Income under the Head 'Salary'

Income under the Head 'Salary'

Introduction

Income under the head 'Salary' is computed on a due or receipt basis, whichever is earlier. It includes taxable allowances, perquisites, retirement benefits, and profits in lieu of salary, with permissible deductions.

Tax Deduction at Source (TDS)

- **TDS Deduction (Section 192):**Employers deduct tax at the time of payment, based on the employee's estimated annual tax liability.
- **TDS Certificate:**Employers issue Form 16, containing details of tax deducted.
- **TDS Statements:**Filed quarterly in Form 24Q, with comprehensive details in the final quarter.

Computation of Salary Income

Income under salary is taxable based on the earlier of accrual or receipt. Components of computation include:

1. **Gross Salary:**Includes allowances, perquisites, retirement benefits, pensions, and profits in lieu of salary.
2. **Deductions:**

- Entertainment allowance
- Employment tax
- Standard deduction

Calculation of Income from Salary

Calculation of Income from Salary

Introduction

Section 17 provides a comprehensive definition of salary, covering wages, pensions, gratuity, fees, bonuses, perquisites, and profits in lieu of salary. It also includes advance salary, leave encashment, provident fund contributions, and contributions to the Agniveer Corpus Fund.

Key Inclusions in Salary

- **Components**:
  - Wages, annuities, pensions, gratuity
  - Any fees, commission, perquisites, bonuses, and profits in lieu of salary
  - Leave encashment and advance salary
  - Annual accretion to the balance in RecognisedProvident Fund, to the extent to which it is chargeable to tax
  - Transferred balance in a RecognisedProvident Fund to the extent it is chargeable to tax.
  - Employer contributions to pension schemes (Section 80CCD)
  - Contributions to the Agniveer Corpus Fund (Section 80CCH)
- **Pension Scheme Contributions**:
  - Employer contributions are added to the employee's salary and may be deducted under Section 80CCD, subject to limits:
    - 14% of salary (in case the contribution is made by Central Government or State Government employer)
    - 14%of salary (in case the contribution is made by any other employer and the total income of the employee is chargeable to tax under the default tax regime of Section 115BAC)
    - 10% of salary (in case the contribution is made by any other employer and the employee doesn't opt for the default tax regime of Section 115BAC)
  - **Agnipath Scheme Contributions**:
    - Employer contributions to the Agniveer Corpus Fund are included in salary but are deductible under Section 80CCH.

Deductions Permissible from Salary

Salary is taxable on a gross basis, with only the following deductions allowed:

- Standard Deduction
- Professional Tax
- Entertainment Allowance

Summary of Salary Calculation

Particulars	Amount

Basic Salary	Xxx
Add: Pension	Xxx
Add: Allowances	Xxx
Add: Perquisites	Xxx
Add: Profits in Lieu	Xxx
Add: Retirement Benefits	Xxx
Less: Standard Deduction	(xxx)
Less: Entertainment Allowance	(xxx)
Less: Professional Tax	(xxx)
Net Salary Income	**Xxx**

Salary Income Exempt from Tax

Salary Income Exempt from Tax

Certain categories of salary income are fully or partially exempt from tax under specific conditions, often applicable to foreign citizens or special circumstances.

Exempt Salary Categories

- **Teachers from SAARC Member States**
  - Exemption applies under DTAA agreements for teachers, professors, or research scholars visiting another SAARC country for teaching or research.
  - Exemption is valid for up to 2 years from the date of arrival.
- **Salary Received from the United Nations (UN)**
  - Salaries and pensions paid by the UN are exempt under the UN (Privileges and Immunities) Act, 1947.[Circular No. 293, dated February 10, 1981]
- **Non-Resident Seafarers**
  - Salary earned for services rendered on foreign-going ships (Indian or foreign-flagged) outside India is exempt, even if credited to an NRE account in India.[Circular No. 13/2017, dated April 11, 2017]
- **Diplomatic Personnel**
  - Remuneration received by foreign citizens serving in an embassy, high commission, legation, consulate, or trade representation of a foreign state is exempt, provided that reciprocal exemption is available to Indian officials in that country.
- **Foreign Employees**
  - Salaries of foreign nationals working for foreign enterprises in India are exempt if:
    - The enterprise does not conduct business in India.
    - The employee's stay does not exceed 90 days.
    - The remuneration is not deductible under the Income-tax Act.
  - **Ship Crew Members**
    - Salaries of non-resident foreign nationals employed as ship crew are exempt if their stay in India does not exceed 90 days.
  - **Foreign Trainees**
    - Remuneration received by a foreign national as an employee offoreign governments for training in Indian government undertakings, statutory corporations, or government-owned companies is exempt.
  - **Gratuitous Payments to Legal Heirs**
    - Lump-sum payments made to the legal heirs of employees who die in active service or ex-gratia payments for injury or death while on duty are not taxable. [Circular No. 573, dated August 21, 1990 & Circular No. 776, dated June 8, 1999]

Tax on Leave Encashment

Tax on Leave Encashment

Introduction
Leave encashment during employment is fully taxable. However, leave encashment at retirement or upon the employee's death is exempt up to Rs. 25,00,000.

Taxability of Leave Encashment

- **Death of Employee**
  - Leave encashment paid to legal heirs is exempt from tax as it is not considered a payment to the employee. [Circular No. F.35/1/65-17(B), dated November 5, 1965 and Circular No. 309, dated July 3, 1981]
- **Government Employees**
  - Fully exempt on retirement.
  - Fully taxable if encashed during employment.
- **Non-Government Employees**
  - Fully taxable if encashed during employment.
  - Partially exempt on retirement subject to the lower of:
    - Actual leave encashment received.
    - 25,00,000. [Notification No. 31/2023, dated 24-05-2023, is effective from 01-04-2023]
    - Cash equivalent of unavailed leave calculated on the basis of average salary for up to 30 days per completed year of service.
    - Average salary of the last 10 months.
  - **Relief for Tax on Arrears**
    - Relief under Section 89 is available for leave encashment received during employment. [Circular No. 431, dated September 12, 1985]

Key Calculations

- **Average Salary**
  - Includes basic salary, dearness allowance (if part of retirement benefits), and commission based on turnover.
- **Unavailed Leave Calculation**
  - Formula:

Step 1: Calculate number of completed years of service (ignore any fraction of year).

Step 2: Calculate earned leave entitlement for each year of service assuming that earned leave entitlements can't exceed 30 days for every year of actual service.

Step 3: Calculate earned leave actually taken or already encashed (in number of days) during the service time.

- Step 4: Unavailed Leaves (In Months) = [(Step 1 * Step 2) minus Step 3]/30

- **Leave from Multiple Employers**
  - Maximum exemption of 25,00,000 applies across all employers and years.

Taxability of Pension

Taxability of Pension

Introduction
Pension income is taxable under "Salaries." While an uncommuted pension (paid periodically) is fully taxable, a commuted pension (lump sum) enjoys exemptions under specific conditions.

Taxability of Pension

- **Uncommuted Pension**:
  - Monthly pensions are taxable as "Salary."
  - Family pensions are taxable as "Income from Other Sources," with a deduction of the lower of 15,000 (Rs. 25,000 if not opted out of default tax regime under Section 115BAC) or 1/3rd of the pension.
- **Commuted Pension**:
  - **Government Employees**: Fully exempt
  - **Non-Government Employees**:
  - If gratuity is received: 1/3rd of commuted value is exempt.
  - If gratuity is not received: 50% of commuted value is exempt.
  - **Family Members**: Exempt if received by heirs upon the employee's death.

