

INCOME TAX

Module I

Introduction and definition: Agricultural Income, Assesse, Person, Income, Assessment year, Previous year.

Residential Status(Individual assesses only), scope of Total income(incidence of tax), problems on residential status and incidence of tax

Incomes exempt u/s 10 as applicable to a salaried assesses: such as gratuity, commuted pension, leave encashment and house rent allowance

Deduction u/s 80 as applicable to a salaried assessee: sec 80C, 80CCC, 80CCD and 80CCF.

Income tax

- Tax is a compulsory contribution from a person to the expenses incurred by the state in common interest of all without reference to specific benefits on any individuals.
- In India, tax was first introduced in 1860
- New Act was passed in 1918, replaced by the Act of 1922.
- The final Act was passed in 1961 applicable to whole of India.
- Several amendments have been made in the Income Tax Act by the Union Budget every year.
- There are two main categories of tax- Direct and Indirect tax
- Direct tax- paid directly to the government by the individual or legal entity
- Indirect tax- levied on products and services. Eg: Goods and Services Tax(GST)

Agricultural Income [Section 2(1A)]

- Agricultural income constitutes 3 main activities.
 1. Rent or revenue got from agricultural land situated in India
 2. Income derived from agricultural land in the following ways:
 - (a) Agriculture- basic and subsequent operations
 - (b) through performance of a process by the cultivator or the receiver of rent in kind that results in the agricultural produce being fit to be taken to the market.
 - © through sale of such agricultural produce
 3. Income derived from farm building required for agricultural operations
the conditions for the above.....

continued.....

Continued.....

- a. Building is situated in the immediate vicinity and used as a house to stay or as a storehouse.
- b. Any of the following two conditions to be fulfilled:
 1. the land is assessed by either land revenue or a local rate assessed and collected by the government officers
 2. if not, the land should not be situated within the jurisdiction of a municipality and which has a population of more than ten thousand or it should not be situated:
 - more than 2 kms from the local limits of any municipality and which has a population of more than 10000 and not exceeding 100000 or
 - Not being more than 6 kms from the local limits of any municipality and which has a population of more than 1,00,000 but not exceeding 10,00,000 or
 - Not being more than 8 kms from the limits of municipality and which has a population of more than 10,00,000.

What considers an income as agricultural income

- Existence of land
- Usage of land for agricultural operations (both rent and revenue)
- Cultivation of land (not livestock breeding, dairy farming, poultry)
- Ownership of land is not essential

Exceptions

1. When the person sells processed produce without carrying out any agricultural operations
2. In case where the produce is subjected to substantial processing which changes the very nature of the product (fruit juice, pickle)
3. Income from trees sold as timber

Examples of agricultural income

- Income from growing jute, cotton etc
- Income from growing flowers, creepers etc
- Plats sold in pots
- Remuneration or interest received from a partner of agricultural operation
- Compensation received for the loss of crops
- Any fee derived from land used for grazing cattle used for agriculture
- Any income derived from saplings or seedlings grown in nursery.

Examples of non-agricultural income

- Salary received by an employee(having agricultural income) from any business
- Dividend received from a company
- Income from salt production
- Income from fisheries, poultry. Butter and cheese making etc
- Breeding and rearing livestock
- Interest received by a money lender
- Royalty from mines
- Income from land situated outside India
- Income on water supplied to agriculture
- Income from grass and trees grown naturally

Taxation of agricultural income

- Agricultural income is exempt from the payment of tax.
- But the Income tax Act has laid down a method to indirectly tax the income.
- It is called partial integration of agricultural income with non-agricultural income.
- This method is used only under the following conditions:
 - *net agricultural income is more than Rs 5000 during the year
 - *non agri income is,
 - more than Rs 2,50,000 for individuals below 60 years
 - more than Rs 300000 for 60-80 years
 - more than Rs 500000 for above 80 years

Assesse [sec 2(7)]

- Any person who is liable to pay tax or any other sum under the Income Tax Act, 1961, assessee includes:
- Every person in respect of whom any proceeding has been taken for the assessment of his income or fringe benefits or of the income of any other person
- Loss sustained by him or other person
- Refund due to him or such other person.
- Every person who is deemed to be an assessee under the Act
- Every person who is deemed to be an assessee in default under the Act.

