

MODULE - I

Salary Income-Part-I

Assessment Year 2010-2011

Specially designed for CA-IPCC/PCC
May 2010 & Nov 2010 Examination

Also helpful for B.Com(H) & CS(Inter)

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Foreword

Hello friends I am a Chartered Accountant and a B.Com (H) graduate from SGGSC, Delhi University.

From the days of my CA student course, I noticed that students appearing in May 2010 examination will not be able to deliver well in exams because notes are not available in market till December 2009 (when only 5 months remain for examination). Either students would read old books and then redo their course again as per amended provisions or start studying direct tax paper after December. In both the scenarios student are bound to suffer.

So, I thought to provide relief to such students by providing them comprehensive set of notes, which are thoroughly amended as per latest finance act and also self-explanatory.

Please don't study from old books as the concepts are widely changed this year.

These were my suggestions rest all depends upon you to carve out your future.

These modules are self help modules which are drafted in very simple language. Wherein at any point of time you feel that a particular concept is difficult, kindly call me simplify it further.

Rajat Mohan

Introduction to Income Tax

Every tax in India is to be levied under the constitution of India, so is Income tax Act. In other words Income Tax is levied by Constitution of India.

Like ‘Mahatma Gandhi is father of nation, “Constitution is father of Income Tax Act”’.

Income tax is a Direct Tax Income Tax means Taxes levied on Income.

Every hero in film industry is commonly known as “Actor”. Like Actor: Shah Rukh Khan.

Similarly under Income Tax Act every Person is known as an ASSESSEE. Like Assessee Rajat Mohan.

In Income Tax, Tax is always levied for **1 complete Financial Year** (1/April to 31/March/next year). This Financial Year is known as PREVIOUS YEAR.

Year next to Previous Year is known as *ASSESSMENT YEAR*.

Like

Financial year 1/April/2009 to 31/March/2010 = Previous year 1/April/2009 to 31/March/2010 = Assessment year 1/April/2010 to 31/March/2011.

Note

This is for May/ Nov 2010, where Previous year 2009-2010 questions can only be asked in examination.

Income Tax recognizes **5 types** of Income

- | | |
|---------------------------------------|-----|
| 1. Income from Salaries | XXX |
| 2. Income from House Property | XXX |
| 3. Income from Business or Profession | XXX |
| 4. Income from Capital Gains | XXX |
| 5. Income from Any Other Source | XXX |

Total

Gross Total Income

We will study each income one – by – one.

SALARY**Method of Computation of Salary Section 17**

1. Basic Pay	=	XXX
2. Allowances	=	XXX
3. Perquisite(Facility)	=	XXX
4. Retirement Benefits	=	XXX
5. Profits in Lieu of Salary	=	XXX
<hr/>		
GROSS SALARY	=	XXXX
Less: Deduction Under Section 16(ii)	=	XXX
Under Section 16(iii)	=	XXX
<hr/>		
INCOME under head Salary	=	XXX
<hr/>		

Basic Pay

- ✓ It is the main component of Salary of any individual, which is being given for **basic qualities** in an individual like Qualifications, experience, skill and intelligence.
- ✓ Such pay is FULLY TAXABLE.
- ✓ Salary for the **whole year** is being calculated for being put to tax.

Example 1

Basic Pay of Ramesh is Rs 10,000 p.m who is employed from:-

- (i) 1-oct-2007
- (ii) 1st April of Previous Year
- (iii) 1st March of Previous Year

Compute Taxable Basic Salary for Previous Year 2009-2010.

Solution

	(i)	(ii)	(iii)
Months of employment	12	12	1
Basic Pay p.m	10000	10000	10000
Taxable Basic Pay	120000	120000	10000

Note

Every employee is given yearly INCREMENTS which are decided at the time of joining the company.

Example 2

Basic Pay of Ramesh is Rs 10,000 p.m who is employed from 1st April/2006 & he will be given increments of 20% every year of last year.

Compute Taxable Basic Salary for Previous Year 2009-2010.

Solution

Basic Pay

207360

Working Notes

<i>Period</i>	<i>Pay</i>
1/4/2006-31/3/2007	10000 p.m
1/4/2007-31/3/2008	12000 p.m
1/4/2008-31/3/2009	14400 p.m
1/4/2009-31/3/2010	17280 p.m

17280 X 12=2,07,360

Example 3

Aamir Khan is employed from 1st April/2005 on a pay scale of 10000-1000-13000-1500-19000

Compute Taxable Basic Salary for Previous Year 2009-2010.

Solution

Basic Pay

174000

Working Notes

<i>Period</i>	<i>Pay</i>
1/4/2005-31/3/2006	10000 p.m
1/4/2006-31/3/2007	11000 p.m
1/4/2007-31/3/2008	12000 p.m
1/4/2008-31/3/2009	13000 p.m
1/4/2009-31/3/2010	14500 p.m
1/4/2010-31/3/2011	16000 p.m
1/4/2011-31/3/2012	17500 p.m
1/4/2012-31/3/2013	19000 p.m

14500 X 12 = 174000

Basis of Charge of Salary Income

Section 15

The following income shall be chargeable to income-tax under the head “Salaries”—

- (a) Any salary DUE from an employer.
- (b) Any salary PAID to employee in the previous year, though not due.
- (c) Any ARREARS of salary paid to employee in the previous year, if not charged to income-tax for any earlier previous year.

Note 1

Salary is chargeable to tax on due basis or Receipt, whichever is earlier.

Note 2

Salary once charged shall not be charged again.

Example 4

Basic Pay of Shah Rukh Khan is Rs 10,000 p.m who is employed from 1st April/2007.
He receives advance Salary for the month of April 2010 & May 2010.
Compute Gross Salary for Previous Year 2009-2010.

Solution

Salary Chargeable to tax shall be

Basic Pay	120000
[10000 X 12]	
Advance Salary	20000
[10000 X 2]	
Gross Salary	140000

Example 5

Basic Pay of Ramesh is Rs 5,000 p.m who is employed from 1st April/2008.
But this pay was increased to Rs 10,000 p.m from 1st April/2009
He files an application for increment of his salary from past, his application was approved & he got an increment of Rs.2000 p.m which was paid to him on 31/Jan/2010
Compute Gross Salary for Previous Year 2009-2010.

Solution

Salary Chargeable to tax shall be

Basic Pay	120000
[10000 X 12]	
Arrears of Salary	24000
[2000 X 12]	
Gross Salary	144000

Dearness Allowance

- ✓ Dearness allowance is given to an employee in order to compensate him for the **increase in prices**.
- ✓ This allowance is generally stated as a % of **Basic Salary**.
- ✓ Some firms may also pre-decide DA in **absolute terms**.
- ✓ Such allowance is **FULLY TAXABLE**.
- ✓ Increments are also given and computed in similar manner as Basic Pay

Example 6

Dhoni is employed from 1st September/2005 on a pay scale of 10000-1000-12000-1500-18000 and is given Dearness allowance @ 10% upto 1st Sept 2006, then 12% upto 1st Sept 2007, then 15% upto 1st Sept 2008, then 20% upto 1st Sept 2009
Compute Gross Salary for Previous Year 2009-2010.

Solution

Basic Pay 345000
Working Notes

<i>Period</i>	<i>Pay</i>
1/9/2005-31/8/2006	10000 p.m
1/9/2006-31/8/2007	11000 p.m

1/9/2007-31/8/2008	12000 p.m
1/9/2008-31/8/2009	13500 p.m
1/9/2009-31/8/2010	15000 p.m
1/9/2010-31/8/2011	16500 p.m
1/9/2011-31/3/2012	18000 p.m

4/2008	13500
5/2008	13500
6/2008	13500
7/2008	13500
8/2008	13500
9/2008	15000
10/2008	15000
11/2008	15000
12/2008	15000
1/2009	15000
2/2009	15000
3/2009	15000

Dearness Allowance

31125

Working Notes

April-August	13500 p.m	15%	$13500 \times 5 \times 15\% = 9000$
September-March	15000 p.m	20%	$15000 \times 7 \times 20\% = 18900$

Gross Salary

376125

Bonus

- ✓ It is the payment made by employer for good performance of employee.
- ✓ It is FULLY TAXABLE.

Like ABC ltd. Gives a bonus of Rs200 to every employee producing above 25 units.

Commission

- ✓ Commission is generally granted as % of any financial terms, so as to push employees for better performance
- ✓ It is FULLY TAXABLE.

Like Sales Executives are given 5 % of Commission of Sales made by them.

ALLOWANCES

Allowances are CASH PAYMENT made by employer to employee for **specific purposes**.

House Rent Allowance

Section 10(13A) Rule 2A

Allowance paid by to employee for taking a house on Rent is called House Rent Allowance.

HRA is EXEMPT to extent of LEAST of the following:-

- (i) HRA received
- (ii) Rent Paid – (10% of Salary of relevant period)
- (iii) An amount equal to—
 - ✓ If accommodation is situated at **Bombay, Calcutta, Delhi or Madras**, 50% of the amount of salary for the relevant period; and
 - ✓ In any **other case**, 40% of the amount of salary for the relevant period

“Salary” means

- ✓ Basic Pay
- ✓ Dearness allowance **if the terms of employment so provide**
- ✓ Commission, if paid as **Fixed % of Sales** Turnover [*Gestetner Duplicators (P.) Ltd. v. CIT*]

<u>Example 7</u>				
	Case I	Case II	Case III	Case IV
Basic Pay/month	50,000	50,000	10,000	30,000
HRA/month	4,000	4,000	6,000	2,000
Rent paid/month	6,000	-	6,000	6,000
place of Residence	Bihar	Bihar	Bihar	Bihar

<u>Solution</u>				
House Rent Allowance				
HRA reced	48,000	48,000	72,000	24,000
Rent paid - 10%	12,000	(60,000)	60,000	36,000
40% of salary	240,000	240,000	48,000	144,000
Amount exempt	12,000	-	48,000	24,000

Amount Received	48000	48000	72,000	24,000
Amount Exempt	(12000)	0	(48000)	(24000)
taxable	36,000.00	48,000.00	24,000.00	-

Example 8

Mr. Salmaan is employed

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m, half of it forms part of Salary

Bonus = Rs.500p.m.