Exemptions for Specific Pensions

- **Gallantry Award Recipients**:
  - Pension for Param Vir Chakra, Maha Vir Chakra, Vir Chakra or any other gallantry award notified by the Government. The exemption has also been extended for the family pension received by any family member of armed personnel.
- **Disability Pension for Armed Forces**:
  - Fully exempt if disability is attributable to service. [Press Release, Dated 20-12-2007]
- **Family Pension for Defence Personnel**:
  - Exempt if death occurred in operational duties.

National Pension System (NPS)

- **Contributions**:
  - **Employee's Contribution**: Deduction up to 10% of salary under Section 80CCD(1), plus 50,000 under Section 80CCD(1B).
  - **Employer's Contribution**: Deduction for employees:
  - Central/State Govt.: 14% of salary.
  - Others: 10% or 14% (if employee is chargeable to tax under the default tax regime of Section 115BAC)
  - **Self-Employed**: Deduction up to 20% of gross income plus 50,000 under Section 80CCD(1B).
  - **NPS Vatsalya:** Additional 50,000 under Section 80CCD(1B) to parent or guardian of minor.
  - **Unified Pension Scheme (UPS):**Deductions are allowed for employer's contribution up to 10% under Section 80CCD(2), employee's contribution up to 10% under Section 80CCD(1), and an additional 50,000 under Section 80CCD(1B).
- **Withdrawals**:
  - **Partial Withdrawal [Section 10(12B)]**: Exempt for employees up to 25% of their contribution.
  - **Final Withdrawal [Section 10(12A)]**: 60% of the corpus is exempt on closure/exit.
  - **Nominee's Receipt**: Fully exempt if credited after the subscriber's death.
  - **NPS Vatsalya**: Partial withdrawal shall be exempt to the extent of 25% of amount of contributions made by the parent or guardian of a minor.
  - **UPS [Section 10(12AA)]:** Payments from the NPS Trust to a UPS subscriber at superannuation, voluntary retirement, or retirement are tax-exempt up to 60% of the corpus.
  - **UPS [Section 10(12AB)]:** Any lump sum received under clause (vi) of para 2 of Notification No. FX-1/3/2024-PR (24-01-2025) by a subscriber of the Unified Pension Scheme is exempt.
- **Pension from NPS Funds**:
  - Taxable under "Income from Other Sources."

Taxation under Agnipath Scheme

Taxation under Agnipath Scheme

The Agnipath Scheme, effective from November 1, 2022, enables recruitment of Agniveers in the Indian Armed Forces for a tenure of four years. The scheme provides specific tax exemptions and deductions under the Income-tax Act.

Taxability of Payments to Agniveers

- **Monthly Payments**:
  - Taxable under the head "Salaries" as per applicable tax rates.
  - If the Agniveer is a minor at enrollment, this income is not clubbed with the parent's income.
- **Seva Nidhi Package (Lump-Sum Payment)**:
  - Amount received by Agniveer from Agniveer Corpus Fund (Seva Nidhi Package) on completing the tenure of 4 years shall be fully exempt from tax under Section 10(12C).
  - Exemption applies even if tenure is incomplete due to death or disability.
- **Payments on Death of Agniveer**:
  - **Insurance Cover**: Insurance compensation by family members is exempt under Section 10(10D).
  - **One-Time Ex-Gratia and Pay for Unserved Period**: Fully exempt as per CBDT Circular No. 573.
  - **Seva Nidhi Fund Balance**: Fully exempt under Section 10(12C).
- **Payments on Disability of Agniveer**:
  - **Ex-Gratia**: One-time ex-gratia amount received by an agniveer is exempt as per CBDT Circular No. 776.
  - **Pay for Unserved Period**: Tax treatment unclear; exemption is recommended.
  - **Seva Nidhi Fund Balance**: Fully exempt under Section 10(12C).

Tax Treatment of Contributions to Agniveer Corpus Fund

- **Government Contributions**:
  - Treated as "Salary" for the Agniveer but fully deductible under Section 80CCH.
- **Agniveer's Contributions**:
  - Fully deductible under Section 80CCH.

Employee Provident Fund (EPF)

Employee Provident Fund (EPF)

Introduction

Employee Provident Fund (EPF) is a statutory retirement benefit scheme for salaried employees, involving monthly contributions by both the employee and employer. The accumulated contributions, along with interest earned, are paid to the employee upon retirement or leaving service. Withdrawals and earnings from EPF are generally exempt from income tax except under specified circumstances.

Types of Provident Fund

- *Statutory Provident Fund (SPF):*Established under the Provident Fund Act, 1925, primarily for government and semi-government employees.
- *Recognized Provident Fund (RPF):*Recognised by the Income-tax Commissioner under Part A of the Fourth Schedule of the Income-tax Act; includes funds under the Employees' Provident Fund Act, 1952, prevalent in private sector.
- *Unrecognized Provident Fund (UPF):*Funds not recognized by the CIT in accordance with the rules contained in Part A of the Fourth Schedule to the Income-tax Act.
- *Public Provident Fund (PPF):*Voluntary, individual-specific savings scheme with tax benefits under Section 80C.

Contribution to EPF

- *Employee Contribution:*12% of salary (basic + DA + commission).
- *Employer Contribution:*5% of salary, apportioned as 3.67% to EPF, 8.33% to Employee Pension Scheme (EPS), and 0.5% to Employees Deposit Linked Insurance Scheme (EDLI).
- Employers also pay 0.5% of salary as administrative charges.
- For employees earning above Rs. 15,000, employee contribution is voluntary; employer contribution to EPS is capped on Rs. 15,000 salary.

Tax Treatment of Contributions and Interest

- *Employee's Contribution:*Eligible for deduction under Section 80C up to the overall limit of Rs. 1,50,000.
- *Employer's Contribution:*Exempt from tax up to 12% of salary; contributions exceeding Rs. 7,50,000 across recognized funds and schemes are taxable as perquisites.
- *Interest on Contributions:*Exempt up to the notified rate. Interest earned on employee contributions exceeding Rs. 2,50,000 (or Rs. 5,00,000 where there is no employer contribution) in a financial year is taxable under "Income from Other Sources" (Rule 9D applies). Interest above the notified rate is taxable.

Withdrawal and Taxability

- *After 5 Years of Continuous Service:*Withdrawals from recognized or statutory PF are exempt from tax.
- *Before 5 Years:*Withdrawals are taxable unless due to ill health, employer business discontinuance, or other specified reasons.
- *Tax Implications of Premature Withdrawal:*

- Employer's contribution and related interest are taxable as salary income.
- Employee's contribution is taxable if deduction under Section 80C was claimed; otherwise, it is exempt.
- Interest on employee's contribution is taxable as income from other sources.
  - *Tax Deduction at Source (TDS):*Tax at 10% under Section 192A applies if withdrawal exceeds Rs. 50,000. In absence of PAN, TDS rate is 20%. No TDS on transfers between PF accounts.

Conversion of Unrecognized PF to Recognized PF

Upon recognition, balances transferred from unrecognized to recognized PF are treated as contributed retrospectively from the fund's inception. Employer contributions exceeding 12% and interest above notified rates in such transferred balances become taxable in the year of recognition. Untransferred balances are taxed on payment basis similar to UPF withdrawals.

Profits in Lieu of Salary

Profits in Lieu of Salary

Introduction
Profits in lieu of salary refer to specific components deemed as salary payments, including compensation for employment termination, payments from unrecognized provident funds, or under keyman insurance policies. Such amounts are taxable in the hands of employees.