Person [sec 2(31)]

- The definition of “person” is as follows
 - a. Individual – refers to a natural human being whether male or female minor or major.
 - b. HUF- Kartha and the coparceners
 - c. Company- as per 1956
 - d. Firm- partnership firm
 - e. Association of persons- co-operative societies
 - f. Local authority- municipality, panchayat, port trust etc
 - g. Artificial juridical person- established under special Act of legislature. Eg: universities

Income [sec 2(24)]

The following are the income according to the Act:

- Profits or gains of business or profession
- Dividend
- Voluntary contributions received by a trust/university/hospital
- Value of perquisite in lieu of salary u/s 17
- Export incentives
- Interest, salary, bonus, commission or remuneration earned by a partner
- Capital gains
- Winning from lotteries, cross word puzzles, winning from races
- Deemed income u/s 41 or 59
- Sums received by an assessee from his employees towards welfare fund contributions
- Amount received under agreement for not carrying out activity in relation to any business or not sharing knowhow
- Benefit or perquisite received from a company
- Gift as defined u/s 56(2).

Assessment year [Sec 2(9)]

- Defined as “ The period of 12 months starting from 1st April and ending on 31st March every year”
- It is the year in which tax is payable by the assessee on the income of the previous year
- Eg: if previous year is 19-20, the assessment year is 20-21

Previous year [sec3]

- It is the year immediately preceding the Assessment year.
- It is the year in which income is earned by the assessee.

Exceptions:

- Shipping business of non-resident [sec172]
- Person leaving India [sec 174]
- Bodies formed for short term duration [sec174A]
- Person intends to transfer property to avoid tax [sec 175]

Permanent Account Number (PAN)

- Permanent Account Number is a ten digit alpha numeric number, issued in the form of a laminated card, by the Income Tax department, to any person who applies for it.
- Current series of PAN started in 1995.
- It enables the department to link all transactions of the person with the department. (tax payments, TDS, returns of income/wealth/gift)
- PAN NO looks like AFZPK7190K

Tax slab and rates: FY 2018-19 (AY 2019-20)

Income Slabs	Below 60 years	Senior citizens 60-80 years	Very senior citizens Above 80 years
	Income Tax Rates		
Up to ₹ 2,50,000	Nil	Nil	Nil
₹ 2,50,001 to ₹ 3,00,000	5%	Nil	Nil
₹3,00,001 to ₹ 5,00,000	5%	5%	Nil
₹5,00,001 to ₹10,00,000	20%	20%	20%
Above ₹ 10,00,000	30%	30%	30%

Rebate u/s 87A

- Applicable to : Resident Individual
- Conditions: total income does not exceed ₹ 3,50,000
- Quantum of rebate: lower of the following
 - a. 100 % of the above
 - b. ₹ 2500
- Surcharge: 10% of tax when total income exceeds ₹ 50,00,000
: 15% when total income exceeds ₹ 1 crore
- Health and education Cess: 4% of tax plus surcharge

Residential Status of an individual [sec 6(1)]

- Assesse can be divided into three categories :
 1. Ordinarily Resident
 2. Not-ordinarily resident
 3. Non-resident

Ordinarily resident

a person becomes ordinarily resident in the PY if he satisfies any one of the basic conditions and both of the additional conditions.

Basic conditions:

1. He is in India for a period of 182 days or more during the PY
2. He is in India for a period of 60 days or more during PY and 365 days or more during the four preceding previous years.

Exception:

In the following cases, 182 days is must instead of 60 days (basic condition 2)

- a. Indian citizen leaving India for employment outside India, or
- b. Indian citizen being a crew member of an Indian ship leaving India, or
- c. Indian citizen or Indian origin foreign national living outside India visiting India in the PY

Additional conditions

- a. He has been Resident in India for at least 2 years out of the preceding 10 previous years immediately preceding the relevant PY.
- b. He is in India for at least 730 days during the 7 preceding Pys immediately preceding the relevant PY.