Commission is 1% of sales turnover effected by him which is Rs.20 lacs

HRA = Rs.6000p.m

Rent payable by employee Rs.7000p.m

Ramesh is posted at Delhi

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	6000
Commission	20000
House Rent allowance	18200

Working notes

Exemption is least of the following

(i) $6000 \times 12 = 72000$

(ii) $7000 \times 12 - 10\% [240000 + 84000/2 + 20000] = 53800$

(iii) $50\% \times [240000 + 84000/2 + 20000] = 151000$

Allowance received = 72000

Less: Exempt = (53800)

Taxable portion = 18200

Gross Salary 368200

Notes

Exemption shall be calculated **separately for every period** in which there is any change of Allowance, Rent paid, Salary, situation of accommodation.

Example 9

Mr. Ramesh is employed w.e.f. 1/April/2009

At a Basic Pay = Rs 20000p.m, which later on was increased to 30000p.m w.e.f 1/Sept.

He was also getting HRA of Rs.5000p.m

Rent paid is Rs.4000 in Delhi.

Compute Gross Salary Previous Year 2009-2010

Solution

Basic Pay	290000
[20000 X 5 + 30000 X 7]	
House Rent allowance	43000
[15000 + 28000]	

Working notes

	April -Aug	Sept-March
Basic Pay	20000	30000
Rent paid	4000	4000

HRA	5000	5000
Posting	Delhi	Delhi

April -Aug

Exemption is least of the following

- (i) $5000 \times 5 = 25000$
- (ii) $4000 \times 5 - 10\%[20000 \times 5] = 10000$
- (iii) $50\% \times [20000 \times 5] = 50000$

Allowance received = 25000
 Less: Exempt = (10000)
 Taxable portion = 15000

Sept-March

Exemption is least of the following

- (i) $5000 \times 7 = 35000$
- (ii) $4000 \times 7 - 10\%[30000 \times 7] = 7000$
- (iii) $50\% \times [30000 \times 7] = 105000$

Allowance received = 35000
 Less: Exempt = (7000)
 Taxable portion = **28000**

Gross Salary 333000

Example 9 A

Mr. Ramesh is employed w.e.f. 1/April/2009

At a Basic Pay = Rs 20000p.m,

He was also getting HRA of Rs.5000p.m, which later on was increased to 6000p.m w.e.f 1/Sept.

Rent paid is Rs.4000 in Delhi.

Compute Gross Salary Previous Year 2009-2010.

Solution

Basic Pay 290000
 $[20000 \times 5 + 30000 \times 7]$

House Rent allowance 50000
 $[15000 + 35000]$

Working notes

	April -Aug	Sept-March
Basic Pay	20000	20000
Rent paid	4000	4000
HRA	5000	6000
Posting	Delhi	Delhi

April -Aug

Exemption is least of the following

- (i) $5000 \times 5 = 25000$
- (ii) $4000 \times 5 - 10\%[20000 \times 5] = 10000$
- (iii) $50\% \times [20000 \times 5] = 50000$

Allowance received = 25000
 Less: Exempt = (10000)
 Taxable portion = 15000

Sept-March

Exemption is least of the following

- (i) $6000 \times 7 = 42000$
- (ii) $4000 \times 7 - 10\%[30000 \times 7] = 7000$
- (iii) $50\% \times [30000 \times 7] = 105000$

Allowance received = 42000
 Less: Exempt = (7000)
 Taxable portion = **35000**

Gross Salary 340000

Example 9 B

Mr. Ramesh is employed w.e.f. 1/May/2009.

At a Basic Pay = Rs 20000p.m, which later on was increased to 30000p.m w.e.f 1/Sept.

He was also getting HRA of Rs.5000p.m which was increased to 5500p.m from 1/oct/2008.

Ramesh was working in Delhi till 1st Dec but was posted to Bihar thereafter.

Rent paid is Rs.4000

Compute Gross Salary Previous Year 2009-2010.

Solution

Basic Pay 290000
 House Rent allowance 43000
 Working notes

	April	May-Aug	Sept	Oct-Nov	Dec-March
Basic Pay	0	20000	30000	30000	30000
Rent paid	0	4000	4000	4000	4000
HRA	0	5000	5000	5500	5500
Posting	0	Delhi	Delhi	Delhi	Bihar

May-Aug

Exemption is least of the following

- (i) $5000 \times 4 = 20000$
- (ii) $4000 \times 4 - 10\%[20000 \times 4] = 8000$
- (iii) $50\% \times [20000 \times 4] = 40000$

Allowance received = 20000

Less:Exempt = (8000)
 Taxable portion = **12000**

Sept

Exemption is least of the following

- (i) $5000 \times 1 = 5000$
- (ii) $4000 \times 1 - 10\%[30000 \times 1] = 1000$
- (iii) $50\% \times [30000 \times 1] = 15000$

Allowance received = 5000
 Less:Exempt = (1000)
 Taxable portion = **4000**

Oct-Nov

Exemption is least of the following

- (i) $5500 \times 2 = 11000$
- (ii) $4000 \times 2 - 10\%[30000 \times 2] = 2000$
- (iii) $50\% \times [30000 \times 2] = 30000$

Allowance received = 11000
 Less:Exempt = (2000)
 Taxable portion = **9000**

Dec-March

Exemption is least of the following

- (i) $5500 \times 4 = 22000$
- (ii) $4000 \times 4 - 10\%[30000 \times 4] = 4000$
- (iii) $40\% \times [30000 \times 4] = 48000$

Allowance received = 22000
 Less:Exempt = (4000)
 Taxable portion = **18000**

Gross Salary 333000

Notes

Place of Work/posting may be **different** from Place where **accommodation** is take on rent. In such case consider the actual place in which rented accommodation is taken.

E.g. Employee is working at Delhi Branch of Maruti, but he has taken a rented accommodation in Faridabad, in this case Faridabad shall be taken & 40 % of salary shall be considered

Example 10

Mr. Ramesh is employed
 Basic Pay = Rs 20000 p.m
 DA = Rs. 7000 p.m, half of it forms part of Salary
 Bonus = Rs.500p.m.
 Commission is 1% of sales turnover effected by him which is Rs.20 lacs

HRA = Rs.6000p.m

Rent payable by employee is Rs.7000p.m at NOIDA

Ramesh is posted in Delhi

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	6000
Commission	20000
House Rent allowance	18200

Working notes

Exemption is least of the following

- (i) $6000 \times 12 = 72000$
- (ii) $7000 \times 12 - 10\%[240000+84000/2+20000]=53800$
- (iii) $40\% \times [240000+84000/2+20000]=120800$

Allowance received = 72000

Less: Exempt = (53800)

Taxable portion = 18200

Gross Salary 368200

Official Allowance

Section 10(14)(i) Rule 2BB

Any such special allowance specifically granted to meet expenses wholly and exclusively incurred in the performance of the duties of an office, to the extent to which such expenses are **actually incurred** for that purpose shall be **exempt**.

- (a) Travelling allowance- any allowance granted to meet the **cost of travel** on tour or on transfer
- (b) Daily Allowance- any allowance granted to meet the ordinary **daily charges** incurred by an employee, who is on tour or on transfer
- (c) Conveyance Allowance- any allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office (This expense is incurred on **local movement** of an employee, But Transport allowance can't be covered in this)
- (d) Helper Allowance- any allowance granted to meet the expenditure incurred on a **helper** where such helper is engaged for the performance of the duties of an office
- (e) Academic Allowance/ Research Allowance- any allowance granted for encouraging the academic, **research** and training pursuits in educational and research institutions

- (f) Uniform Allowance- any allowance granted to meet the expenditure incurred on the **purchase or maintenance** of uniform for wear during the performance of the duties of an office

Note

In above allowance exemption is granted to the extent expenses are actually incurred by the employee. That means: **SAVINGS IS TAXABLE**

Example 11

Mr. Ramesh is getting following allowances from his employer. Compute taxable portion of allowances.

Per Month

<u>Allowance</u>	<u>Amount received</u>	<u>Amount incurred</u>	<u>Amount Saved</u>	<u>Exemption</u>	<u>Taxable</u>
Travelling allowance	1000	1000	0	1000	0
Daily Allowance	1000	800	200	800	200
Conveyance Allowance	1000	1200	0	1000	0
Helper Allowance	1000	1300	0	1000	0
Research Allowance	1000	1000	0	1000	0
Uniform Allowance	1000	200	800	200	800

Example 12

Mr. Ramesh is getting following allowances from his employer. Compute taxable portion of allowances.

Per Month

<u>Allowance</u>	<u>Amount received</u>	<u>Amount incurred</u>	<u>Amount Saved</u>	<u>Exemption</u>	<u>Taxable</u>
Travelling allowance	2000	500			
Daily Allowance	2000	1000			
Conveyance Allowance	2000	1500			
Helper Allowance	2000	2000			
Research Allowance	2000	2500			
Uniform Allowance	2000	100000			

Example 13

Mr. Ramesh is employed

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m, half of it forms part of Salary

Bonus = Rs.500p.m.

Commission is 1% of sales turnover affected by him which is Rs.20 lacs

HRA = Rs.6000p.m

Rent payable by employee is Rs.7000p.m at NOIDA

He is getting Travelling allowance of Rs.2000 p.m, Daily allowance Rs.5000 p.m, Conveyance allowance of Rs 10000 p.m. Expenses actually incurred by him respectively are Rs.20000, Rs.30000, Rs.6000 p.m

Compute gross salary for Previous Year 2009-2010.

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	6000
Commission	20000
House Rent allowance	18200

Working notes

Exemption is least of the following

(iv) $6000 \times 12 = 72000$

(v) $7000 \times 12 - 10\%[240000+84000/2+20000]=53800$

(vi) $40\% \times [240000+84000/2+20000]=120800$

Allowance received = 72000

Less: Exempt = (53800)

Taxable portion = 18200

Travelling allowance [2000 X 12 – 20000]	4000
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Daily allowance [5000 X 12 - 30000]	30000
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Conveyance allowance [10000 X 12 – 6000 X 12]	48000
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Gross Salary	450200
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Example 14

Mr. Ramesh is employed at a Basic Pay of Rs 10000p.m and Dearness Allowance of Rs. 7000 p.m(half of it does not form part of Salary) ,Bonus of Rs.500p.m., and HRA of Rs.3000p.m.He lives with his father who is 98 Yrs old.

He is getting Travelling allowance of Rs.2000 p.m, Daily allowance Rs.5000 p.m, Conveyance allowance of Rs 10000 p.m. Expenses actually incurred by him respectively are Rs.30000, Rs.20000, Rs.11000 p.m

Compute gross salary for Previous Year 2009-2010.