Key Inclusions in Profits in Lieu of Salary

- **Compensation for Loss of Employment [Section 17(3)(i)]**
  - Includes amounts due or received upon employment termination or modification of terms.
  - Taxable on receipt or accrual, whichever is earlier.
  - **Exemption**: Retrenchment compensation up to 5,00,000 is exempt under Section 10(10B).
- **Voluntary Retirement Compensation [Section 17(3)(i)]**
  - Taxable as profits in lieu of salary.
  - **Exemption**: Up to 5,00,000 under Section 10(10C).
- **Payments from Unrecognized Provident Fund [Section 17(3)(ii)]**
  - Employer’s contributions and interest are taxable as profits in lieu of salary.
  - Interest on employee’s contributions is taxable under "Income from Other Sources."
- **Keyman Insurance Policy [Section 17(3)(ii)]**
  - Any sum received by an employee under a Keyman insurance policy (including bonuses) is taxable as profits in lieu of salary.
- **Payments Before or After Employment [Section 17(3)(iii)]**
  - Lump-sum or periodic payments received before joining or after cessation of employment are taxable.

Retrenchment Compensation

Retrenchment Compensation

Introduction
Entities under pressure to reduce the operational expenditures generally resort to retrenchment of their additional workforce and to compensate the workforce the entities have to pay retrenchment compensation to them. The retrenchment compensation is taxable in the hands of the employees as profit in lieu of salary.

Retrenchment compensation paid to a workman under the Industrial Disputes Act, 1947, or other applicable laws, is exempt from tax up to Rs. 5,00,000.

Key Provisions

- **Eligibility for Retrenchment Compensation**:
  - Applies to workmen employed for at least one year in an industry.
  - Excludes:
    - Army or Navy or Air Force or Police Personnel
    - Managerial or administrative employees.
    - Supervisory employees earning more than 10,000/month.
  - **Exemptions for Retrenchment Compensation**:
    - **Central Government-Approved Schemes**: Fully exempt.
    - **Closure Due to Losses**: Exempt to the lower of:
      - 5,00,000.
      - Retrenchment compensation received.
      - Average Wage×15/26×Completed Years of Service or any part thereof in excess of six months
    - **Closure Due to Unavoidable Circumstances**: Exempt to the lower of:
      - 5,00,000.
      - Retrenchment compensation received.
      - 3 months’ average wage.
    - **Conditions for Exemption**:
      - If ownership or management is transferred and the employee takes up new employment, exemption is allowed only if:
        - Service is interrupted by the transfer.
        - New terms are less favorable.
        - New employer is not liable for retrenchment compensation.

Key Definitions

- **Average Wage**: Calculated over:

- 3 months for monthly-paid workmen.
- 4 weeks for weekly-paid workmen.
- 12 days for daily-paid workmen.
    - **Wages**: Include salary, allowances, and amenities but exclude bonuses, employer contributions to retirement schemes, and gratuity.

Voluntary Retirement Compensation (VRS)

Voluntary Retirement Compensation (VRS)

Introduction

Voluntary Retirement Compensation, provided under approved schemes, is exempt from tax up to Rs. 5,00,000 if certain conditions are satisfied. It is a one-time benefit taxable as profits in lieu of salary.

Exemption for VRS Compensation

- **Quantum of Exemption**: Lower of:
    - Compensation received; or
    - 5,00,000.
- **One-Time Benefit**: The exemption cannot be claimed again if VRS is availed a second time.

Eligibility Criteria for Exemption

- **Conditions for Employees**:
    - Must have completed 10 years of service or attained 40 years of age (not applicable to Public Sector Companies).
    - Must not re-join a company under the same management.
    - Must not have claimed exemption for VRS earlier.
- **Scheme Requirements**:
    - VRS is paid by the specified category of employer.
    - Must reduce overall employee strength.
    - No re-filling of vacancies created by VRS.
    - Applies to all employees (excluding directors).
    - Compensation cannot exceed 3 months' salary for each completed year of service or salary for the remaining period until retirement.

Specified Employers for VRS Exemption

- Central and State Governments.
- Public Sector Companies.
- Any other Companies.
- Local Authorities.
- Co-operative Societies.
- Universities and specified institutions (e.g., IITs, IIMs).
- Action for Food Production, New Delhi (AFPRO)
- Government Tool Room & Training Centre, Rajajinagar Industrial Estate, Bangalore

Non-Eligibility for Exemption

- VRS availed for the second time.
- Employee has not met age or service criteria (except in Public Sector Companies).
- Directors of companies or co-operative societies.
- Employee re-joins a company under the same management.
- Employee claims relief under Section 89.

Taxability of Allowances

Taxability of Allowances

Introduction

Allowances are salary components paid to employees to meet specific expenses. Allowances are generally taxable unless explicitly exempted by the Income-tax Act.

Key Types of Allowances

- **Dearness Allowance (DA)**
  - Paid to offset inflation and rising living costs.
  - Fully taxable.
  - Included in salary for calculating exemptions (e.g., HRA, retirement compensation).
- **City Compensatory Allowance (CCA)**
  - Paid to compensate for the high cost of living in metropolitan cities.
- **House Rent Allowance (HRA)**
  - Exemption available if the employee pays rent for residential accommodation and does not own such accommodation.
  - Exempt amount is based on salary, HRA, rent paid, and the city (metro/non-metro).
- **Allowances for Armed Forces**
  - Fully or partially exempt based on statutory limits. [See Rule 2BB]
- **Allowances for Official Duties**
  - Exempt to the extent of actual expenses incurred for official purposes. It includes uniform allowance, helper allowance, daily allowance, etc.
- **Personal Allowances**
  - Allowances for personal convenience are exempt up to specified limits; others are taxable.
  - Children Education Allowance is tax-exempt up to 100 per month per child (max 2 children), regardless of actual education expenses.
  - Transport allowance up to 3,200/month is tax-exempt only for employees with specified disabilities.
- **Foreign Allowance**
  - Fully exempt if paid by the Government to Indian citizens for services rendered outside India (Section 10(7)).
  - Allowances from other employers are exempt to the extent of actual expenses incurred.
- **Exempt Allowances**
  - **UNO Employees**: Allowances exempt under the UN (Privileges and Immunities) Act, 1947.
  - **Judges**: Specified allowances (e.g., sumptuary) are exempt.
  - **UPSC Chairman/Members**: Certain transport and sumptuary allowances are exempt.
  - **SAARC Teachers**: Exempt under DTAAs, subject to conditions.

Taxability of House Rent Allowance (HRA)

Taxability of House Rent Allowance (HRA)

Introduction
HRA is provided by the employer to employees to meet the cost of rented accommodation. Exemption is allowed under the Income-tax Act if the employee pays rent for a house not owned by them.

Conditions for Exemption

1. Employee must occupy rented accommodation and pay rent.
2. No exemption is available if:

- Employee lives in his own house.
- No rent is paid for the accommodation.

Calculation of Exemption [Rule 2A]
The exemption is the minimum of:

1. Actual HRA received.
2. Rent paid minus 10% of salary.
3. 50% of salary (metro cities: Delhi, Mumbai, Kolkata, Chennai) or 40% (non-metro cities).

- **Salary Definition**: Includes basic salary, dearness allowance (if part of retirement benefits), and commission (based on turnover). Calculated for the period during which the rented house is occupied.

Evidence Submission for Exemption

1. Employees must submit rent receipts to the employer, including the landlord's name and address.
2. For rent exceeding 1,00,000 annually, the employee must provide the landlord's PAN or a declaration if PAN is unavailableand employee is also required to furnish the required details in Form 12BB. [Circular No. 01/2019, Dated 01.01.2019]

Taxability of Armed Force Allowance

Taxability of Armed Force Allowance

Introduction
Armed forces personnel receive various allowances for serving in challenging and risky conditions. These allowances are partially or fully exempt from tax under the Income-tax Act, subject to prescribed limits.