Not ordinarily Resident

- If an individual satisfies any one of the basic conditions but does not satisfy both of the additional conditions, he is said to be Not-Ordinarily Resident

- Non- Resident

if an individual fails to satisfy any of the basic conditions and both or any of the additional conditions, he is said to be a Non-Resident.

Residential status at a glance

Status of an individual	Basic conditions	Additional Conditions
Ordinarily Resident	At least any one	Satisfies both
Not-ordinarily Resident	At least any one	May or may not satisfy any
Non-resident	Fails to satisfy	Not required to check

Incidence of Tax liability [sec5]

- Depends on residential status and also the place and time of accrual or receipt of income.
- Indian income and foreign income:

Any of the following is treated as Indian income

- a. If income received or deemed to be received in India during the PY and at the same time it accrues or arise or is deemed to be accrue or arise in India during the PY.
- b. If income received or deemed to be received in India during the PY but it accrues or arises or deemed to be accrues or arises outside India during the PY
- c. If income received outside India during the PY but it accrues or arises or deemed to be accrues or arises in India during the PY.

Foreign Income

- If the following two conditions are satisfied, it is said to be foreign income
 1. Income is not received or not deemed to be received in India
 2. Income does not accrue or arise or does not deemed to be accrue or arise in India

Incidence of tax for different tax payers

Type of Income	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
Indian income	Taxable in India	Taxable in India	Taxable in India
Foreign Income	Taxable in India	Not taxable in India (exception: taxable for business/profession if it is controlled wholly or partly from India or set up in India)	Not taxable in India

Incidence of tax on income of individual

SL No	Particulars of Income	Resident and ordinary resident	Resident but not-ordinary	Non-resident
01	Income received in India whether accrued in India or outside India	Taxable in India	Taxable in India	Taxable in India
02	Income deemed to be received in India whether accrued in India or outside India	Taxable in India	Taxable in India	Taxable in India
03	Income accruing or arising in India whether received in India or outside India	Taxable in India	Taxable in India	Taxable in India
04	Income deemed to accrue or arise in India, whether received in India or outside India	Taxable in India	Taxable in India	Taxable in India
05	Income received and accrued outside India from a business controlled in profession setup in India	Taxable in India	Taxable in India	Not Taxable in India
06	Income received and accrued outside India from a business controlled from outside India or profession set up outside India	Taxable in India	Not Taxable in India	Not Taxable in India
07	Income earned and received outside India but later on remitted to India	Not Taxable in India	Not Taxable in India	Not Taxable in India

Actual receipt v/s deemed to be received

- Not only income received in India is taxed in India but also income deemed to be received is taxable.
- The following are the incomes deemed to be received in India:
 1. Interest credited to recognised PF account of an employee in excess of 9.5%
 2. Excess contribution of employer in the case of recognised PF (excess of 12%)
 3. Transfer balance
 4. Contribution by the central government to the account of an employee under pension scheme referred to in sec 80CCD
 5. Tax deducted at source
 6. Deemed profit u/s 41.

Accrual of Income

- When the assessee has not received the income but he has all the rights to receive it, it is said to accrue or arise.
- The following are some of the accrued income:
 1. Income from business connections in India
 2. Income from any property, asset or source of income in India
 3. Capital gain on transfer of a capital asset situated in India
 4. Income from salary if service is rendered in India
 5. Dividend paid by the Indian company.

Problems on Residential status

1. Mr. Chiru, an Indian citizen left India for the first time on 20/09/2017 for employment in Denmark. During the previous year 2018-19 he comes to India on 05/05/2018 for 150 days. Determine the residential status of Chiru for the assessment year 2019-20

Solution:

During the previous year 2018-19, “Chiru was in India for 150 days and therefore, does not satisfy the first condition.

