburse the expenses which are incurred on the hospitality.

- **Overtime Allowance:** Overtime allowance is the allowance which is paid to the employees for working above the regular work hours.
- **City Compensatory Allowance:** This allowance is paid to those employees who move to urban cities.
- **Project Allowance:** When an employer provides an allowance to the employees to meet the project expenses.
- **Tiffin/Meals Allowance:** Employees may be provided with meal allowances in some cases.
- **Cash Allowance:** Employer may also provide cash allowance in some cases like for marriage or holiday purposes.

Partly Taxable allowances:

- **House Rent Allowance:** It is the allowance that an employer pays to his employee for accommodation.
- **Entertainment allowance**
- **Special allowances** like allowance for travel, uniform, research allowance etc.
- **Special allowance to meet personal expenses** like children's education allowance, children hostel allowance etc.

Non Taxable allowances:

- **Allowances that is paid to the Govt. servants abroad:** When the government employee of India are paid allowances when they are serving abroad.
- **Sumptuary allowances:** Sumptuary allowances which are paid to the judges of HC and SC are not taxed.
- **Allowance paid by UNO:** Allowances which is received by the employees of UNO are fully exempt from tax.
- **Compensatory allowance paid to judges:** When a judge receives a compensatory allowance, it is also not taxable.

It may be noted that a person can save tax on income from salary by getting the **Tax Saving Allowances**.

Perquisites

Perquisites are those payments which are received by an employee from the employer over and above the salary.

Perquisites that are taxable for all the employees:

- Rent free accommodation
- Club fee payments
- Movable assets
- Concession in accommodation rent
- Interest-free loans
- Educational expenses
- Insurance premium paid on behalf of employees

Perquisites that are taxable only to specified employees:

- Free gas, electricity etc. for domestic purpose
- Concessional transport facility
- Concessional educational expenses
- Payment made to gardener, sweeper and attendant.

Perquisites that are exempt from tax:

- Medical benefits
- Health Insurance Premium
- Leave travel concession
- Staff Welfare Scheme

Taxability of Salary Income

Component of Salary	Taxability
Fixed Pay	Fully Taxable
Variable Pay	Fully Taxable
Allowances	Fully Taxable, Fully Exempt, Partially Exempt Subject to Conditions
Perquisites	Fully Taxable, Fully Exempt, Partially Exempt Subject to Conditions
Retirement Benefits	Fully Exempt, Partially Exempt Subject to Conditions

Tax on Allowances

Allowances	Taxability
House Rent Allowance HRA	Least of the following is exempt:a) Actual HRA Receivedb) 40% of Salary (50%, if house situated in Mumbai, Calcutta, Delhi, or Chennai)c) Rent paid minus 10% of salary* Salary = Basic + DA (if part of retirement benefit) + Turnover based Commission
Children education allowance	Up to Rs. 100 per month per child up to a maximum of 2 children is exempt
Hostel expenditure allowance	Up to Rs. 300 per month per child up to a maximum of 2 children is exempt
Transport Allowance granted to an employee to meet the	Rs. 3,200 per month granted to an employee,

expenditure for the purpose of commuting between place of residence and place of duty	who is blind or deaf and dumb or orthopedically handicapped with a disability of lower extremities
Allowance granted to an employee working in any transport business to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place provided the employee is not in receipt of the daily allowance.	Amount of exemption shall be lower of following:70% of such allowance; orRs. 10,000 per month.
Leave Travel Concession or Assistance (LTC/LTA), extended by an employer to an employee for going anywhere in India along with his family*	The exemption shall be limited to fare for going anywhere in India along with family twice in a block of four years:• Where the journey is performed by Air – Exemption up to Airfare of economy class in the National Carrier by the shortest route• Where the journey is performed by Rail – Exemption up to air-conditioned first class rail fare by the shortest route• If places of origin of journey and destination are connected by rail but the journey is performed by any other mode of transport – Exemption up to air-conditioned first class rail fare by the shortest route.• Where the places of origin of journey and destination are not connected by rail:* Where a recognized public transport system exists – Exemption up to first Class or deluxe class fare by the shortest route* Where no recognized public transport system exists – Exemption up to air conditioned first class rail fare by shortest route.
City Compensatory, Fixed Medical, Tiffin, Lunch, Dinner or Refreshment, Servant, Project, Overtime, Telephone, Holiday, Any Other Cash Allowance	Fully Taxable
Any allowance or perquisite paid or allowed by Government to its employees (an Indian citizen) posted outside India. Allowances to Judges of High Court/Supreme Court. Allowances paid by the UNO to its employeesRent free official residence, conveyance facilities including transport allowance, sumptuary allowance, and leave travel concession to serving Chairman/Member of UPSC	Fully Exempt

Tax on Perquisites

Perquisites	Taxability
Rent free unfurnished accommodation provided to Central and State Government employees	License fees determined in accordance with rules framed by the Government for allotment of houses shall be deemed to be the taxable value of perquisites.
Rent free furnished accommodation	Taxable value of perquisites shall be computed in the following manner: a) Taxable value of perquisite assuming accommodation to be provided to the employee is unfurnished b) Add 10% of the original cost of furniture and fixtures (if these are owned by the employer) or actual higher charges paid or payable (if these are taken on rent by the employer). c) Less: The value so determined shall be reduced by the amount of rent, if any, recovered from the employee
Unfurnished rent free accommodation provided to other employees	Taxable value of perquisites If house property is owned by the employer, the taxable value of perquisite shall be: 15% of salary, if the population of the city where accommodation is provided exceeds 25 lakhs 10% of salary, if the population of the city where accommodation is provided exceeds 10 lakhs but does not exceed 25 lakhs 7.5% of salary, if accommodation is provided in any other city If house property is taken on lease or rent by the employer, the taxable value of perquisite shall be Lease rent paid or payable by the employer or 15% of the salary, whichever is lower

How To Calculate Taxable Income from Salary?

First of all, gather all the documents related to salary income. Here you will need your monthly payslip, Form 16 Part A and Part B, Form 26AS.

Particulars	Amount
Gross Salary Received	XXX
Less: Exemptions on Allowances	
Net Salary	XXX
Less: Tax Deduction (Example- section 80C, section 80D, section 80G and so on)	XXX
Less: Tax Rebate and Relief	

Net Taxable Salary	XXX
Less: TDS Already Deducted	XXX
Less: Taxes Already Paid	XXX
Net Tax Payable	XXX

Tax Relief and Tax Rebate

Tax Rebate: If your total taxable income is less than Rs 5,00,000 then you can claim a tax rebate up to Rs 12,500. The total taxable income is calculated after deducting all the deductions, exemptions, and allowances. The tax rebate is available under the old and new tax regimes.

Tax Relief: If you have received any arrears of salary during the financial year then you can claim tax relief under section 89.

Standard Deduction

The standard deduction has replaced the exemption against travel allowance and medical expenditure. The exemption has been clubbed together. With effect from the financial year 2019-20, you can claim a standard deduction of Rs 50,000 against travel allowance and medical expenditure. You need not provide any bills or other documentary proof of the expenses. However, standard deduction is not available under the new tax regime

The above method is applicable if you have only salary income during the financial year. However, you may have income from capital gains, rental income, business or professional income, or income from other sources. In such a case you need to add the income from all these sources and then compute the net tax payable