Eligible Armed Forces
Members of the following forces qualify:

- Indian Army, Navy, Air Force, Coast Guard
- Central Reserve Police Force, Border Security Force, Assam Rifles, and others

Key Allowances and Exemptions

- **Counter Insurgency Allowance**
  - Exempt up to 3,900/month (cannot claim Border Area Allowance simultaneously).
- **Border Area Allowance**
  - The exemption depends on the specific location. For instance, the allowance is exempt up to 1,300 in Sikkim and Chamoli, whereas it is only up to Rs. 750 in Manipur, Tripura, and certain other notified areas.
- **Special Compensatory (Hilly Areas) Allowance**
  - Exempt amounts vary by altitude/location:
    - 800/month for specific hilly areas.
    - 7,000/month for Siachen.
    - 300/month in all places located at height of 1000 metres or more above the sea level.
  - **Tribal Area Allowance**
    - Exempt up to 200/month in certain states (e.g., Madhya Pradesh, Karnataka).
  - **Compensatory Field Area Allowance**
    - Exempt up to 2,600/month (cannot claim Border Area Allowance simultaneously).
  - **Compensatory Modified Field Area Allowance**
    - Exempt up to 1,000/month for specific areas.
  - **Underground Allowance**
    - Exempt up to 800/month for work in underground mines.
  - **High Altitude Allowance**
    - Exempt up to 1,060 per month for altitudes between 9,000 and 15,000 feet.
    - Exempt up to 1,600 per month for altitudes above 15,000 feet.
  - **Special Compensatory Highly Active Field Area Allowance**
    - Exempt up to 4,200/month.
  - **Island Duty Allowance**
    - Exempt up to 3,250/month for postings in Andaman & Nicobar or Lakshadweep Islands.

Key Conditions

- Exemptions are allowed irrespective of actual expenditure incurred by personnel.
- Specific exemptions cannot be claimed simultaneously (e.g., Counter Insurgency and Border Area Allowances).

Areas Eligible for Exemptions for Armed Forces Allowances

Areas Eligible for Exemptions for Armed Forces Allowances

Introduction
Armed forces personnel receive various allowances to compensate for challenging conditions and high costs of living in specific areas. Exemptions for these allowances are defined under Rule 2BB and Section 10(14) of the Income-tax Act.

Key Allowances and Exemption Limits

- **High Altitude Allowance**
  - Areas above 9,000 feet: Exempt up to 800/month.
  - Siachen area: Exempt up to 7,000/month.
- **Border Area Allowance**
  - Specified areas in states such as Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir: Exempt up to 1,300/month.
  - Other regions and conditions may have lower exemption limits (e.g., 200/month in Assam and Meghalaya).
- **Special Compensatory Allowance**

  - Granted for hilly, snowbound, or uncongenial climate areas.
  - Exemptions range from 300/month to Rs. 7,000/month based on altitude and location.
- **Tribal Area Allowance**
  - Applicable in states like Madhya Pradesh, Tamil Nadu, Uttar Pradesh: Exempt up to 200/month.
- **Compensatory Field Area Allowance**
  - Specified areas in states like Arunachal Pradesh, Nagaland, and Sikkim: Exempt up to 2,600/month.
- **Compensatory Modified Field Area Allowance**
  - Designated regions in Arunachal Pradesh, Mizoram, Punjab, and others: Exempt up to 1,000/month.

Key Conditions for Exemption

- Allowances are exempt irrespective of actual utilization.
- Exemption limits vary by region, altitude, and specific operational circumstances.

Taxability of Official Duty Allowance

Taxability of Official Duty Allowance

Introduction
Allowances provided to employees for expenses incurred wholly and exclusively in the performance of official duties are exempt from tax to the extent of the actual amount spent. Unutilized amounts are taxable under "Salaries."

Key Allowances and Tax Treatment

- **Travelling Allowance**
  - Exempt to the extent of expenses incurred for official travel or transfers, including costs of travel, packing, and transporting personal effects.
- **Conveyance Allowance**
  - Exempt for expenses incurred on conveyance during official duties.
  - Allowance for commuting between residence and office is not exempt.
- **Daily Allowance**
  - Exempt for charges incurred during tours or journeys related to official transfers.
- **Helper Allowance**
  - Exempt for expenses incurred on a helper engaged exclusively for official duties.
- **Research Allowance**
  - Exempt for academic, research, and training purposes in educational and research institutions, provided the allowance is spent for approved purposes such as conference fees, books, and research equipment.
- **Uniform Allowance**
  - Exempt for expenses incurred on uniforms required for official duties.
  - Allowance is taxable if uniforms are not prescribed by the employer.

Conditions for Exemption

- Exemptions apply to the lower of the actual allowance received or expenses incurred for official duties.
- Rule 2BB and Section 10(14)(i) of the Income-tax Act govern these exemptions.

Taxability of Personal Allowances

Taxability of Personal Allowances

Introduction
Allowances provided to employees for personal expenses are generally taxable under the head "Salary." However, specific allowances are exempt up to predefined limits under the Income-tax Act.

Exempt Personal Allowances

1. **Transport Allowance for Transport Employees**

- Exempt for employees in transport systems for duty-related personal expenses.
- Exemption: Lower of 70% of the allowance or 10,000/month.

  2. **Children's Education Allowance**
- Exempt up to 100/month per child for a maximum of 2 children.

- Actual education expenditure is irrelevant for exemption.

3. **Children's Hostel Allowance**

- Exempt up to 300/month per child for a maximum of 2 children.

4. **Transport Allowance (Handicapped Employees)**

- Exempt for employees who are blind, deaf, dumb, or orthopedically handicapped.
- Exemption: 3,200/month.

Other Taxable Allowances
The following allowances are fully taxable:

- Tiffin Allowance
- Medical Allowance
- Servant Allowance
- City Compensatory Allowance

Deductions from Salary

Deductions from Salary

The Income-tax Act allows three deductions under Section 16 for salary income:

- Standard Deduction
- Deduction for Entertainment Allowance
- Deduction for Professional Tax

Standard Deduction [Section 16(ia)]

- Available to all employees, including retirees receiving pension.
- Deduction amount:

- 50,000 (for the regular tax regime).
- 75,000 (for the new tax regime under Section 115BAC.
  - No documentation required to claim this deduction.

Deduction for Entertainment Allowance [Section 16(ii)]

- Applicable only to Central and State Government employees.
- Deduction is the lower of:

- Actual entertainment allowance received.
- 20% of basic salary (excluding allowances, benefits, and perquisites).
- 5,000.

Deduction for Professional Tax [Section 16(iii)]

- Deductible if paid by the employee during the year (even in advance).
- If paid by the employer without deducting from salary:

- Amount is treated as a taxable perquisite.
- Deduction is then allowed from gross salary.

Perquisites

Perquisites

Introduction
Perquisites refer to benefits or facilities provided by an employer to an employee in addition to salary. These benefits are taxable under the head "Salaries" when provided during employment.

Definition and Examples

- Perquisites are emoluments for the personal benefit or use of the employee, in cash or kind, or money's worth.
- Example: A personal watchman is taxable as a perquisite, whereas one provided for official purposes is not.

Key Inclusions in Perquisites

- Rent-free or concessional accommodation.
- Use of motor car or other employer-provided assets.
- Facilities such as gardener, watchman, or servant.
- Free or concessional gas, electricity, or water supply.
- Free or concessional education for children.
- Transport facility.
- Employer-paid obligations of the employee.
- Insurance facilities.
- Employee stock options (ESOPs) or sweat equity shares.
- Contributions to retirement funds exceeding 7,50,000.
- Loans at concessional or nil interest rates.
- Leave travel concession (LTC).
- Gifts, club facilities, or free food and refreshments.
- Mobile or telephone facilities.

Rent-free Accommodation

Rent-free Accommodation

Introduction
When an employer provides residential accommodation rent-free or at a concessional rate, the value of such a benefit is taxable as a perquisite under "Salaries." This applies regardless of whether the accommodation is employer-owned or leased.