As regards the second condition, although he was here in the 4 preceding PYs for more than 365 days as he was permanently in India but for the relevant previous year, 2018-19, he should have been here for 182 days instead of 60 days, as he is a citizen of India and leaves India in 2017-18 for employment.

He fails to satisfy any of the basic condition and therefore non resident India.

2. Mr Vinod, an Australian, came to India for the first time on 10/01/2015. left for south Africa on 15/09/2015. he came to India on 01/05/2018 to leave for Newzealand on 15/07/2018. determine his residential status for the AY 2019-20.

Solution:

He stayed in India during:

PY 2014-15 (j)22+(F)28+(M)31= 81 Days

PY 2015-16 (A)30+(M)31+(J)30+(JY)31+(A)31+15=168 Days

PY 2016-17 Nil

PY 2017-18 Nil

PY 2018-19 31+30+15=76 Days

He stays in India during the PY 2018-19 for 76 days, he fails to satisfy both the basic conditions.

Therefore no need to test the additional conditions

Mr Vinod is a non-resident.

Came to India- 10/01/15

Leaves India- 15/09/15

Comes to India- 01/05/18

Goes to Newzealand- 15/07/18

2014-15- 1/04/14 to 31/03/15 - jan,feb,mar 15 10,11,12- 31=

15-16- 1/04/15- 31/03/16- A, M, J, JL,A, SEP 15

16-17--- 1/04/16- 31/03/17

17-18- 1/04/17 to 31/03/18

18-19- 1/04/18 – 31/03/19- M,J,JY, M-1-31

JUNE- 1-30

JULY-1-15

- 10,11,12,,13,14,15,16,17,18,19,20,21,22,23,24,25,26,27,28,29,30,31

3. Mr. Simon, a foreigner, came to India from U S for the first time on 1/04/2012. he stayed here continuously for 3 years and went to France on 1/04/2015. he however, returned to India on 1/07/2015 and went to U S on 1/12/2015. he again came back to India on 25/01/2019 on a service in India. What is his residential status for AY 2019-20?

Solution

PYs	Stay in India	Residential status
2012-13	365 days	R
2013-14	365 days	R
2014-15	365 days	R
2015-16	1/7/15- 30/11/15= (31+31+30+31+30)=153 days	R
2016-17	NIL	R
2017-18	NIL	R

During the previous year 2018-19, he was in Indi from 25/01/2019-31/03/2019

$7+28+31=66$ days

1. He fails to satisfy the first basic condition.
2. Second basic condition is satisfied- stayed for more than 60 days in the PY and 365 days in the last 4 Pys.
3. Satisfy both the additional conditions
4. Therefore he is resident and ordinarily resident.

Question 4

- Mrs Latha, a citizen of India went to England on 02/10/2012 for higher studies for a period of two years. After she comes back, she was employed in a MNC in India. The company sent her for 6 months training to Germany on 01/03/2015. she was transferred to the company's head office in New York on 15/08/2016. however, she left India on 02/10/2016. she visited India during the month of Nov and Dec 2017. the company transferred her back to her original post in India and she returned to India on 26/01/2019.
- Determine her residential status for the AY 2019-20

Solution

- Assesse- Mrs Latha
- Leaves to England- 02/10/2012
- For two years- 02/10/2012 to 02/10/2014
- Goes to Germany- 01/03/2015
- For 6 months- march, April, May, June, July, August,
- Transferred to New York- 15/08/16---- not to be considered
- Leaves India- 02/10/2016
- Visits India- Nov and Dec 2017
- Returns to India- 26/01/2019
- Previous year 2018-19
- Assessment Year 2019-20