Personal Allowance

Section 10(14)(ii) Rule 2BB

- ❖ Any allowance granted to the assessee to meet his **personal expenses**
- ❖ at the place of his office or residence
- ❖ shall be **exempt** upto the limit as may be prescribed under **Rule 2BB**.

Note

In all Personal Allowance actual EXPENDITURE incurred is of NO RELEVANCE.

Children Education Allowance

- ✓ This allowance is given to employee for his Children's education.
- ✓ Exemption is allowed to the extent of **RS.100 P.M. PER CHILD** upto MAXIMUM 2 CHILDREN
- ✓ Child includes a **step-child** and an **adopted** child of that individual.

Note

In case allowance is being given for more than 2 Children then, Exemption shall be claimed for the **most beneficial ones**.

Example 15

Employer is paying to Ramesh Children education allowance for:-

	Allowance	Exemption	Taxable
I Child	Rs.50 p.m	-	50 X 12 = 600
II Child	Rs.150 p.m	Rs. 100 p.m	50 X 12 = 600
III Child	Rs.250 p.m	Rs. 100 p.m	150 X 12 = 1800
Total amount Taxable			Rs.3000

Example 16

Employer is paying to Ramesh Children education allowance for:-

	Allowance	Exemption	Taxable
I Child	Rs.50 p.m	-	50 X 12 = 600
II Child	Rs.50 p.m	Rs. 50 p.m	0
III Child	Rs.150 p.m	Rs. 100 p.m	50 X 12 = 600
Total amount Taxable			Rs.1200

Hostel Expenditure Allowance

- ✓ This allowance is given to employee for his Children's Hostel education.
- ✓ Exemption is allowed to the extent of **RS.300 P.M. PER CHILD** upto MAXIMUM 2 CHILDREN
- ✓ Child includes a step-child and an adopted child of that individual.

Note

In case allowance is being given for more than 2 Children then, Exemption shall be claimed for the most beneficial ones.

Transport Allowance

- ✓ This allowance is granted to an employee to meet his expenditure for the purpose of commuting between the **place of his residence** and the **place of his duty**.
- ✓ Exemption is allowed to the extent of **Rs.800 p.m**
- ✓ Provided such exemption shall be **Rs.1600 p.m**, in case such employee is blind or orthopaedically **handicapped**.

Example 17

Employer is paying to Ramesh Rs. 1500 p.m for Transport Allowance. Whereas Mr. Ramesh has incurred Rs.2000 p.m.

Amount taxable shall be $[1500-800] \times 12 = \text{Rs.}8400$

Underground Allowance

- ✓ This allowance is granted to an employee who is working in uncongenial, unnatural climate in **underground coal mines**
- ✓ Exemption is allowed to the extent of **Rs.800 p.m**

Allowance to Employees of Transport System

- ✓ Any allowance granted to an employee working in any transport system to meet his personal expenditure in the **course of running of such transport** from one place to another.
- ✓ Exemption of this allowance shall be lower of:-
 - **70% of Allowance**
 - **Rs.6000 p.m**

Note 1

Transport System means Airlines , Railways, Shipping, BEST, DTC, any other mode of transport even if it is Private.

Note 2

If employee is also **getting Daily Allowance**, Then **no exemption** shall be available for this allowance. So full amount of this allowance shall be taxable.

Example 18

Kingfisher Airlines is paying R.10000 p.m to its stewards, for incurring personal expenditure in the course of running Transport system.

Exemption shall be lower of:-

- ✓ $10000 \times 12 \times 70\% = 84000$
- ✓ $\text{Rs. } 6000 \times 12 = 72000$

Exemption shall be Rs.72000 & Taxable amount shall be Rs.48000 $[120000-72000]$

Highly Active field Area Allowance

- ✓ This allowance is granted to members of **Armed forces** for working in HIGHLY ACTIVE field area.
- ✓ Exemption is allowed to the extent of **Rs.4200 p.m**

Island Duty Allowance

- ✓ This allowance is granted to members of **Armed forces** for working in ANDAMAN AND NICOBAR and LAKSHADWEEP group of Island.
- ✓ Exemption is allowed to the extent of **Rs.3250 p.m**

High Altitude Allowance

- ✓ This allowance is granted to members of **Armed forces** for working on HIGH ALTITUDES.
- ✓ Exemption is allowed to the extent of:-
 - Rs.1060 p.m – Altitude of 9000-15000 Feet
 - Rs.1600 p.m – Altitude above 15000 Feet

Tribal Area Allowance/Schedule Area Allowance

- ✓ This allowance is granted for working in following areas:-
 - (a) Madhya Pradesh
 - (b) Tamil Nadu
 - (c) Uttar Pradesh
 - (d) Karnataka
 - (e) Tripura
 - (f) Assam
 - (g) West Bengal
 - (h) Bihar
 - (i) Orissa
- ✓ Exemption shall be **Rs.200 p.m**

Note

If this allowance is given in any other State no Exemption shall be given.

Special Compensatory (Hilly Areas) Allowance /High Altitude Allowance /Uncongenial Climate Allowance/Snow Bound Area Allowance/Avalanche Allowance

- ✓ This is an allowance granted to employees, working in Hilly areas
- ✓ Exemption is allowed to the extent of Rs. 300 – Rs.7000 per month depending upon each area

Border Area Allowance/Remote Locality Allowance/Difficult Area Allowance/Disturbed Area Allowance

- ✓ This is an allowance granted to employees, working in Border areas or Remote areas.
- ✓ Exemption is allowed to the extent of Rs. 200 – Rs.1300 per month depending upon each area

Compensatory Field Area Allowance

- ✓ If this exemption is claimed, no exemption can be granted for **Border Area Allowance**
- ✓ Exemption is allowed to the extent of Rs. 2600 per month only in respect of SPECIFIED AREAS

Compensatory Modified Area Allowance

- ✓ If this exemption is claimed, no exemption can be granted for **Border Area Allowance**
- ✓ Exemption is allowed to the extent of Rs.1000 per month only in respect of SPECIFIED AREAS

Counter Insurgency Allowance

- ✓ If this exemption is claimed, no exemption can be granted for **Border Area Allowance**

- ✓ Exemption is allowed to the extent of Rs.3900 per month only in respect of SPECIFIED AREAS
- ✓ This allowance is to members of **Armed Forces** operating in areas **away from their permanent location**.

Example 19

Mr. Ramesh is getting following allowances from his employer. Compute taxable portion of allowances.

Per Month

<u>Allowance</u>	<u>Amount received</u>	<u>Amount incurred</u>	<u>Amount Saved</u>	<u>Exemption</u>	<u>Taxable</u>
Transport allowance	1000	Irrelevant	Irrelevant	800	200
Children education Allowance	1000	Irrelevant	Irrelevant	100	900
Hostel Allowance	1000	Irrelevant	Irrelevant	300	700
Tribal area Allowance	1000	Irrelevant	Irrelevant	200	800
Underground Allowance	1000	Irrelevant	Irrelevant	800	200
Island duty Allowance	5000	Irrelevant	Irrelevant	3250	1750

Example 20

Mr. Ramesh is getting following allowances from his employer. Compute taxable portion of allowances.

Per Month

<u>Allowance</u>	<u>Amount received</u>	<u>Amount incurred</u>	<u>Amount Saved</u>	<u>Exemption</u>	<u>Taxable</u>
Transport allowance	100	500			
Children education Allowance	11000	500			
Hostel Allowance	200	500			
Tribal area Allowance	2000	500			
Underground Allowance	3000	500			
Island duty Allowance	1000	500			

Example 21

Mr. Ramesh is employed

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m

Bonus = Rs.500p.m.

He is also getting

Transport allowance = Rs.900p.m

Children education Allowance= Rs.200p.m per child for 2 children

Hostel Allowance=Rs.500p.m per child for 2 children

Compute gross salary for Previous Year 2009-2010.

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	6000

Transport allowance [900 x 12 – 800 x 12]	1200
Children education Allowance [200 x 12 x 2 – 100 x 12 x 2]	2400
Hostel Allowance [500 x 12 x 2 – 300 x 12 x 2]	4800
Gross Salary	338400

Example 22

Mr. Ramesh is employed at a Basic Pay of Rs 10000p.m and Dearness Allowance of Rs. 7000 p.m(half of it does not form part of Salary) ,Bonus of Rs.500p.m

He is getting Travelling allowance of Rs.2000 p.m, Daily allowance Rs.5000 p.m, Conveyance allowance of Rs 10000 p.m. Expenses actually incurred by him respectively are Rs.30000, Rs.20000, Rs.11000 p.m

He is also getting Underground Allowance of rs.300 p.m & Children education Allowance of Rs.175 p.m for each of the 3 children & Hostel Allowance of Rs.550 p.m for 1 Child.
Compute gross salary for Previous Year 2009-2010.

Example 23

Mr. Ramesh is employed at a Basic Pay of Rs 10000p.m and Dearness Allowance of Rs. 7000 p.m(half of it does not form part of Salary) ,Bonus of Rs.500p.m., and HRA of Rs.3000p.m.He lives with his father who is 98 Yrs old.

He is getting Travelling allowance of Rs.2000 p.m, Daily allowance Rs.5000 p.m, Conveyance allowance of Rs 10000 p.m. Expenses actually incurred by him respectively are Rs.30000, Rs.20000, Rs.11000 p.m

He is also getting Underground Allowance of rs.300 p.m & Children education Allowance of Rs.175 p.m for each of the 3 children & Hostel Allowance of Rs.550 p.m for 1 Child. He actually has 5 Children on which he incurs Rs.5000 each child for their education and hostel expenses.
Compute gross salary for Previous Year 2009-2010.

Any Other Allowances

All other Personal Allowances unless above mentioned shall be FULLY TAXABLE irrespective of the amount spent.

Like

- City Compensatory Allowance
- Medical Allowance
- Lunch Allowance
- Tiffin Allowance

- Overtime Allowance
- Servant Allowance
- Warden Allowance
- Family Allowance
- Cash Allowance
- Split Duty Allowance
- Deputation Allowance
- Officiating Allowance
- Closing Allowance
- Entertainment Allowance
- Project Allowance

Government Employees Outside India

Section 10(7)

Any Allowance given by Government of India to a Citizen of India working Abroad for Government shall be FULLY EXEMPT from tax.