Key Provisions

- **Definition**
  - Accommodation includes houses, flats, hotels, guest houses, caravans, mobile home, ship or other floating structure.
- **Calculation of Taxable Perquisite**
  - **Government Employees**:
  - Taxable value is the license fee per government service rules.
  - Add 10% of the cost of provided furniture (or hire charges if applicable).
  - **Non-Government Employees**:
  - For employer-owned accommodation:
    - Value depends on city population and salary

Population of City	*Value*
Up to 15,00,000	5% of Salary
15,00,001 to 40,00,000	7.5% of Salary
Above 40,00,000	10% of Salary

- For leased accommodation:
- Taxable value is lower of 10% of salary or actual rent paid.

- **Furnished Accommodation**
  - Add 10% of furniture cost or hire charges to the perquisite value of unfurnished accommodation.
- **Hotel Accommodation**
  - Exempt for up to 15 days annually.
  - Beyond 15 days: Taxable value is the lower of 24% of salary or actual hotel charges.
- **Subsequent Years**
  - The perquisite value for subsequent years cannot exceed the first year's value adjusted for Cost Inflation Index (CII).
- **Remote Location Exemption**
  - Accommodation in mining, dam, power generation, project execution, or off-shore/onshore oil exploration sites may be tax-free if:
  - The house size is ≤1,000 sq. ft. and situated at least 8 km away from the local limits of a municipality or cantonment board.
  - The accommodation is in a remote area, located at least 30 km away from a town with a population of less than 1,00,000 (as per 2011 census).

- **Judges and Parliament Officials**
  - Rent-free accommodation for High Court/Supreme Court Judges, Union Ministers, or Leaders of Opposition is exempt.
- **Job Transfers**
  - During relocation, only the lower-valued accommodation is taxed for 90 days. After 90 days, both accommodations are taxable.

Perquisite - Use of Motor Car

Perquisite - Use of Motor Car

Introduction

When an employer provides a car or reimburses expenses for personal or official use, the value of this benefit is taxable as a perquisite under "Salaries." Taxability depends on ownership, maintenance costs, and usage.

Perquisite Valuation Based on Ownership and Usage

- **Employee-Owned Vehicle with Reimbursement**
  - **Official Use Only**: Taxable value is nil if a logbook and employer certificate confirm official use.
  - **Personal Use Only**: Taxable value is the reimbursement amount.
  - **Mixed Use**: Taxable value is the reimbursement minus the amount recovered from the employee and the following additional deduction:
  - Small car (engine capacity upto 1.6 liters): 1,800/month; Big car (exceeding 1.6 liters): Rs. 2,400/month.
  - 900/month if a chauffeur is provided.
- **Employer-Owned Vehicle**
  - **Official Use Only**: Taxable value is nil with proper documentation.
  - **Personal Use Only**: Taxable value includes:
  - Maintenance and running costs.
  - Driver's salary.
  - 10% p.a. of car's actual cost (or hire charges if leased).
  - Less any amount recovered from the employee.
  - **Mixed Use**:
  - If employer bears costs: 1,800/month (small car) or Rs. 2,400/month (big car).
  - If employee bears costs: 600/month (small car) or Rs. 900/month (big car).
  - Add 900/month if a chauffeur is provided.
- **Other Vehicles**
  - If any other vehicle of the employee is used for both office and personal purposes, the taxable value shall be the reimbursed amount less Rs. 900/month and any amount recovered from the employee.
  - If any other vehicle of the employer is used by an employee, the taxable value of the perquisite shall be nil
- **Multiple Cars**
  - If multiple cars are used, only one car is assumed for mixed use. Others are treated as personal-use only.

Tax-Free Perquisites for Motor Vehicles

- **Commute Between Office and Residence**
  - Tax-free for employer-provided cars or reimbursements.
- **Judges' Conveyance Facility**
  - Tax-free for High Court, Supreme Court Judges, and UPSC members.
- **Free Transport by Transport Undertakings**
  - Free rail/air travel for railway and airline employees is exempt.
  - Other transport undertakings: Taxable at the public travel rate minus any employee contribution.

Valuation of Educational Facilities

Valuation of Educational Facilities

Introduction

The educational facilities provided by employers for specified employees' children are taxable as perquisites under "Salaries." However, certain exemptions and valuation rules apply based on the type of benefit.

Key Provisions

1. **Free Education Facility in Employer-Owned Institutions**

- Exempt up to 1,000/month per child.
- Only the amount exceeding 1,000 is generally treated as a perquisite, per department instructions.
- Valuation is based on the cost of education in a similar local institution.

2. **Concessional Education Facility**

- Fully taxable.
- Valued at the cost of similar education locally, minus any amount recovered from the employee.

3. **Reimbursement of Education Costs**

- Fully taxable as a monetary perquisite (specified or non-specified employees).

4. **Direct Payment to Schools**

- Taxable as a perquisite in the hands of specified employees [Circular No 35, Dated 12-02-1965]
- Valuation equals the amount paid by the employer, reduced by any recovery from the employee.

5. **Fixed Education Allowance**

- Exempt up to:
  - 100/month per child (max. 2 children).
  - 300/month per child for hostel expenses (max. 2 children).

6. **Education for Other Family Members**

- Taxable for grandchildren or others based on the local cost of similar education.
- Reduced by any recovery from the employee.

7. **Education for Employees**

- Free training or research-related benefits provided to employees are exempt if used for the intended purpose.

Taxability of Amenities Provided to Specified Employees

Taxability of Amenities Provided to Specified Employees

Introduction
Certain benefits or amenities provided to specified employees are taxable as perquisites under "Salaries." These include supply of gas, electricity, domestic servants, and other services.

Definition of Specified Employees

- **Directors of a Company**: Includes full-time, part-time, and nominee directors.
- **Employees with Substantial Interest**: Beneficial owners of ≥20% voting power in the company.
- Any other employees is deemed to be a specified employee if his monetary income under the head salary exceed Rs. 4,00,000.

Taxable Benefits for Specified Employees

- **Gas, Electricity, or Water Supply**
  - **Employer-Owned Resources**: Taxable value is the manufacturing cost per unit, less recovery from the employee.
  - **Third-Party Supply**: Taxable value is the actual amount paid by the employer, less recovery from the employee.
- **Free or Concessional Education**
  - **Employer-Owned Institutions**: Exempt up to 1,000/month per child; taxable for specified employees beyond this limit.
  - **Reimbursement of Education Costs**: Taxable as a monetary perquisite for all employees.
- **Domestic Servants**
  - Taxable value: Total cost incurred by the employer for services of sweepers, gardeners, or attendants, less recovery from the employee.
- **Transportation Facility**
  - For employees of transport undertakings, the taxable value is the fare offered to the public, reduced by recovery from the employee.
  - Exempt for airline and railway employees.
- **Employer-Provided Cars**
  - Taxable value depends on car type (small/big) and usage (personal/official), calculated per Rule 3.
  - If sold to an employee at a concessional price, the taxable value is the cost to the employer minus 20% depreciation per year of use.

Leave Travel Allowance (LTA)

Leave Travel Allowance (LTA)

Introduction
LTA is provided by employers to employees for travel within India. Exemption is allowed under Section 10(5) for journeys made by the employee and his family, subject to conditions.

Key Provisions

- **Eligibility for Exemption**
  - Tax exemption is allowed for actual travel expenses incurred by the employee or family.
  - Unspent allowance is taxable.
  - Only domestic travel is covered; foreign travel is excluded.
- **Number of Journeys**
  - Exemption allowed for two journeys in a block of four calendar years.
  - Current block: 2022–2025.
  - Unused exemptions can be carried over to the first year of the next block.
- **Extent of Exemption**

Mode of Travel	Exemption Limit
Air Travel	Economy class airfare of the shortest route or actual expenses, whichever is less.
Rail Travel	First-class AC rail fare for the shortest route or actual expenses, whichever is less.
Recognized Public Transport	Deluxe or first-class fare for the shortest route or actual expenses, whichever is less.
Other Modes	Equivalent first-class AC rail fare for the shortest route (if connected by rail) or actual expenses, whichever is less.

