

Guidelines for Computation of Salary Income

Particulars	Taxability
Basic Pay of an Employee	Taxable
Dearness Allowance <ul style="list-style-type: none"> - Is a % of basic Pay and linked to consumer Price Index. - Revised on Quarterly Basis. 	Taxable
Bonus	Taxable
Commission	Taxable

Recognised Provident Fund

<ul style="list-style-type: none"> • Employer Contribution to RPF 	<ul style="list-style-type: none"> - Exempt upto 12% of Salary of Employee Salary = Basic Pay + D.A. (to the extent of Retirement benefits + Commission on sales turnover).
<ul style="list-style-type: none"> • Interest on Contribution of employee and employer 	<ul style="list-style-type: none"> - Exempt upto 9.5% Per annum
<ul style="list-style-type: none"> • Employee Contribution 	<ul style="list-style-type: none"> - Deduction U/S 80C

- RPF payment received by employee is **EXEMPT** provided he fulfill at least 1 Conditions.
 - Continuous of 5 years service.
 - Left Employment because of health Problem.
 - Employer has closed down his business.

Unrecognised Provident Fund

<ul style="list-style-type: none"> • Employer, employee contribution and Interest on UnRPF. 	<ul style="list-style-type: none"> - Exempt
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- Entire Amount is Taxable at the time of Payment to Employee. } **SALARY**
- Employer Contribution and Interest on Employer Contribution. } **SALARY**
- Employee Contribution is Taxable – Income from Other Sources.

Statutory Provident Fund (GPF)

- Applicable in case of Govt. Employee is regulated through Provident fund Act – 1925.
- In General Employer do not contribute to Fund.
- Interest on Employee Contribution is **EXEMPT**.
- Payment from SPF is **EXEMPT**.
- **Deduction** u/s 80C shall **allow** for employee Contribution to SPF.

House Rent Allowance (HRA)

<p>Exempt to least of following :-</p> <ul style="list-style-type: none"> • Rent paid over 10% of salary. • 50% in case of Metropolitan & 40% in case of rural area of Salary. Salary – same as RGF salary. • HRA received. 	<p>= Taxable Amount (Received-Exempt)</p>
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Special Allowance U/S 10(14)

Special Allowance shall be divided into Two Categories:-

- Personal Allowances
- Official Allowances

Personal Allowance

Particulars	Exemption
<ul style="list-style-type: none"> • Children Education Allowance 	Maximum Exemption of Rs. 100 Per month Per Child for Maximum 2 Children. Excess is Taxable.
<ul style="list-style-type: none"> • Hostel Allowance 	Maximum Exemption is Rs. 300 Per Month Per Child for maximum 2 children. Excess is Taxable.
<ul style="list-style-type: none"> • Transport Allowance 	Maximum Rs. 1600(amended) Per Month (irrespective of Expenditure). Excess is Taxable. Maximum Rs. 3200(amended) Per Month (irrespective of Expenditure) in case of Handicapped Employee. Excess is Taxable.
<ul style="list-style-type: none"> • Underground Allowance (for mines Employee) 	Maximum Rs. 800 Per Month. Excess is Taxable.

<ul style="list-style-type: none"> • Tribal Area Allowance 	Maximum Rs. 200 Per Month. Excess is Taxable.
<ul style="list-style-type: none"> • Outstation Allowance = Allowance paid by a transport system like railways, roadways, airways to their employees in lieu of daily allowance is called Outstation Allowance. <p>Outstation Allowance Can be paid Only by transport system and not by any other employer Otherwise it is Fully Taxable.</p>	Exempt to the least of the following:- <ul style="list-style-type: none"> - 70% of Allowance } - 10000 Per Month } Taxable = Received – Exempt

Official Allowance

Particulars	Exemption
1. Travelling Allowance	<ul style="list-style-type: none"> • Exempt from Income Tax, Saving is Taxable.
2. Daily Allowance	<ul style="list-style-type: none"> • Exempt from Income Tax, Saving is Taxable.
3. Conveyance Allowance	<ul style="list-style-type: none"> • Exempt from Income Tax, Saving is Taxable.
4. Uniform Allowance	<ul style="list-style-type: none"> • Exempt from Income Tax, Saving is Taxable.
5. Academic/ Research Allowance	<ul style="list-style-type: none"> • Exempt from Income Tax, Saving is Taxable.
6. Helper Allowance	<ul style="list-style-type: none"> • Exempt from Income Tax, Saving is Taxable.

Foreign Allowance u/s 10(7)

- Allowance given to a citizen of India and is an Employee of Central Govt. and is posted outside India is called Foreign Allowance and it is Exempt from Income Tax.
- Any Perquisite given to such Employee shall be Exempt from Income Tax.

E.g. Mr. Ram is an Indian Citizen an employee of Central Govt. and is posted in Indian Embassy in U.S.A. and is getting Children Education Allowance Rs. 12000 per month and Hostel Allowance Rs. 18000 per Month. All Allowance shall be called Foreign Allowance and Exempt from Income Tax.