Judges of High Court

Any Allowance given by Government of India to Judges of High Court under High Court Judges Act shall be FULLY EXEMPT from tax

Judges of Supreme Court

Any Allowance given by Government of India to Judges of Supreme Court under Supreme Court Judges Act shall be FULLY EXEMPT from tax

Employees of United Nations Organization

Any allowance given by United Nations Organization to any person who is employed by it shall be FULLY EXEMPT from tax

Perquisites

Perquisites mean facility given by Employer to employee for any personal purposes.

Section 17(2) states

perquisite includes —

- (i) the value of RENT-FREE ACCOMMODATION provided to the assessee by his employer;
- (ii) the value of ACCOMMODATION at CONCESSIONAL RENT provided to the assessee by his employer
- (iii) the value of ANY BENEFIT or amenity granted or provided free of cost or at concessional rate in any of the following cases—
 - (a) by a company to an employee who is a DIRECTOR thereof;
 - (b) by a company to an employee being a person who has a SUBSTANTIAL INTEREST in the company;
 - (c) income under the head “Salaries” (whether due from, or paid or allowed by, one or more employers), exclusive of the value of all benefits or amenities not provided for by way of monetary payment, exceeds RS.50000
- (iv) any sum paid by the employer in respect of any OBLIGATION of his EMPLOYEE
- (v) any sum payable by the employer to effect an ASSURANCE ON THE LIFE of the assessee or to effect a contract for an annuity;
- (vi) the value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee.
- (vii) the amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds one lakh rupees;
- (viii) the value of any other fringe benefit or amenity as may be prescribed.

1st. Rent Free Accommodation

Section 17(2)(i) Rule 3(1)

It refers to any place of living or dwelling given to an employee for his personal purposes free of cost. It is chargeable to tax on case of all employees.

It divides the employees into 2 Categories:-

A Central Government & State Government employees

Perquisite value of the Accommodation so provided shall be LICENSE FEE, which is determined by Central Government or State Government itself.

Like Ramesh working as a Central government employee is given an accommodation free of rent in Gujarat for which License fee is Rs 40000. Then in such case Perquisite value shall be Rs 40000

But, No tax shall be charged for

- Judges of Supreme Court/High Court
- Union Minister
- Leader of Opposition in Parliament

Note

Employees of Foreign Government, Public Sector Company & Local Authority shall not be covered in this category.

B Any other employees

Accommodation is owned by Employer

<u>Population of City as per 2001 census where accommodation is given</u>	<u>Value of RFA</u>
Exceeding 0 to 10 Lacs	7.5% of Salary of relevant period
Exceeding 10 Lacs to 25 Lacs	10% of Salary of relevant period
Exceeding 25 Lacs	15% of Salary of relevant period

Accommodation is not owned by Employer (i.e. Rented by Employer)

Value of RFA shall be Lower of:-

- Lease Rent paid by employer of relevant period
- 15 % of Salary of Relevant Period

Salary for this Section shall include:-

- Basic Salary
- Dearness Allowance, if the terms of employment so provide
- Bonus
- Commission
- Fees
- Taxable portion of all allowances
- Any other Monetary payment chargeable to tax

Salary for this Section shall exclude:-

- Advance Salary
- Arrears of Salary
- Employer's Contribution to Provident Fund
- Value of perquisites under Section 17(2)

Example 24

Ramesh is an employee of Rama Ltd. & is working there at a

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m, half of it forms part of Salary

Bonus = Rs.500p.m.

Commission is 1% of sales turnover effected by him which is Rs.20 lacs

He is given a Rent free accommodation in Ludhiana (Population = Rs.12Lacs as per 2001 census), such accommodation is owned by Employer

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	6000
Commission	20000
Rent Free Accommodation	30800
Workings	
Value shall be 10% of Salary	
Basic Pay	240000
Dearness Allowance	84000 X 50%
Bonus	6000
Commission	<u>20000</u>
Salary	<u>308000</u>
10% of Salary	30800
Gross Salary	380800

Example 25

Ramesh is an employee of Rama Ltd. & is working there at a

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m, half of it forms part of Salary

Bonus = Rs.500p.m.

Commission is 1% of sales turnover effected by him which is Rs.20 lacs

He is given a Rent free accommodation in Ludhiana (Population = Rs.12Lacs as per 2001 census).

Rent paid by employer for such accommodation shall be Rs.40000 p.a.

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	6000
Commission	20000
Rent Free Accommodation	40000
Workings	

Value shall be 15% of Salary or Lease rent whichever is lower

Basic Pay	240000
Dearness Allowance	84000 X 50%
Bonus	6000
Commission	<u>20000</u>
Salary	<u>308000</u>

Lower of:-

15% of Salary	46200
Rent paid	40000

Gross Salary 390000

Example 26

Mr. Ramesh is employed by Balaji Telefilms, it has also given a Rent Free accommodation to him in Bombay. Such accommodation was rented by Balaji Telefilms & rent paid being Rs.40000

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m (Does not form part of salary)

Bonus = Rs.500p.m.

Advance salary received Rs.50000

Arrears of salary received Rs.35000

He is also getting

Transport allowance = Rs.900p.m

Children education Allowance= Rs.200p.m per child for 2 children

Hostel Allowance=Rs.500p.m per child for 2 children

Compute gross salary for Previous Year 2009-2010.

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	6000
Advance salary	50000
Arrears of salary	35000

Transport allowance	1200
[900 x 12 – 800 x 12]	

Children education Allowance	2400
[200 x 12 x 2 – 100 x 12 x 2]	

Hostel Allowance	4800
[500 x 12 x 2 – 300 x 12 x 2]	

Rent Free Accommodation	38160
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Workings

Value shall be 15% of Salary or Lease rent whichever is lower

Basic Pay	240000
Dearness Allowance	0

Bonus	6000
Transport allowance	1200
CEA	2400
Hostel Allowance	<u>4800</u>
Salary	<u>254400</u>

Lower of:-

15% of Salary	38160
Rent Paid	40000

Gross Salary 461560

Example 27

Ramesh is an employee of Rama Ltd. & is working there at a

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m, half of it forms part of Salary

Bonus = Rs.500p.m.

Commission is 1% of sales turnover effected by him which is Rs.20 lacs

He is given a Rent free accommodation in Ludhiana (Population = Rs.12Lacs as per 2001 census).

Rent paid by employer for such accommodation shall be Rs.40000 p.a.

Ramesh is also working part-time in a BPO at a Basic Salary of 5000 p.m.

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay	300000
[12000 X 12 + 5000 X 12]	
Dearness Allowance	84000
Bonus	6000
Commission	20000
Rent Free Accommodation	40000

Workings

Value shall be 15% of Salary or Lease rent whichever is lower

Basic Pay $240000 + 5000 \times 12$

Dearness Allowance $84000 \times 50\%$

Bonus 6000

Commission 20000

Salary 368000

Lower of:-

15% of Salary	55200
Rent paid	40000

Gross Salary 450000

Note

Salary from all employers shall be considered

Furniture also given to employee in accommodation

Where furniture is also provided to employee together with accommodation.
Then value of furniture shall be added to Value of Accommodation as calculated above.

Value of furniture shall be:-

- Furniture is OWNED by Employer – **10% p.a** of **Original Cost** of Furniture
- Furniture is NOT owned by Employer – HIRE CHARGES of Furniture

Furniture shall also include Air Conditioner, Television, Radio, Any other household appliances.

Example 28

Ramesh is an employee of Rama Ltd. & is working there at a

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m, half of it forms part of Salary

Bonus = Rs.500p.m.

Commission is 1% of sales turnover effected by him which is Rs.20 lacs

He is given a Rent free accommodation in Ludhiana (Population = Rs.12Lacs as per 2001 census), such accommodation is owned by Employer.

Furniture is also provided in above accommodation original cost of which is Rs.400000 & Written Down Value is Rs.4000

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	6000
Commission	20000

Rent Free Accommodation	70800
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Workings

Value shall be 10% of Salary

Basic Pay	240000
Dearness Allowance	84000 X 50%
Bonus	6000
Commission	<u>20000</u>
Salary	<u>308000</u>
10% of Salary	30800
Furniture	40000
[10% X 400000]	

He is given a Rent free accommodation in Ludhiana (Population = Rs.12Lacs as per 2001 census), such accommodation is owned by Employer.

But he is transferred from Ludhiana w.e.f 1/10/2008 to Delhi. He is also given an accommodation at Delhi(owned by employer). Both the accommodations are provided to him.

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay 240000

Rent Free Accommodation 33000

Workings

	April-Sept	Oct-Dec	Jan-March
Accommodation	Ludhiana	Ludhiana & Delhi	Ludhiana & Delhi
Taxable accommodation	Ludhiana	Ludhiana OR Delhi	Ludhiana & Delhi
Months	6	3	3
Salary	120000	60000	60000
10% of Salary	12000	6000	6000
15% of Salary		9000	9000
Value of RFA	12000	6000	6000 + 9000=15000

Gross Salary 273000

Example 31

Ramesh is an employee of Rama Ltd. & is working there at a

Basic Pay = Rs 10000p.m & Bonus of Rs.3000 p.m.

He is given a Rent free accommodation in Delhi ,such accommodation is owned by Employer.

But he is transferred to Ludhiana w.e.f 1/10/2008 to (Population = Rs.12Lacs as per 2001 census). He is also given an accommodation at Ludhiana (owned by employer). Both the accommodations are provided to him.

Compute gross salary for Previous Year 2009-2010

Example 32

Ramesh is an employee of Rama Ltd. & is working there at a

Basic Pay = Rs 20000p.m

He is given a Rent free accommodation in Ludhiana (Population = Rs.12Lacs as per 2001 census), such accommodation is owned by Employer.

But he is transferred from Ludhiana w.e.f 1/10/2008 to Delhi. He is also given an accommodation at Delhi(owned by employer). Ramesh vacated accommodation at Ludhiana on 1/march/2009..

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay 240000

Rent Free Accommodation 31000

Workings

	April-Sept	Oct-Dec	Jan-Feb	March
Accommodation	Ludhiana	Ludhiana & Delhi	Ludhiana & Delhi	Delhi
Taxable accommodation	Ludhiana	Ludhiana OR Delhi	Ludhiana & Delhi	Delhi
Months	6	3	2	1
Salary	120000	60000	40000	20000
10% of Salary	12000	6000	4000	-----
15% of Salary	-----	9000	6000	3000
Value of RFA	12000	6000	4000 + 6000=10000	3000

Gross Salary

271000

Accommodation in a Hotel

For any Accommodation provided to employee in a Hotel, Motel or guest House by employer, Value shall be LOWER of the following:-

- 24% of Salary of Relevant period
- **Actual Hire Charges** paid/payable.