- **Family Members Covered**
  - Spouse, dependent children (up to 2 children if born on or after 1-10-1998), dependent parents, and dependent siblings.
  - Excludes grandparents, in-laws, or independent family members.
- **Ineligible Expenditures**
  - Hotel stays, local transport, and meals are not eligible.
  - Circuitous journeys are limited to the shortest route or farthest point by the shortest route.

Taxability of Insurance Taken by Employer for Employees

Taxability of Insurance Taken by Employer for Employees

Introduction
Insurance policies taken out by employers for their employees may be taxable as perquisites. Tax treatment depends on the type of policy, its beneficiary, and the circumstances of payout.

Key Types and Tax Implications

- **Keyman Insurance Policy**
  - A life insurance policy taken out by the employer on the life of key employees.

Scenario	Employer's Tax Implication	Employee's Tax Implication
Premium Payment	Deductible as a business expense.	Not taxable as perquisite.
Maturity Payout to Employer	Taxable as business income.	N/A
Maturity Payout to Employee	N/A	Taxable under "Profit in lieu of Salary."
Payout to Legal Heirs (Death)	Deduction allowed to employer; not taxable for heirs.	N/A

Note: *If, on the occasion of the death of the employee, the employer chooses to pay the maturity amount to the widow/legal heir of the deceased employee, the employer gets the deduction of the premium as a business expense, while the maturity amount is not taxable in the hands of the family member. [Circular No. 573, dated 21-08-1990]*

- **Employer-Employee Insurance Policy**
  - Benefits are paid to the employee, typically tax-free under Section 10(10D).

Scenario	Employer's Tax Implication	Employee's Tax Implication
Premium Payment	Not deductible as business expense.	Taxable as a perquisite.
Maturity Payout	N/A	Exempt under Section 10(10D).

- **Exempt Insurance Policies**
  Certain employer-paid policies are not taxable in employees' hands, including:

- Recognized Provident Fund.
- Approved Superannuation Fund.
- Group Insurance Scheme.
- Employees' State Insurance Scheme.
- Fidelity Guarantee Scheme.
- Deposit Linked Insurance Fund established under Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948.
- Deposit Linked Insurance Fund established under Section 6C of Employees' Provident Fund and Miscellaneous Provisions Act, 1952.

Free or Concessional Loan to Employees

Free or Concessional Loan to Employees

Introduction
Interest-free or concessional loans provided by employers to employees or their family members are taxable as perquisites under "Salaries." However, petty loans up to Rs. 20,000 and loans for specified medical treatments are exempt.

Taxability of Loans

- **Situations Where Perquisite Arises**
  - Loans for personal purposes like education, marriage, or medical treatment.
  - Loans provided to employees, their family, or dependents.
- **Valuation of Perquisite**
  - Steps to calculate taxable value:
    1. Determine the outstanding loan balance on the last day of each month.
    2. Compute interest at the SBI rate applicable on the first day of the financial year for similar loans.
    3. Deduct any interest recovered by the employer.
    4. The result is the taxable perquisite value.
  - **Deemed Dividend**
    - If a private company gives a loan to an employee holding ≥10% voting power, the loan is treated as deemed dividend.

Exemptions from Taxability

- **Petty Loans**
  - Loans up to 20,000 in aggregate are exempt.
  - If the total loan exceeds 20,000 at any time, the entire loan is taxable.
- **Medical Loans**
  - Loans for treating diseases specified in Rule 3A (e.g., cancer, AIDS) are exempt.
  - If reimbursed by an insurance company, the taxable perquisite is calculated on the reimbursed but unpaid amount.

List of Specified Diseases
Includes ailments like cancer, tuberculosis, heart conditions, fractures, mental disorders, drug addiction, gynaecological or obstetric ailment and severe allergic reactions requiring hospitalization.

Perquisite - Use of Employer Assets

Perquisite - Use of Employer Assets

Introduction
When an employee or their family uses movable assets owned or hired by the employer, or purchases such assets at concessional rates, the value of these benefits is taxable as a perquisite.

Key Provisions

- **Valuation of Perquisite**
  - **Computers or Laptops**:
  - Usage: Tax-free.
  - Purchase: Taxable value = Cost to the employer − Depreciation (50% per year, reducing balance).
  - **Motor Cars**:
  - Usage: Taxable as per Rule 3 (based on ownership, maintenance costs, and usage).
  - Purchase: Taxable value = Cost to employer − Depreciation (20% per year, reducing balance).
  - **Other Assets**(e.g., appliances, furniture):
  - Usage: Taxable value = 10% p.a. of the asset's cost, less any amount recovered.

- Purchase: Taxable value = Cost to employer − 10% for each completed year (straight-line basis).
- **Hired Assets**:
- Taxable value = Rent paid by employer, less any recovery from the employee.

- **Depreciation and Completed Year**
  - Depreciation:
  - Computers/laptops: 50% (reducing balance).
  - Cars: 20% (reducing balance).
  - Other assets: 10% (straight-line).
  - A "completed year" means a full 12 months. Partial years are not considered.
- **Exemptions**
  - Usage of employer-provided laptops and computers is tax-free.

Perquisites - Medical Facilities

Perquisites - Medical Facilities

Introduction
Medical facilities provided by employers to employees or their family members can be tax-free under specific conditions. Taxability depends on the nature, location, and expenditure of the medical benefit.

Tax Treatment of Medical Facilities

- **Medical Facilities in India**
  - Medical facilities in India are Tax-free if provided to the employee or to his spouse, children, dependent parents or dependent siblings in the following cases:
    - Treatment in employer-maintained hospitals.
    - Treatment in government or approved hospitals for prescribed diseases.
    - Treatment for COVID-19 (subject to required documentation)*[Notification No. 90/2022, dated 05-08-2022]*.
    - Group medical insurance coverage is provided by the employer.
  - Taxable:
    - Reimbursements for routine check-ups, medicines, or non-approved treatments.
  - **Medical Facilities Outside India**
    - Medical treatment outside India for the employee, spouse, children, dependent parents, or dependent siblings is taxable only if the expenses exceed the RBI-prescribed limit:
      - Medical treatment, accommodation for the patient or accompanying individuals.
      - The cost of travelling of the employee or any of his family members or any attendant, who accompanies the patient, for treatment outside India shall be taxable as perquisite if the gross total income of the employee, without including therein the expenditure on travelling, exceeds Rs. 8,00,000.
    - **RBI Limit on Foreign Exchange for Medical Treatment**
      - USD 250,000 per annum per individual (or equivalent).
      - Exceeds limit: Requires RBI approval.
    - **Health Insurance**
      - Employer-paid premiums for Central Government or IRDAI-approved health insurance schemes are fully tax-free.
      - Reimbursements for employee-paid premiums under such schemes are also tax-free.
    - **Personal Accident Policy**
      - Employer-paid premiums: Exempt from tax.
      - Reimbursed premiums (paid by the employee): Taxable as perquisite.

Perquisite - Free Food Facility

Perquisite - Free Food Facility

Introduction
Free food, snacks, and beverages provided by employers during working hours can be tax-free under specific conditions. The exemption is subject to limits on the value and nature of the benefit.