Calculation of number of days Mrs Latha's stay in India

Previous year	Duration	Month and days of stay	Total Days
2008-09	1/4/08- 31/03/09	All the months	365
2009-10	1/4/09- 31/03/10	All the months	365
2010-11	1/4/10- 31/03/11	All the months	365
2011-12	1/4/11- 31/03/12	All the months	365
2012-13	1/4/12- 31/03/13	(1/4/12-31/3/13)-A,M,J,LY,A,S,O=30+31+30+31+31+30+2	185
2013-14	1/4/13- 31/03/14	NIL	NIL
2014-15	1/4/14- 31/03/15	(2/10/14-1/3/15)-O,N,D,J,F,M= 30+30+31+31+28+1	151
2015-16	1/4/15- 31/03/16	(1/9/15-31/3/16)-S,O,N,D,J,F,M=30+31+30+31+31+29+31	213
2016-17	1/4/16- 31/03/17	(1/4/16-2/10/16)-A,M,J,JY,A,S,O=30+31+30+31+31+30+2	185
2017-18	1/4/17- 31/03/18	NOV & DEC=30+31	61
2018-19	1/4/18- 31/03/19	(26/1/19-31/3/19)- J,F,M= 6+28+31	65

Checking the status

- Basic conditions:

1. She should be there in India for 182 days in the previous year.

but she was in India only for 65 days- condition not satisfied.

2. She should be there in India for more 60 days in the previous year and 365 or more days in previous 4 years preceding the PY.

Preceding 4 years to PY are, 2014-15, 15-16, 16-17 and 17-18

The number of days in these years are, $151+213+185+61=510$.

510 is more than 365, and hence, Mrs. Latha satisfies the second condition.

Additional conditions:

1. She should be there in India for at least 2 years out of 10 preceding years to PY.- condition satisfied (2008-2012 she was in India)

2. Stays in India for 730 days in 7 previous years preceding to PY

7 years are, 11-12, 12-13,13-14,14-15,15-16,16-17,17-18

No of days of stay- $365+185+0+151+213+185+61=1160$

Condition satisfied.

As Mrs Latha satisfies one basic condition and both the additional conditions, she is an ordinarily resident.

Problems on incidence of tax

1. Compute the taxable income of Mr Mohan Das from the following particulars for the AY 2019-20, if he is
 - a. Resident
 - b. Not-ordinarily resident
 - c. Non-resident

Profit from hotel business in Singapore Rs 7,50,000

salary received in India for services rendered in Germany Rs 6,00,000

Income earned in Dubai but received in Bangalore Rs 5,00,000

Income from sale of a house situated in India Rs 5,40,000

Income from agriculture land in Sri Lanka Rs 9,00,000

Solution

Computation of taxable income of Mr. Mohandas for the AY 2019-20

Particulars	Resident	Not ordinarily resident	Non-resident
Profit from hotel business in Singapore	7,50,000	NT	NT
Salary received in India for services rendered in Germany	6,00,000	6,00,000	6,00,000
Income earned in Dubai but received in Bangalore	5,00,000	5,00,000	5,00,000
Income from sale of a house situated in India	5,40,000	5,40,000	5,40,000
Income from agriculture land in Sri Lanka	9,00,000	NT	NT
TAXABLE INCOME	32,90,000	16,40,000	16,40.000

Problem 2

Following are the taxable income of Rajguru for the PY 2018-19

1. Income from salary received in India Rs 20,000
2. Profit from hotel business at U S A Rs 30,000
3. Dividend declared in Perth but received in India Rs 4,000
4. Income from transfer of long-term asset in India Rs 20,000
5. Interest on debenture of a company at Manchester which was received in India Rs 20,000
6. Interest received from George, a non-resident on the loan provided to him for a business carried on India Rs 5,000
7. Royalty received in Germany from Kailash a resident in India for technical services provided for a business carried in Germany Rs 20,000
8. Income from a business carried in India Rs 30,000

Compute Rajguru's total income if he is,

- a. Resident b. not ordinary resident c. non-resident

Computation of taxable income of R for the AY19-20

Particulars	R	NOR	NR
Income from salary received in India	20000	20000	20000
Profit from hotel business at U S A	30000	NT	NT
Dividend declared in Perth but received in India	4000	4000	4000
Income from transfer of long-term asset in India	20000	20000	20000
Interest on debenture of a company at Manchester which was received in India	6000	6000	6000
Interest received fro George, a non-resident on the loan provided to him for a business carried on India	5000	5000	5000
Royalty received in Germany form Kailash a resident in India for technical services provided for a business carries in Germany	20000	NT	NT
Income from a business carries in India	30000	30000	30000
Taxable Income	135000	85000	85000

- Earned in India
- Received in India
- Earned and received in India
- Earned and received outside India- taxed only for resident

Problem 3.