Provided if any Accommodation of Hotel is provided to an employee who is being transferred from one place to another & such accommodation is not for a period not exceeding 15 Days. Then it shall be exempt. But if it is provided for more than 15 Days, then for balance period it shall be is taxable

Accommodation in a Remote Area

No tax shall be chargeable to the employee if he is working at a mining site, onshore oil exploration site, project execution site, dam site, power generation site or an Offshore site which is:-

- Located in a REMOTE AREA; or
- Being of a temporary nature and having plinth area not exceeding 800 square feet, is located more than 8 Kms away from ant Municipality.

2nd. Accommodation at Concessional Rent

Section 17(2)(ii) Rule3(1)

It refers to any accommodation being provided to an employee at concessional rent.

Value of the perquisite shall be Value determined as in above **and reduced by rent recovered from employee.**

Example 33

Ramesh is an employee of Rama Ltd. & is working there at a

Basic Pay = Rs 20000p.m

DA = Rs. 7000 p.m, half of it does not form part of Salary

Bonus = Rs.1500p.m.

Commission is 2% of sales turnover effected by him which is Rs.20 lacs

He is given a Rent free accommodation in Ludhiana (Population = Rs.12Lacs as per 2001 census), such accommodation is owned by Employer. Rent recovered by employer shall be Rs. 1000p.m

Furniture is also provided in above accommodation original cost of which is Rs.400000 & Written Down Value is Rs.4000.

Compute gross salary for Previous Year 2009-2010

Solution

Basic Pay	240000
Dearness Allowance	84000
Bonus	18000
Commission	40000
Rent Free Accommodation	62000
Workings	
Value shall be 10% of Salary	
Basic Pay	240000
Dearness Allowance	84000 X 50%
Bonus	18000
Commission	<u>40000</u>
Salary	<u>340000</u>
10% of Salary	34000
Furniture	40000
[10% X 400000]	
Value of RFA	74000
Rent recovered	(12000)
Perquisite value	62000
Gross Salary	444000

3rd. Sweeper, Gardner, watchman, personal attendant

Section 17(2)(iii) Rule 3(3)

It is chargeable to tax in case of SPECIFIED EMPLOYEES.

The value of benefit to the employee or any member of his household resulting from the provision by the employer of services of a sweeper, a gardener, a watchman or a personal attendant, shall be the ACTUAL COST to the employer.

The actual cost in such a case shall be the total amount of salary paid or payable by the employer for such services as REDUCED by any AMOUNT PAID BY THE EMPLOYEE for such services.

Example 34

XYZ & Co. has given a Gardner & Watchman to its employee for which salary paid by company is Rs.2000 p.m & Rs.2500p.m respectively.

Compute Perquisite value

Solution

Perquisite value	54000
[2000 X 12 + 2500 X 12]	

Note

As per the Circular issued by CBDT in 1973.

perquisite value of the gardener shall be NIL if:-

- Rent Free Accommodation is given by employer
- Is also owned by him
- Which also has a Garden
- Gardener is provided by employer to maintain such garden

4th. Supply of Gas, Electric Energy or Water

Section 17(2)(iii) Rule3(4)

It is chargeable to tax in case of SPECIFIED EMPLOYEES.

The value of the benefit to the employee resulting from the supply of gas, electric energy or water for his household consumption shall be determined as the sum equal to the AMOUNT PAID on that account by the employer to the agency supplying the gas, electric energy or water.

Where such supply is made from **RESOURCES OWNED** by the employer, without purchasing them from any other outside agency, the value of perquisite would be the MANUFACTURING COST per unit.

Where the EMPLOYEE is PAYING ANY AMOUNT in respect of such services, the amount so paid shall be REDUCED from the value so arrived at.

Example 35

M/s XYZ Ltd. has supplied free water & electricity to its employee Kumar. Bills are paid directly by Co. to provider of service. Bills paid are of R.2000 & Rs.12000.

Solution

Perquisite Value shall be Rs.14000

Example 36

Bharat Gas service Ltd. has supplied free Gas & Water to its employee Kumar.

Manufacturing cost of free Gas is Rs.10000, whereas Market value is Rs.15000 of such gas.

Bills for water are paid directly by Co. to provider. Bills paid are of R.2000

Solution

Perquisite Value shall be Rs.12000
[10000 + 2000]

5th. Free or Concessional Educational Facilities

Section 17(2)(iii) Rule3(5)

It is chargeable to tax in case of SPECIFIED EMPLOYEES

Any amount spent for education or Training of the **EMPLOYEE** shall **not be taxable**

The value of benefit to the employee resulting from the provision of free or concessional educational facilities for any MEMBER OF HIS HOUSEHOLD shall be determined as the sum equal to the AMOUNT of expenditure INCURRED by the employer in that behalf .

Like ABC Ltd is providing educational training to employee, cost incurred for education is Rs.4000p.m & also similar training is also given to his Wife
 Perquisite value shall be Rs.48000
 $[0 + 4000 \times 12]$

But where the educational institution is itself maintained and OWNED BY THE EMPLOYER, the value of the perquisite to the employee shall be determined with reference to the COST OF SUCH EDUCATION IN A SIMILAR INSTITUTION in or near the locality.

Like ABC Ltd is providing education to wife of Mr. kumar its employee, cost incurred for such education is Rs.4000p.m. Such facilities of educational training are maintained and owned by ABC Ltd. itself.

Cost of such education in a similar institution is Rs.5000p.m
 Perquisite Value shall be $5000 \times 12 = \text{Rs.}60000$

Where any amount is RECOVERED from the employee, the value of benefit shall be REDUCED BY the AMOUNT so paid or RECOVERED.

Note

- Where free educational facilities are provided to the CHILDREN of the employee
- the value of such benefit shall be reduced by **Rs.1,000 p.m per child**. [No limit on the no. of Children]

Like ABC Ltd is providing education to 3 children of Mr. kumar its employee, cost incurred for such education is Rs.4000p.m.

Perquisite Value shall be $(4000 - 1000) \times 12 \times 3 = \text{Rs.}108000$

Member of household shall include —

- spouse(s)
- children and their spouses
- parents
- servants and dependants

Case Law

C.I.T. vs M.N. Nadkarni

Any Scholarship given by an employer to the Children of the employees, without any reference to the terms of employment is not to be assessed as perquisite in hands of employee.

6th. Leave Travel Concession/Leave Travel Assistance

Section 10(5) Rule 2B

It is taxable in case of ALL EMPLOYEES

Employer at times gives an option to EMPLOYEE & his FAMILY to go on a personal trip anywhere in India.

Amount of Exemption shall be:-

- Where journey is by air

Economy class air fare of the **national carrier** by the **shortest route** or expenditure incurred whichever is lower.

- Where journey is by Rail

Air Conditioned first class rail fare by the shortest route or expenditure incurred whichever is lower.

- Where journey is by any other mode of transport
 - And Place of Origin & Destination are connected by Rail
Air Conditioned first class rail fare by the shortest route or expenditure incurred whichever is lower.
 - And Place of Origin & Destination are not connected by Rail, but a Recognized Public Transport System exists
First class/Delux Class fare by the shortest route or expenditure incurred whichever is lower.
 - And Place of Origin & Destination are not connected by Rail & no Recognised Public Transport System exists
Air Conditioned first class rail fare by the shortest route (assuming that journey has been performed by rail) or expenditure incurred whichever is lower.

“FAMILY” means—

- (i) The spouse and children of the individual; and
- (ii) The parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual

Note 1

Exemption shall be available in respect of **2 Journeys** performed at anytime in a **Block of 4 Calendar Years** i.e. 1/January/2009 - 31/December/2012.

Note 2- CARRY-OVER CONCESSION

If employee can not avail the exemption then he can carry forward maximum 1 Exemption to the next block of 4 Years, provided this carry forward shall be available only for 1st year after which it shall lapse.

Note 3

Exemption shall be available only in respect of fare & *no exemption* shall be available for any *Boarding, Lodging etc.*

Note 4

Exemption shall be available to all children born before 1/October/1998

But exemption shall be admissible to only 2 Children born on or after 1/October/1998

7th. Employee’s obligation met by employer.

Section 17(2)(iv)

This shall be taxable in respect of ALL EMPLOYEES

Any amount that is being **payable by an employee, but is actually met by employer.**

Like Employee has kept a domestic servant himself, salary of such servant is paid by employee. Later employer reimburses such amount to his employee

Like Employee has kept a domestic servant himself, salary of such servant is paid by employer directly to such servant.

So employee has himself taken the facilities of Water, Electricity, Gas, Servant etc. and later such expenses are REIMBURSED to employee by employer then it shall be a Monetary Perquisite U/s17(2)(iv)

8th. Amount Payable by employer to effect an assurance on the life of employee

Section 17(2)(v)

Any amount payable by an Employer directly or indirectly to effect an assurance on the life of employees or to effect a contract for an annuity shall be taxable in the hands of employees.

9th. Interest Free Loan or Loan at concessional rate of interest

Section 17(2)(viii) Rule3(7)

This shall be taxable in respect of ALL EMPLOYEES

Sometimes Employer gives a loan to employee for his personal reasons. For such loan no interest is charged or a very concessional amount is charged from employee. So such interest shall be perquisite in hands of employee.

Interest shall be computed for EACH MONTH **separately** at RATES charged by SBI on first day of the relevant previous year. If any interest is recovered from the employee, such interest shall be reduced.