Tax Treatment of Free Food Facility

- **Tax-Free Benefits**
  - **Snacks, Tea, Non-Alcoholic Beverages**: Not taxable when provided during office hours.
  - **Free Meals**: Exempt if the cost does not Rs. 50/- per meal, provided:

    - Food is served during working hours at office premises or via non-transferable food vouchers usable at restaurants/cafes.
- **Taxable Benefits**
    - Food exceeding 50 per meal. [Circular No. 15/2001, dated December 12, 2001]
    - Meals provided beyond working hours or outside office premises.
    - Alcoholic beverages, lunch allowances, or refreshment allowances.
- **Free Food in Remote Areas or Offshore Installations**
    - Exempt from tax.
    - Remote areas: Locations ≥40 km from a town with a population ≤20,000 (as per the latest census).
- **Meal/Food Coupons (e.g., Sodexo)**
    - Tax-free when used for meals during office hours.
    - If used at non-eating joints (e.g., grocery stores), technically taxable, but enforcement is limited.

Perquisites – Holiday Facilities

Perquisites – Holiday Facilities

Introduction

Holiday facilities provided by employers to employees or their family members are taxable as perquisites. However, specific exemptions may apply based on the nature of the facility.

Tax Treatment of Holiday Facilities

- **Official Tour**
    - Tax-free if expenses are incurred solely for official purposes.
    - If family members accompany the employee, the taxable value is the actual expenses incurred for them, reduced by any amount recovered from the employee.
- **Official Tour Extended as Vacation**
    - Taxable value includes expenses for boarding, lodging, and local tours during the vacation period, less any amount recovered from the employee.
- **Employer-Maintained Holiday Facility**
    - **Uniform Availability**: Tax-free if the facility is uniformly available to all employees.
    - **Non-Uniform Availability**: Taxable at the rate offered by similar facilities to the public, reduced by any amount recovered from the employee.

Perquisites - Club Facility

Perquisites - Club Facility

Introduction

Expenses incurred by employers for club memberships or facilities used by employees or their family members are generally taxable as perquisites. Specific exemptions apply for health or sports clubs provided uniformly to all employees.

Tax Treatment of Club Facilities

- **Health or Sports Club**
    - Exempt from tax if facilities are provided uniformly to all employees.
- **Club Membership**
    - Taxable value = Actual cost incurred by the employer, less any amount recovered from the employee.
- **Corporate Membership**
    - Initial membership fees for corporate or institutional memberships are exempt if the benefit does not remain with a particular employee after employment cessation. *[Circular No. 15/2001, dated December 12, 2001]*
- **Club Expenses for Official Purposes**
    - Taxable value = Nil if the expenses are incurred wholly and exclusively for business purposes.
    - Employer must maintain sufficient documentation and certify the expenditure as official.

Perquisite - Credit Card Facility

Perquisite - Credit Card Facility

Introduction
When employers provide a credit card facility for personal expenses of employees or their family members, the benefit is taxable as a perquisite. Official expenses are exempt if supported by proper documentation.

Tax Treatment of Credit Card Facility

- **Personal Expenses**
    - Taxable value = Total expenses borne by the employer, including membership and annual fees.
    - Reduced by any amount recovered from the employee.
- **Official Expenses**
    - Taxable value = Nil if the expenses are wholly and exclusively for official purposes.
    - Documentation Required: Employer must maintain sufficient records, including details of the expenditure and a certificate confirming that it was incurred for official duties.

Perquisites – ESOPs

Perquisites – ESOPs

Introduction
Employee Stock Option Plans (ESOPs) are schemes where employers offer securities to employees either free of cost or at a concessional rate. The difference between the fair market value (FMV) and the amount paid by the employee is treated as a taxable perquisite in the year of allotment. In the case of eligible start-ups, the tax liability on such perquisites may be deferred. Capital gains tax applies when these securities are subsequently sold.

About ESOPs

Employers use ESOPs to retain and motivate talent, particularly in start-ups. The process includes:

- **Grant**: Offering the right to buy securities at a concessional price.
- **Vest**: Establishing the employee's right to acquire the securities.
- **Exercise**: The act of purchasing the securities by the employee.
  On exercising the option and allotment, the employee may sell or hold the securities, sometimes subject to a lock-in period.

Tax Implications of ESOPs

Taxation occurs at two stages:

- **At the Time of Allotment of Shares**
    - The value of perquisite is calculated as:
      (FMV on the exercise date – Price paid by the employee for each share) × Number of shares.
    - FMV is determined based on whether the shares are listed or unlisted and follows prescribed valuation norms.
    - The tax is levied in the year of allotment, even though valuation is based on the exercise date's FMV.
- **At the Time of Sale of Securities**
    - Taxable as capital gains.
    - Period of holding starts from the date of allotment.
    - Cost of acquisition is the FMV on the date of exercise.

Deferment of Tax on Perquisites in Case of Start-ups

To ease the tax burden, deferment provisions have been introduced for employees of eligible start-ups as defined under section 80-IAC. Key provisions include:

- **Time of Tax Deduction**

TDS under section 192 is deferred and must be deducted within 14 days from the earliest of:

- Expiry of 48 months from the end of the assessment year in which shares are allotted.
- Date of cessation of employment.
- Date of sale of the shares.

- **Taxability and Disclosure**
    - Income remains chargeable in the year of allotment.
    - Employee must disclose such perquisite in the return for that year.
    - However, actual tax payment is deferred.
    - Tax on regular salary (excluding ESOPs) is computed using a proportionate formula.

- **Mechanism and Computation**
  - Deferred tax becomes payable in the year of triggering event.
  - Tax already paid (excluding ESOP component) is reduced from total computed tax liability to determine final dues.
- **Consequences of Non-compliance**
  - Interest and penalties may apply for failure to deduct or pay tax.
  - Prosecution provisions under section 276B may be invoked for employers.
  - Relief is available if the employee has paid the taxes and a CA certificate is provided.

Perquisite - Superannuation Fund

Perquisite - Superannuation Fund

Introduction
Superannuation is a retirement benefit wherein the employer contributes annually to a group superannuation policy to provide pension payments to employees upon retirement. The fund earns interest similar to provident fund rates. Employees can transfer their accumulated superannuation balance to a new employer's approved fund or withdraw it, subject to tax provisions.

Contribution Limits and Taxability

Employers may contribute up to 27% of the employee's basic salary towards recognized retirement funds, including contribution to provident fund. For example, if 12% is contributed to PF, the maximum superannuation contribution is 15%. Contributions by the employer exceeding an aggregate limit of Rs. 7,50,000 per year to recognized provident fund, national pension scheme (NPS), and approved superannuation fund are taxable as perquisites in the hands of the employee. Interest attributable to such excess contributions is also taxable as a perquisite.

Taxation in the Employee's Hands

- *Employee's contributions*to the superannuation fund are deductible under Section 80C, subject to the overall Rs. 1,50,000 limit.
- *Employer's contributions*within the Rs. 7,50,000 aggregate limit are not taxable. Contributions beyond this limit attract tax as a perquisite. Lump-sum employer contributions to group superannuation schemes where individual benefits are not separately identifiable are not taxable as perquisites.
- *Interest accrued*on the superannuation fund balance is exempt unless attributable to excess employer contributions above Rs. 7,50,000, in which case it is taxable as a perquisite.
- *Payments from the fund*are exempt under Section 10(13) if made due to the employee's death, commutation of pension after specified retirement age, incapacity, or transfer to NPS. Withdrawals without annuity purchase on retirement or resignation are taxable. Purchase of an annuity from the withdrawn amount exempts the payment and ensures pension continuity.

Taxation in the Employer's Hands

- Employer contributions to an approved superannuation fund are allowed as a business expenditure under Section 36(1)(iv), subject to limits.
- Income earned by trustees on behalf of the approved fund is exempt under Section 10(25)(iii).
- Employers must deduct tax at the average rate applicable to the employee on payments from the fund during the employee's lifetime, unless such payments are exempt under Section 10(13).

Section 89 Relief from Salary

Section 89 Relief from Salary

Introduction
Section 89 provides relief to employees to mitigate additional tax liability arising due to receipt of arrears, advance salary, or other lump sum payments, which may result in higher tax rates in the year of receipt.

