

**Perquisite value of free - concessional educational facilities**  
**For any member of employee's household (and not to the employee)**  
**[Section 17(2) read with Rule 3(5) read of the Income tax Rules, 1962]**

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Rule 3(5) of the Income tax Rules, 1962 speaks out how the taxable value of the perquisite will be calculated in case of provision of concessional / free educational facilities for any **member of employee's household**. As per the Rule the taxable value of the perquisite is calculated as under: -

**A. In case Educational Institution is not owned / maintained by the Employer**

The taxable value of perquisite in this case would be the **actual amount of expenditure incurred** by the employer in that behalf;

**B. In case Educational Institution is owned / maintained by the Employer**

The taxable value of perquisite in this case would be the **cost of such education** in a similar institution in or near the locality. Further if the employer, in addition to running an educational institution for providing free education to the household of its employee, also bears the cost of books, uniform, bus, etc. than such expenses should also be added for determining the cost per child either separately in respect of each child (if possible) or otherwise on a pro rata basis.

**C. In case Educational Institution is patronized by the Employer**

In case the free / concessional education facility is allowed in an educational institution by reason of the employee being in employment of the employer i.e. the said Educational Institution is either patronized by the employer or that the employer has entered into some arrangement with the Institution whereby a specified number of students who are members of employee's household get either the priority or preference in getting admissions and for this arrangement the employer pays the educational institution in lump sum either monthly, yearly or one time payment, than the taxable value of the perquisite would be the cost of such education in a similar institution in or near the locality.

**Member of the household shall include**

- (a) spouse(s);
- (b) children and their spouses;
- (c) parents; and
- (d) servants and dependants

**Exception to the above rule in case of only children [and not other household members] of the employee**

As per the proviso to Rule 3(5), **only in the circumstances mentioned in “B” and “C” above**, the said Rule shall not be applicable if the cost of such education per child does not exceed Rs.1,000/- per month. *That is to say if the cost of the education per child per month is not more than Rs.1000/- then there will not be any taxable value of the perquisite.* Further this exception is only applicable with respect to children of the employee and therefore in case of other member of the employee’s household this exception does not apply.

**Deduction towards amount paid or recovered from employee**

Further the taxable value of the perquisite, as calculated in “A”, “B” or “C” above, shall be reduced by the amount, if any, paid or recovered from the employee on that account.

**Point of consideration**

As per exception of the rule as provided in the proviso to sub rule 5 of Rule 3 if the cost of the education per child per month does not exceed Rs.1000/- then there will not be any taxable value of the perquisite and if cost of the education per child per month exceeds Rs.1000/- then total cost of the education will be the taxable value of the perquisite. To illustrate this if the employee has two children “X” and “Y” and the cost of the education per month of “X” is Rs.1000/- and of “Y” is Rs.1001/-. The taxable value of the perquisite in this case would be: -

- |   |   |           |
|---|---|-----------|
| - | With respect to child “X”<br>(being cost of education does not exceed Rs.1000/- p.m.) | nil       |
| - | With respect to child “Y”<br>(being cost of education exceeds Rs.1000/- p.m.)         | Rs.1001/- |

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