SBI Interest rates on 1/April/2009

<u>HOUSING LOAN</u>		
Upto 30 Lacs	Upto 5 yrs	9.75
	Above 5 Yrs but up to 15 Yrs	10.00
	Above 15 Yrs but up to 25 Yrs	10.25
30 Lacs – 75 Lacs	Upto 5 yrs	10.25
	Above 5 Yrs but up to 15 Yrs	10.50
	Above 15 Yrs but up to 25 Yrs	10.75
Above 75 Lacs	Upto 5 yrs	10.25
	Above 5 Yrs but up to 15 Yrs	10.50
	Above 15 Yrs but up to 25 Yrs	11.00
<u>LOAN FOR NEW CAR</u>		
Upto 7.5 Lacs	Upto 3 Yrs	11.5
Above 7.5 Lacs	Upto 3 Yrs	11.75
Any amount	Above 3 Yrs but up to 5 Yrs	11.75
Any amount	Above 5 Yrs but up to 7 Yrs	12
<u>LOAN FOR TWO WHEELER</u>		16.25
<u>EDUCATION LOAN</u>		
Upto 4 Lacs (0.5% concession to girl)		11.75
Above 4 Lacs – 7.5 (0.5% concession to girl)		13.25
Above 7.5 Lacs (0.5% concession to girl)		12.5%
<u>PERSONAL LOAN</u>		
Loan to employees to subscribe ESOP		14.5

Example 37

Compute Perquisite value of Loan

XYZ Ltd gives a Personal Loan interest free of Rs. 15,00,000 to its employee Mr Ramesh on 1/April/2008. [Assume interest rate : 15.5%]

Solution

Month	Loan O/s at month end	Interest
April	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
May	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
June	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
July	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
August	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
September	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
October	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
November	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
December	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
January	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
February	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
March	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
Total		232500

Example 38

Compute Perquisite value of Loan

XYZ Ltd gives a Housing Loan interest free of Rs. 25,00,000 to its employee Mr Ramesh on 1/April/2008 repayable within 3 Yrs. Interest is recovered from employee @ 5%. [Assume interest rate : 10.25%]

Solution

Interest is chargeable @ 10.25%

Less: Interest recovered @ 5 %

Net interest chargeable = 5.25%

Month	Loan O/s at month end	Interest
April	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
May	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
June	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
July	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
August	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
September	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
October	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
November	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
December	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
January	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
February	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
March	2500000	$2500000 \times 5.25\% \times 1/12 = 10937.5$
Total		131250

Example 39

Compute Perquisite value of Loan

XYZ Ltd gives a Car Loan interest free of Rs. 5,00,000 to its employee Mr Ramesh on 1/April/2008 repayable within 3 Yrs. Interest is recovered from employee @ 2%

Note

In case of repayment aggregate outstanding balance shall be computed on the last day of each month. Even if the repayment is made in between the month, balance shall be computed for every month.

Example 40

Compute Perquisite value of Loan

XYZ Ltd gives a Personal Loan interest free of Rs. 15,00,000 to its employee Mr Ramesh on 1/April/2008. 50% of the loan shall be repaid on 15th December 2008. [Assume interest rate : 15.5%]

Solution

Month	Loan O/s at month end	Interest
April	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
May	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
June	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
July	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
August	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
September	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
October	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
November	1500000	$1500000 \times 15.50\% \times 1/12 = 19375$
December	1500000-750000	$750000 \times 15.50\% \times 1/12 = 9687.5$
January	1500000-750000	$750000 \times 15.50\% \times 1/12 = 9687.5$
February	1500000-750000	$750000 \times 15.50\% \times 1/12 = 9687.5$
March	1500000-750000	$750000 \times 15.50\% \times 1/12 = 9687.5$
Total		193750

Example 41

Compute Perquisite value of Loan

XYZ Ltd gives a Personal Loan interest free of Rs. 15,00,000 to its employee Mr Ramesh on 1/April/2008. Repayment schedule is as given below. [Assume interest rate : 15.5%]

Month	Repayment of loan
15 th April	10000
15 th May	20000
15 th June	30000
15 th July	40000
15 th August	50000
25 th September	60000
15 th October	70000
19 th November	80000
15 th December	90000
15 th January	100000
16 th February	110000
15 th March	120000

Solution

Month	Loan O/s at month end	Interest
April	1500000-10000=1490000	1490000 X 15.50% X 1/12= 19245.83
May	1490000-20000=1470000	1470000 X 15.50% X 1/12= 18987.5
June	1470000-30000=1440000	1440000 X 15.50% X 1/12= 18600
July	1440000-40000=1400000	1400000 X 15.50% X 1/12= 18083.33
August	1400000-50000=1350000	1350000 X 15.50% X 1/12= 17437.5
September	1350000-60000=1290000	1290000 X 15.50% X 1/12= 16662.5
October	1290000-70000=1220000	1220000 X 15.50% X 1/12= 15758.33
November	1220000-80000=1140000	1140000 X 15.50% X 1/12= 14725
December	1140000-90000=1050000	1050000 X 15.50% X 1/12= 13562.5
January	1050000-100000=950000	950000 X 15.50% X 1/12= 12270.83
February	950000-110000=840000	840000 X 15.50% X 1/12= 10850
March	840000-120000=720000	720000 X 15.50% X 1/12= 9300
Total		185483.33

Example 42

Basic Salary is Rs.20000 p.m & Dearness allowance is Rs.2000 p.m & Bonus is Rs.50000

XYZ Ltd gives a Housing Loan interest free of Rs. 50,00,000 to its employee Mr Ramesh on 1/April/2008 repayable within 13 Yrs. Interest is recovered from employee @ 5%. Repayment schedule is as given below.

Month	Repayment of loan
25 th September	260000
15 th October	720000
19 th November	850000
15 th December	45000
15 th January	100000
16 th February	110000
15 th March	120000

Compute Gross salary for A.Y 2009- 2010

Note 1- Petty Loan

NO INTEREST shall be chargeable for any Loan taken which **does not exceed Rs. 20000**. If employee takes more than 1 loan then limit shall be applicable to all of them in aggregate.

Like Ramesh takes a loan of Rs. 10000 in april & further takes a loan of Rs. 12000 in December, then perquisite value for loan shall be computed from December

Note 2-

NO INTEREST shall be chargeable to tax if any loan is taken by an employee for treatment of **Diseases specified under Rule 3A**.

But such exemption shall not be applicable to any loan which is reimbursed to assessee under any Medical Insurance Scheme

Example 43

Loan of Rs. 100000 is taken by employee from his company for treatment of specified diseases under Rule 3A on 1st May 2008. He received in insurance Rs.200000 on 10th December 2008
Compute Perquisite value of Loan.

Solution

In this case it is a personal loan, [Assuming interest rate : 15.5%. Although in exam we will have removed the chart the chart given above and apply rates given in that chart]

Month	Loan O/s at month end	Interest
April	No Loan	0
May	Loan for Rule 3A	0
June	Loan for Rule 3A	0
July	Loan for Rule 3A	0
August	Loan for Rule 3A	0
September	Loan for Rule 3A	0
October	Loan for Rule 3A	0
November	Loan for Rule 3A	0
December	200000	$200000 \times 15.50\% \times 1/12 = 2583.33$
January	200000	$200000 \times 15.50\% \times 1/12 = 2583.33$
February	200000	$200000 \times 15.50\% \times 1/12 = 2583.33$
March	200000	$200000 \times 15.50\% \times 1/12 = 2583.33$
Total		10333.33

Example 44

Loan of Rs. 100000 is taken by employee from his company for treatment of specified diseases under Rule 3A on 1st May 2008. He received in insurance Rs.200000 on 10th December 2008. Employee is repaying loan to the company every month Rs. 10000 w.e.f 12 November 2008.
Compute Perquisite value of Loan

Solution

In this case it is a personal loan, [Assuming interest rate : 15.5%. Although in exam we will have removed the chart the chart given above and apply rates given in that chart]

Month	Loan O/s at month end	Interest
April	No Loan	0
May	Loan for Rule 3A	0
June	Loan for Rule 3A	0
July	Loan for Rule 3A	0
August	Loan for Rule 3A	0
September	Loan for Rule 3A	0
October	Loan for Rule 3A	0
November	Loan for Rule 3A	0
December	$200000 - 20000 = 180000$	$180000 \times 15.50\% \times 1/12 = 2325$
January	$200000 - 30000 = 170000$	$170000 \times 15.50\% \times 1/12 = 2195.83$
February	$200000 - 40000 = 160000$	$160000 \times 15.50\% \times 1/12 = 2066.66$
March	$200000 - 50000 = 150000$	$150000 \times 15.50\% \times 1/12 = 1937.5$
Total		8525

10th. Use of Employers moveable assets by employees

Section 17(2)(viii) Rule3(7)

This shall be taxable in respect of ALL EMPLOYEES

Employers sometimes purchase moveable assets in their own name and give such assets to employees for their personal usage. Personal benefit derived by users is chargeable to tax.

If moveable assets are taken ON HIRE by employer then perquisite value shall be **Hire charges** of such asset.If moveable assets are OWNED by employer then perquisite value shall be **10% p.a of actual cost** of such assets.Note 1

Perquisite value shall be reduced by any amount recovered from employee

Note 2**No Perquisite** value shall be computed if such assets are **Laptops, Computer or Motor Car**Example 45

XYZ Ltd gives Television & Fridge to its employee. Original cost of such assets was Rs. 25000 & Rs. 50000 respectively. Rs. 200 p.m recovered from employee for use of such assets.

Compute Perquisite Value.

Solution

10% of Original cost	7500
[25000 X 10% + 50000 X 10%]	
Less: Amount recovered	(2400)
[200 X 12]	
Perquisite value	5100

Example 46XYZ Ltd gives Washing Machine to its employee from 1st December 2008. Original cost of such assets was Rs. 65000. Rs. 40 p.m recovered from employee for use of such assets.

Compute Perquisite Value.

Solution

10% of Original cost for 4 Months	2166.66
[65000 X 10% X 4/12]	
Less: Amount recovered	(480)
[40 X 12]	
Perquisite value	1686.66

11th. Sale of Employers moveable assets to employees

Section 17(2)(viii) Rule3(7)

This shall be taxable in respect of ALL EMPLOYEES

Sometimes employer's sale their moveable assets to employees at a lower value, such sale at lower price shall give rise to perquisite in hands of employee.

Perquisite Value shall be

Actual Cost of Asset to employer	XxX
Less: 10% of Actual Cost for each <u>completed year</u> of asset being put to use	(XxX)
Less; Amount recovered from assessee	(XxX)
	<u>Taxable amount of Perquisite</u>

Provided in case of MOTOR CAR it shall be **20%** for each complete year at WRITTEN DOWN VALUE Method

Provided in case of COMPUTERS & Electronic items it shall be **50%** for each complete year at WRITTEN DOWN VALUE Method

Electronic Items shall mean data storage and handling devices like computers, digital diaries & printers.

But it shall not include household appliances like washing machine, mixers, hot plates, ovens, microwave ovens etc.

Example 47

XYZ ltd has following employees, to whom following moveable assets have been sold.