Eligibility for Relief
Relief is available for the following:

1. Salary arrears or advance salary.
2. Arrears of family pension.
3. Premature withdrawal from Provident Fund.
4.
5. Commuted value of pension.
6. Compensation on termination of employment.

Procedure to Claim Relief

- Relief must be claimed in the income-tax return for the year of receipt.
- Submission of **Form 10E** is mandatory before filing the return.

Computation of Relief

Relief is calculated by comparing the tax payable with and without the lump sum receipt, both in the year of receipt and the year(s) to which it relates.

The relief in respect of receipts enumerated above shall be calculated in following steps.

Step 1: Calculate tax on total income of current year including above receipts

Step 2: Calculate tax on total income of current year excluding above receipts

Step 3: Calculate tax on total income of the year to which the above receipts relate after excluding these receipts

Step 4: Calculate tax on total income of the year to which the above receipts relate after including these receipts

Step 5: Calculate difference between (Step 1 minus Step 2) and (Step 4 minus Step 3)

If result of calculation in Step 5 is positive, such excess amount is allowed as relief. If result of Step 5 is negative, no relief shall be allowed to the employee.

Specific Cases of Relief

- **Gratuity**
  - Eligible if service is ≥5 years.
  - Relief applies only to the taxable portion of gratuity.
  - Calculations depend on the term of service:
    - **≥15 Years**: Average tax rates for the current year and the previous three years are considered.
    - **<15 Years**: Average rates for the current year and the previous two years are used.
  - **Compensation on Termination**
    - Calculated like gratuity for service ≥15 years.
    - If claiming Section 89 relief for Voluntary Retirement Compensation, exemption up to 5,00,000 under Section 10(10C) is not allowed.
  - **Commutation of Pension**
    - Relief calculated as if gratuity were paid for service of ≥15 years.

Relief from Taxation of Income from Foreign Retirement Benefit Account

Relief from Taxation of Income from Foreign Retirement Benefit Account

Introduction

Section 89A provides resident individuals the option to defer tax on income from foreign retirement benefit accounts. Instead of taxing the income on an accrual basis, tax is deferred to the year of withdrawal, applicable to accounts in notified countries and by filing Form 10EE electronically.

Eligibility for Relief under Section 89A

- Resident individuals with foreign retirement benefit accounts.
- The account must be in a notified country.
- The individual must have been non-resident in India and a resident of the notified country when the account was opened.
- Income is taxed in the notified country only at the time of withdrawal or redemption.

Notified Countries

As per Notification No. 25/2022, dated 04-04-2022, the following countries are eligible:

1. Canada
2. United Kingdom
3. United States of America

How to Claim Relief

1. File **Form 10EE** electronically on or before the due date for the income-tax return.
2. The option applies to income accrued on or after 01-04-2021.
3. Once exercised, the option applies to all subsequent years and cannot be withdrawn.

Taxation Rules (Rule 21AAA)[Notification No. 24/2022, dated 04-04-2022]

- Income is taxed in the year of withdrawal or redemption in the notified country.
- Income already taxed in India or exempt due to prior non-residential status is excluded.
- Foreign tax credit is disallowed for excluded income.

Non-Resident Status in Subsequent Years

- If the individual becomes a non-resident after opting for Section 89A, the option is deemed void.
- Income accrued in the specified account during the option period becomes taxable.
- Tax must be paid before the due date for filing the income-tax return for the year of becoming non-resident.

Taxability of Perquisite under Section 17(2)(viia)

Taxability of Perquisite under Section 17(2)(viia)

Introduction
Employer contributions exceeding Rs. 7,50,000 annually to Recognized Provident Fund (PF), National Pension Scheme (NPS), and Superannuation Fund, along with annual accretion on such excess, are taxable as perquisites.

Applicability

- Contributions by the employer across all welfare funds exceeding 7,50,000 are taxable.
- Annual accretion, such as interest, dividends, or similar income on excess contributions, is also taxable.

Computation of Taxable Perquisite (Rule 3B)
Taxable accretion (TP) is calculated using the formula:

$TP = (PC/2)*R + (PC1+ TP1)*R$

Where,

(a) TP = Taxable perquisite under section 17(2)(viia) for the current previous year;

(b) TP1 = Aggregate of taxable perquisite under section 17(2)(viia) for the previous year(s) commencing on or after 01-04-2020 other than the current previous year.

(c) PC = Aggregate of the principal contribution made by the employer in excess of Rs. 7.50 lakh to the employee's welfare funds during the previous year;

(d) PC1 = Aggregate of the principal contribution made by the employer in excess of Rs. 7.50 lakh to the employee's welfare funds for the previous year(s) commencing on or after 01-04-2020 other than the current previous year;

(e) R = I/ Favg;

(f) I = Aggregate of income accrued during the current previous year in the employee's welfare funds;

(g) Favg = (Aggregate of balance to the credit of the employee's welfare funds on the first day of the current previous Year + Aggregate of balance to the credit of the employee's welfare funds on the last day of the current previous year)/2

Where the aggregate of TP1 and PC1 exceeds the aggregate of balance to the credit of the specified fund or scheme on the first day of the current previous year, then the amount in excess of the aggregate of amounts of the said balance shall be ignored to compute the aggregate of amounts of TP1 and PC1.

Taxability of Interest on Contribution to Provident Fund (PF)

Taxability of Interest on Contribution to Provident Fund (PF)

Introduction
Interest on employee contributions to Recognized Provident Fund (RPF) and Statutory Provident Fund (SPF) is exempt under Sections 10(11) and 10(12). However, exemptions are restricted for contributions exceeding Rs. 2,50,000 (or Rs. 5,00,000 for funds without employer contributions).

Key Provisions

- **Employer’s Contribution**
  - Interest on contributions up to 9.5% is exempt. *[Notification No. 24/2011 [F. No. 142/14/2010- (TPL)]/S.O. 1046(E), Dated 13-5-2011]*
  - Excess interest is taxable under "Salaries" and subject to TDS under Section 192.

- **Employee's Contribution**
  - Interest on an employee's EPF/SPF contribution is exempt under Sections 10(11) and 10(12). However, interest exceeding 9.5% is taxable.
  - Interest on contributions exceeding 2,50,000 (or Rs. 5,00,000 for funds without employer contributions) is taxable under "Income from Other Sources."
- **Separate Accounts for Taxable Contributions**
  - From FY 2021-22, PF accounts must maintain separate records for:
  - Non-taxable contributions.
  - Taxable contributions (amounts exceeding the threshold).

Computation of Taxable Interest (Rule 9D)

- **For FY 2021-22**:

- Taxable contribution = Contributions exceeding 2,50,000/Rs. 5,00,000 + Interest thereon −Withdrawals.
  - **For Subsequent Years**:
- Taxable contribution = Closing balance of taxable account (previous year) + Current year excess contribution + Interest − Withdrawals.

SBI's Rate of Interest for Perquisite Valuation

SBI's Rate of Interest for Perquisite Valuation

Introduction
The taxable value of the perquisite arising from free or concessional loans extended by employers is determined based on the State Bank of India's (SBI) interest rates as of April 1 of the relevant financial year.

Key Provisions

- **Applicability**
  - Perquisite tax applies to loans for personal purposes such as education, medical treatment, or housing when provided interest-free or at concessional rates.
  - Tax liability extends to loans availed by the employee, their family, or dependents.
  - Loans up to 20,000 or for specified medical treatments are exempt from tax.
- **Valuation of Perquisite**

The perquisite value is the difference between interest at SBI rates and the actual interest paid by the employee.

For rate of interest, visit the website of SBI from the following link:

https://sbi.co.in/web/business/information/interest-rates-perquisite-calculation