Any Other Allowance

- Employer paid any other allowance is **Taxable**.
 E.g. Servant Allowance Cash Allowance Lunch Allowance
 Tiffin Allowance Telephone Allowance City Compensatory Allowance
 Medical Allowance Overtime Allowance Deputation Allowance

Entertainment Allowance u/s 16 (iii)

- It is Taxable but **deduction** allowed in case of **Government Employee** to the extent of **least of:-**
 - 20% of Basic Pay
 - 5000 Per annum
 - Entertainment Allowance received.

Taxable Amount = Allowance received – Exempt.

Employment Tax/ Professional Tax

- Employee – Paid by Employer it deduction u/s 16 (iii)
- Business/Profession – Allowed to debit the amount to P/L Account.
- Employer – Paid by employer on behalf of employee then add to employee salary and deduction shall also given.
(If it is due but not paid, deduction is Not Allowed.)

Rent Free Accommodation U/s 17(2) (i)

Employee	Taxability
A) Government Employee(central/ state) <ul style="list-style-type: none"> If the Employer Provided furniture also If it is taken on rent then perquisite 	<ul style="list-style-type: none"> Perquisite value shall be rental value as per govt. rules and it is TAXABLE. Additional Perquisite 10% of original cost of furniture. Rent paid by employer.
B) Any Other Employee <ul style="list-style-type: none"> If Population is upto 10 lac – 7.5% of salary If Population is 10 lac to 25 lac – 10% of salary. If Population is more than 25 lac – 15% of salary. 	Least will be TAXABLE. <ul style="list-style-type: none"> 7.5%/10%/15% of Salary Rent paid/Payable by Employer

Gratuity U/S 10 (10)

(Government Employee)

Exempt

(Other Employee including Statutory Corporation)

Covered Payment of Gratuity Act, 1972

Not Covered Payment of Gratuity Act 1972

Lowest **EXEMPT**

- $15/26 \times \text{LDMS} \times \text{Completed years of Service excess of 6 Months.}$
- Rs. 10,00,000
- Gratuity Received

Lowest **EXEMPT**

- $15/30 \times \text{Average Salary} \times \text{Completed year of Service}$
- Rs. 10,00,000
- Gratuity Received.

{ LDMS = Basic + D.A. (whether or not part of retirement benefits) }

{ Average Salary = Basic + D.A. (part of retirement benefits) + Commission (based on turnover) }

Pension U/S 10(10A)

Uncommuted Pension

Commuted Pension

Received By

Government Employee (including Statutory Corporation)

Other Employee

Exempt From Tax

If Employee Received Gratuity also

$$\text{Exempt} = \frac{\text{Commuted Amt} \times 100 \times 1}{\% \text{ of Commutation} \times 3}$$

If Employee NOT received Gratuity

$$\text{EXEMPT} = \frac{\text{Commuted Amt} \times 100 \times 1}{\% \text{ of Commutation} \times 2}$$

Leave Travel Concession U/s 10(5), Rule 2B

- Reimbursement of Expenditure of travelling of Employee and his Family by the Employer called as Leave Travel Concession.

Different Situation	Amount of Exemption
• By Air	LEAST of Economy Class Airfare OR Amount spent.
• By Railways	LEAST of AC 1 ST Class rail fare OR Amount spent.
• By Road	LEAST of AC 1 ST Class rail fare OR Amount spent.

Exemption is allowed only 2 times in each block of 4 Years

If LTC not availed in any block 1 LTC carried forward to next block and is used very 1st year of next block.

Family includes – Spouse, Children, Dependent Brothers, Dependent Sister, Dependent Parents.

Perquisite in case of Specified Employee u/s 17(2) (iii)

Taxable only in case of Specified Employee and such perquisite are as given below

- Motor Car Facility
- Gardener/ Watchmen
- Gas/ Electricity/ Water
- Free Education
- Free Transport

Specified Employee who has complied **atleast** 1 condition:-

- Employee is a director employee of the company.
- He has substantial interest in the company i.e. holding 20% or more of equity share of company.
- His monetary income U/H salary Rs. 50,000 per annum.

Monetary Income includes all salary components excluding Non-monetary perquisite.

Credit Card Facility U/s 17(2)

- Employer provide to employee for personal purposes = Facility is Taxable

Voluntary Retirement U/s 10(10C)

Least EXEMPT

- Amount received on voluntary retirement
- Rs. 5,00,000
- 3 x Last drawn Salary x No. of Completed year of Service
- Last drawn Salary x No. of months of service yet to be completed.

{ Exemption shall be allowed if the employee has completed a service of atleast 10 years or
Employee completed age of 40 years, }

Notes:- If the assessee has already taken relief u/s 89, then exemption under this section is not available.

Deduction u/s 10(10C) can be taken once only, therefore if deduction under this section is taken once then deduction is not available in any subsequent years.

(updated on 31st May, 2015)

Disclaimer : The above is only an overview of the various components and their treatment for tax purpose for Salary head. AllBankingSolutions.com is not responsible for any mistake or misinterpretation of the income tax law by this overview. Any