Emp Name	Tinku	Ramu	Shamu
Assets sold	Furniture	Motor Car	Computer
Original Cost	50000	250000	50000
Date of put to use	15 March 2004	15 March 2007	15 March 2007
Date of Sale	20 March 2009	20 March 2009	20 March 2009
Sale Consideration	20000	20000	2000

Compute perquisite value in case of each employee

Solution

Tinku-Furniture

Assets have put to use for 5 completed years

15 March 2004 – 14 March 2005

15 March 2005 – 14 March 2006

15 March 2006 – 14 March 2007

15 March 2007 – 14 March 2008

15 March 2008 – 14 March 2009

Original Cost	50000
Less: 10% of Original Cost	(5000)
Less: 10% of Original Cost	(5000)
Less: 10% of Original Cost	(5000)
Less: 10% of Original Cost	(5000)
Less: 10% of Original Cost	(5000)
	25000
Less: Amount received	(20000)
Perquisite Value	<u>5000</u>

Ramu-Motor Car

Assets have put to use for 5 completed years

15 March 2007 – 14 March 2008

15 March 2008 – 14 March 2009

Original Cost	250000
Less:20% of Written down value	(50000)
W.D.V	200000
Less:20% of Written down value	(40000)
	160000
Less: Amount received	(20000)
Perquisite Value	<u>140000</u>

Shamu-Computer

Assets have put to use for 5 completed years

15 March 2007 – 14 March 2008

15 March 2008 – 14 March 2009

Original Cost	50000
Less:50% of Written down value	(25000)
W.D.V	25000
Less:50% of Written down value	(12500)
	12500
Less: Amount received	(2000)
Perquisite Value	<u>10500</u>

Example 48

XYZ ltd has following employees, to whom following moveable assets have been sold.

Emp Name	Tinku	Ramu	Shamu
Assets sold	Furniture	Motor Car	Computer
Original Cost	75000	2250000	120000
Date of put to use	15 March 2002	15 March 2004	15 March 2005
Date of Sale	20 March 2009	20 March 2009	20 March 2009
Sale Consideration	1000	120000	200

Compute perquisite value in case of each employee

12th. Medical Facilities

Proviso to Section 17(2)

Sometimes Employer gives its employee or his Family Medical facilities. Valuation of such facilities shall be as under

This shall be taxable in respect of ALL EMPLOYEES

1. Medical Facilities provided in India

✓ Hospital maintained by Employer

Any expenditure incurred by employer on medical treatment of employee or medical treatment of his Family in such hospital shall be fully **EXEMPT** from tax

✓ Hospital maintained by Central or State Government or Local Authority or any other person but approved by government for treatment for its employees

Any expenditure incurred by employer on medical treatment of employee or medical treatment of his Family in such hospital shall be fully **EXEMPT** from tax

✓ Hospital approved by Chief Commissioner

Any expenditure incurred by employer on medical treatment of diseases prescribed under Rule 3A(2) of employee or his Family shall be fully **EXEMPT** from tax

✓ Health Insurance Policy

Any amount paid or payable by employer as Medical Insurance premium for Health policy of Employee or his Family shall be fully **EXEMPT** from tax.

✓ Hospital maintained by Any other person

Any expenditure incurred by employer on medical treatment of employee or medical treatment of his Family in such hospital shall be exempt from tax only **UPTO RS. 15000 P.A. IN AGGREGATE.**

Note:-

This also covers Reimbursement made by employer i.e. it shall not be chargeable to tax under Section 17(2)(iv)

2. Medical Facilities provided outside India✓ Medical Treatment outside India

Exemption shall be to the extent permitted by RESERVE BANK OF INDIA

✓ Cost of Stay abroad of the Patient & 1 Attendant

Exemption shall be to the extent permitted by RESERVE BANK OF INDIA

✓ Cost of Travel abroad of the Patient & 1 Attendant

Cost of travel shall be FULLY Exempt, if GROSS TOTAL INCOME of such employee (before Cost of travel abroad) **DOES NOT EXCEED RS. 200000**

Note:-

This also covers Reimbursement made by employer i.e. it shall not be chargeable to tax under Section 17(2)(iv)

Some Other Perquisites

Good News for student's community: A Tax named Fringe Benefits Tax was introduced by government in 2005. This tax was a 'tax on expenses' incurred by the employer. This tax was removed from Income tax act. So now your course is reduced.

First. Motor Car Facility

Section 17(2) Rule 3(2)

I. If Motor Car is Owned by employee & running and maintenance expenses are also incurred by Employee

NO benefit is given to employee & hence there is no perquisite. Nothing is taxable

II. If Motor Car is Owned by employee & running and maintenance expenses are incurred or reimbursed by Employer

- ✓ Car is used for Official purposes only
NO benefit is given to employee & hence there is no perquisite. Nothing is taxable. If SPECIFIED CONDITIONS are satisfied.
- ✓ Car is used for Private purposes only
Perquisite value shall be ACTUAL EXPENDITURE incurred by employer as REDUCED by any AMOUNT RECOVERED from employee.
- ✓ Car is used for partly Official & partly Private purposes.
Perquisite value shall be

Actual expenditure incurred by employer	
Less: amount recovered from employee	
Less: Upto 1600CC	1200 p.m
Above 1600CC	1600 p.m
Less: If driver provided	Rs.600 p.m

 However if employee claims he has spent a **higher amount** on official usage then he may claim such higher deduction subject to satisfaction of **specified Conditions**.

III. If Motor Car is Owned by employer & running and maintenance expenses are incurred or reimbursed by Employer

- ✓ Car is used for Official purposes only
NO benefit is given to employee & hence there is no perquisite. Nothing is taxable. If SPECIFIED CONDITIONS are satisfied.
- ✓ Car is used for Private purposes only
Perquisite value shall be

Actual expenditure incurred by employer	
Add: 10% p.a of Actual Cost of Car or Hire charges of Car	
Add: Salary to Driver	
Less: amount recovered from employee	
- ✓ Car is used for partly Official & partly Private purposes.
Perquisite value shall be

Upto 1600CC	1200 p.m
Above 1600CC	1600 p.m
Add: If driver provided	Rs.600 p.m
Less: amount recovered from employee	

IV. If Motor Car is Owned by employer & running and maintenance expenses are incurred Employee

- ✓ Car is used for Official purposes only
NO benefit is given to employee & hence there is no perquisite. Nothing is taxable.
- ✓ Car is used for Private purposes only
Perquisite value shall be

Add: 10% p.a of Actual Cost of Car or Hire charges of Car
Add: Salary to Driver (if paid by employer)
Less: amount recovered from employee
- ✓ Car is used for partly Official & partly Private purposes.

Perquisite value shall be

Upto 1600CC 400 p.m

Above 1600CC 600 p.m

Add: If driver provided Rs.600 p.m

Less: amount recovered from employee

V. If Any other Automotive Conveyance is Owned by employee & running and maintenance expenses are incurred or reimbursed by Employer

✓ Car is used for Official purposes only

NO benefit is given to employee & hence there is no perquisite. Nothing is taxable. If SPECIFIED CONDITIONS are satisfied.

✓ Car is used for partly Official & partly Private purposes.

Perquisite value shall be

Actual expenditure incurred by employer

Less: amount recovered from employee

Less: Amount for Official use 600 p.m

However if employee claims he has spent a higher amount on official usage then he may claim such higher deduction subject to satisfaction of specified Conditions.

Specified Conditions

- 1) The employer has maintained **complete details** of journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon
- 2) The employer gives a **certificate** to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

Note 1-

Part of the month shall not be considered

Note 2-

If employer has provided more than 1 Motor Car to employee, then only 1 Car shall be deemed to be for Official & Personal purposes, rest all cars shall be deemed to be for only Personal purposes.

Note 3-

Any Car Facility provided by employer to employee for coming to office from residence & going back to residence from office shall not be chargeable to tax

Note 4-

Any Car Facility provided to Judges of Supreme Court or Judges of High Court shall be fully exempt from tax.

Note 5-

Where Car is Owned by Employee and he gets an amount for the same then it shall be taxable as Monetary Perquisite under Section 17(2)(iv) – In case of Specified as well as Non-Specified employees

Besides this rest of the Car Facility is taxable under Section 17(2)(iii) – In case of Specified employees

Example 50

Sole Proprietor an Employer has given a Motor car to its employee Ramu for Personal purposes only. Actual Cost of Motor Car is Rs.300000, other expenditure of petrol etc. paid by employer is Rs.20000. Compute Perquisite Value

Solution

Motor Car Facility	50000
[300000 X 10% + 20000]	

Example 51

Sole Proprietor an Employer has given a Motor car to its employee Ramu for Personal purposes only. Actual Cost of Motor Car is Rs.300000, other expenditure of petrol etc. incurred by employee is Rs.20000.

Compute Perquisite Value

Solution

Motor Car Facility	30000
[300000 X 10%]	

Example 52

Sole Proprietor an Employer has given a Motor car to its employee Ramu for Official as well as Personal purposes. Engine Capacity is 1.9 Liters.

Compute Perquisite Value

Solution

Motor Car Facility	19200
[1600 X 12]	

Example 53

Sole Proprietor an Employer has given a Motor car to its employee Ramu for Official as well as Personal purposes. Engine Capacity is 2.5 Liters. Actual Cost of Motor Car is Rs.3300000, other expenditure of petrol etc. incurred by employee is Rs.200000.

Compute Perquisite Value

Solution

Motor Car Facility	19200
[1600 X 12]	

Example 54

An employee Ramu is using his own Car for Personal purposes only, other expenditure of petrol etc incurred by employee is Rs.5000.

Compute Perquisite Value

Solution

Motor Car Facility	NIL
--------------------	-----

Example 55

An employee Ramu is using his own Car for Personal purposes only, other expenditure of petrol etc incurred by employer is Rs.50000.

Compute Perquisite Value

Solution

Motor Car Facility 50000

Example 56

An employee Ramu is using his own Car for Official as well as Personal purposes, other expenditure of petrol etc incurred by employer is Rs.50000. Engine capacity is 1800CC

Compute Perquisite Value

Solution

Motor Car Facility 30800

Amount received	50000
Less: 1600 X 12	(19200)
Perquisite Value	30800

Example 57

Sole Proprietor an Employer has given 3 Motor cars to its employee Ramu for Official as well as Personal purposes. All expense of Running & maintaining are met by employer

	Motor Car I	Motor Car II	Motor Car III
Original Cost	250000	300000	400000
Engine Capacity	1.4 Liters	1700 CC	2100 CC
Running Expenses	20000	30000	40000
Drivers Salary	24000	36000	48000

Solution

Motor Car Facility 86400

Workings

If employer has provided more than 1 Motor Car to employee, then only 1 Car shall be deemed to be for Official & Personal purposes, rest all cars shall be deemed to be for only Personal purposes.

Option 3 is best so we will go for it

	Option I		Option II		Option III	
Car I	O/P	21600	P	69000	P	69000
Car II	P	96000	O/P	26400	P	96000
Car III	P	128000	P	128000	O/P	26400
Total		245600		223400		191400

Official & Personal purposes

	Motor Car I	Motor Car II	Motor Car III
	1200 X 12	1600 X 12	1600 X 12
Drivers Salary	600 X 12	600 X 12	600 X 12
Total	21600	26400	26400

Personal purposes only

	<u>Motor Car I</u>	<u>Motor Car II</u>	<u>Motor Car III</u>
10% of Original Cost	10% X 250000	10% X 300000	10% X 400000
Running Expenses	20000	30000	40000
Drivers Salary	24000	36000	48000
Total	69000	96000	128000

Second. Transport Facility

Section 17(2)(iii) Rule 3(6)

If the employer is engaged in the business of Carriage of goods or passengers and the employer has provided these facilities of free transport to employee or Members of his household, Then Perquisite value shall be the Amount charged by employer for providing similar facilities to any other person as reduced by any amount recovered from employee

Provided in case of Employees of Railways or Airways nothing shall be taxable.

Note 1

As this perquisite falls under Section 17(2)(iii), it is taxable only in case of Specified employees.

Note 2

Transport System means Airlines , Railways, Shipping, BEST, DTC, any other mode of transport even if it is Private

Third. Travelling, Touring, accommodation Facility

Section 17(2)(viii) Rule 3(7)

If the employer has provided facilities of travelling, touring, accommodation to employee or members of his Household {other than Leave Travel Concession}.

Then perquisite value shall be

- ✓ Where such facilities are offered by employer uniformly to all employees
EXPENDITURE incurred by employer
- ✓ Where such facilities are not offered by employer uniformly to all employees
VALUE at which SIMILAR FACILITIES are offered to public by other agencies

Note 1

Any amount recovered by the employee shall be reduced

Note 2

If the employee is on the Official Tour, then expenditure on this tour shall not be taxable to employee. But if he is accompanying someone from his Household then proportionate expenditure allocated to such person shall be a perquisite.

Note 3

If the employee is on the Official Tour, then expenditure on this tour shall not be taxable to employee. But if he extends the trip for a vacation the such expenditure on extended period shall be covered as taxable hereunder.

Fourth. Lunch, refreshment etc. Facility

Section 17(2)(viii) Rule 3(7)

The value of free food and non alcoholic beverages provided by the employer, to an employee shall be the amount of EXPENDITURE incurred by such employer. The amount so determined shall be reduced by the amount recovered from the employee.

Provided that nothing shall be chargeable to tax free food and non-alcoholic beverages are provided by such employer during **working hours** at **office** premises or through paid vouchers which are not transferable and usable only at eating joints, to the extent the value thereof in either case **does not exceed Rs. 50 per meal**

Note 1

Tea or snacks provided during working hours shall be exempt

Note 2

Free food and non-alcoholic beverages provided during working hours in a *remote area* or an off-shore installation shall be exempt

Example 58

Sole Proprietor provides lunch to its employee Ramu of Rs. 150 for each day for 315 Days in a Year & recovers Rs. 20 per meal.

Compute Perquisite value

Solution

Perquisite Value	25200
[(150-50-20) X 315]	

Fifth. Perquisite in respect of Gift, Voucher or Token**Section 17(2)(viii) Rule 3(7)**

Any gift given by employer to his employee shall be chargeable to tax.

But if Gift is given in kind then exemption shall be available for a sum of Rs. 5000 in aggregate for the previous year.

Note 1

Only Gift in Kind exceeding Rs.5000 shall be taxable.

Note 2

Any gift in Cash or Convertible in cash like Cheque shall be fully taxable.

Sixth. Perquisite in respect of Credit Card Facility**Section 17(2)(viii) Rule 3(7)**

Any AMOUNT SPENT by employer on credit card facility given to employee or any member of his household shall be chargeable to tax.

It shall be reduced by amount RECOVERED from employee.

Note 1

Expenditure incurred shall also include expense in form of annual fees as well as expense on Add-on card.

Note 2

It shall also be reduced by any expense for OFFICIAL PURPOSES.

This expense for official purposes shall be deductible only

- ✓ if **complete details** have been maintained by the employer regarding date of expenditure & nature of expenditure
- ✓ Also employer is required to give a **certificate** to employee certifying the correctness of such expenditure

Seventh. Perquisite in respect of Club Facility

Section 17(2)(viii) Rule 3(7)

Any AMOUNT SPENT by employer on club facility given to employee or any member of his household shall be chargeable to tax.

It shall be reduced by amount RECOVERED from employee.

Note 1

It shall also be reduced by any expense for OFFICIAL PURPOSES.

This expense for official purposes shall be deductible only

- ✓ if **complete details** have been maintained by the employer regarding date of expenditure & nature of expenditure

Note 2

Expenditure incurred shall also include expense in form of annual fees as well as **periodical fees** payable in respect of such facility shall also be chargeable to *tax*.

Note 3

Health Club, Sports facilities etc. provided uniformly to all classes of employees by employer shall be *exempt*.

Note 4

Initial one time Deposits or fees for **Corporate membership** taken by employer for any Club shall be *exempt*.

Eighth. Perquisite Sweat Equity Shares/ Employees Stock Option Plan (ESOP)

Section 17(2)(vi)

History: This concept was generally started by Infosys for the first time in India. Where Mr. Narayan Murthy observed that his software business basically runs on professionals (employees). Due to high labour turnover in infosys his company was incurring huge costs on maintaining employees.

He came up with an idea whereby said all Loyal employees would be made shareholders of INfosys. He said any employee working in Infosys for a pre-determined period (say 5 yrs) would be given shares at much discounted price (say Rs. 100). Several employees stayed in Infosys during t his period and took shares of Infosys which after 5 yrs valued very high (say Rs. 1200). This was a big incentive to employees. After success of Infosys, this scheme was carried out in several companies in India

This is a benefit to employee so it is taxed under 'PERQUISITES'.

This Perquisite shall mean

- ✓ the value of any specified security or sweat equity shares
- ✓ allotted or transferred,
- ✓ directly or indirectly,
- ✓ by the employer,
- ✓ free of cost or at concessional rate
- ✓ to his employee.

For this purpose, the value of any specified security or sweat equity shares shall be the fair market value of the specified security or sweat equity shares, as the case may be, on the date on which the option is exercised by the assessee as reduced by the amount recovered from assessee in respect of such security or shares.

Example 59A

Mr. X joins an organization ABC Ltd, he is offered an ESOP scheme. Compute perquisite value in hands of Mr. X in previous year 2009-2010.

Date of joining organization	June 7, 1975
Date of granting option (employee)	April 2, 2000
Period for which employee has to work with organization i.e. Grant period. Under this he is allowed to purchase 5000 shares at a pre-determined price of Rs. 25	April 2, 2000 to April 2, 2006
Date on which option vests	April 2, 2006
Date of exercising option	April 1, 2009
FMV of shares on April 1, 2009	Rs. 200
Date of allotment	April 22, 2009

Solution

Perquisite value in hands of employee is Rs. 875000 (5000 x (200 - 25))

Example 59B

Mr. Y joins an organization ABC Ltd, he is offered an ESOP scheme. Compute perquisite value in hands of Mr. X in previous year 2009-2010.

Date of joining organization	June 7, 1975
Date of granting option (employee)	April 2, 2000
Period for which employee has to work with organization i.e. Grant period. Under this he can purchase 5000 shares at a pre-determined price of Rs. 25	April 2, 2000 to April 2, 2006
Date on which option vests	April 2, 2006
Date of exercising option (he exercises option for 3500 shares)	April 1, 2009
FMV of shares on April 1, 2009	Rs. 200

Solution

Perquisite value in hands of employee is Rs. 612500 (3500 x (200 - 25))

Any Other Benefit, amenity, etc.

Section 17(2)(viii) Rule 3(7)

Any Perquisite not covered any of the above Rules & Sections shall be covered under this Category.

The value of any other benefit or amenity, service, right or privilege provided by the employer shall be determined on the basis of COST TO THE EMPLOYER under an arms length transaction as reduced by any amount recovered from employee.

COMPUTATION OF MARKS

Question: Student generally ask me HOW MUCH MARKS WILL I GET IN EXAMS?

Answer: I hereby give you a table, which will compute your marks.

Revision of my self-help income tax modules	Marks
Once in every 15 days *	70
Once in every 30 days *	60
Once in every 3 months *	50
Once in every 6 months *	40

* Keep on revising a module till it is revised at least 5 times

Add 5 marks in above: If you practice by writing.

Add 5 marks in above: If you generally discuss topics within your friends group.

Leave the rest of marks to **GOD**.

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Dear Friends,

If you are reading this then it means that you have completed the module. Congratulations. You have completed 20% of your syllabus.

*One of the stories, I read in Elementary school but unable to understand its meaning till few months back when I accidentally re-read it on net. Today I can feel this.
Hope you will remember it for life*

WILMA's story

A girl named Wilma was borne into a very poor family.

At 4 yrs of age she had double pneumonia with scarlet fever, a deadly combination which left her paralyzed with polio.

Doctor's said she would never be able to walk again in her life. But her mother encouraged her to do whatever she wants to do.

Wilma said "I want to be fastest woman on this earth". At 9 yrs of age against the advice of doctors she removed her support and took the first step. At the age of 13 Yrs, she entered her first race and came last, then she went for second, third, fourth and every time came way way last until a time when she _____.

1960: It was a day of Olympics, Wilma was to compete against a woman named Jutta Heine who is never been beaten in her life.

First event of 100 meters race Wilma won a gold defeating Jutta.

Second event of 200 meters race Wilma won her second gold by defeating Jutta again.

Third event of 400 meters relay, it was the last lap in which both Wilma and jutta were representing their teams. Baton was passed, but it dropped from Wilma's hand jutta was running on other end.

Wilma lifted the baton again and ran like a machine to win her third gold by defeating Jutta once again.

That night was special a paralytic woman showed the World,

"She is the fastest Woman on HISTORY".

In July 1994, shortly after her mother's death, Wilma Rudolph was diagnosed with [brain](#) and [throat cancer](#). On November 12, 1994, at age 54, she died of cancer in her home