- Azad discloses following particulars of his receipts during previous year 2018-19
 - a. Salary earned at Bombay but received in Srilanka ₹2,50,000
 - b. Profits earned from a business in South Africa which is controlled in India, half of the profits received in India ₹2,20,000
 - c. Income from property situated in Nairobi received there 75,000
 - d. Income from agriculture in Bangladesh and brought to India 68,000
 - e. Dividend paid by an Indian company but received in London on 15/05/2018 22,000
 - f. Past foreign untaxed income brought to India 2,10,000
 - g. Gift of \$1000 from father, settled in USA, received in India 80,000
 - h. Land sold in Delhi, consideration received in Canada, resulting into capital gain 2,50,000
 - i. Income from structure designing service set up in Germany, controlled from India, profits being received outside India 4,00,000
 - j. Loss from foreign business controlled from India sales received in India 2,00,000
 - k. An award of 1,00,000 received from Bengaluru BBMP for active involvement in swatch Bharath abhiyan
 - l. Cash award of 25000 received from university of Mysore for securing 1st rank in M Phil
 - m. Interest on deposits with Bangalore branch of HSBC 30,000
 - n. Past untaxed profit of 2017-18 brought to India during the previous year 80,000
 - o. Interest on German development bonds(2/5th is received in India) 60,000

determine his taxable income for the PY 2018-19 if he is 1. ordinarily resident, 2. Not ordinarily resident, 3. Non resident

Particulars	OR	NOR	NR
Salary earned at Bombay but received in Srilanka	2,50,000	2,50,000	2,50,000
Profits earned from a business in South Africa which is controlled in India	2,20,000	2,20,000	NT
half of the profits received in India	NT	NT	NT
Income from property situated in Nairobi received there	NT	NT	NT
Income from agriculture in Bangladesh and brought to India	NT	NT	NT
Dividend paid by an Indian company but received in London	NT	NT	NT
Past foreign untaxed income brought to India	NT	NT	NT
Gift of \$1000 from father, settled in USA, received in India	NT	NT	NT
Land sold in Delhi, consideration received in Canada, resulting into capital gain	2,50,000	2,50,000	2,50,000
Income from consultancy set up outside India	4,00,000	NT	NT
Loss from foreign business controlled from India sales received in India	2,00,000	2,00,000	2,00,000
Award from Bangalore BBMP	Exempt	Exempt	Exempt
Cash award received from university of Mysore for securing 1st rank	Exempt	Exempt	Exempt
Interest on deposits with Bangalore branch of HSBC	30,000	30,000	30,000
Past untaxed profit of 2017-18 brought to India during the previous year	NT	NT	NT
Interest on German development bonds(2/5 th is received in India) 2/5 3/5	24000 36000	24,000 NT	24000 NT

Tax free incomes or exempted incomes

- Agricultural income (Sec 10(1))- already discussed
- Amount received by a member of HUF from HUF {Sec10(2)}- fully exempt
- Share of profits received by a partner from partnership firm {Sec10(2A)} – fully exempt (but not interest on capital and remuneration)
- Certain interest to non-residents [Sec10(4)] – exempt
- Interest on notified savings certificates [Sec 10(4B)] – exempt
- Leave travel concession [Sec10(5)] – exempt (with condition)
- Remuneration received by specified diplomats and their staff [sec10(6)(ii)] – exempt from tax
- Salary of a foreign employee and non-resident member of a crew [sec10(6)(VI)(VIII)] – exempt with condition

Continued.....

Continued.....

- Allowances /perquisites to government employee outside India [sec10(7)]- exempt from tax
- Death cum retirement Gratuity [sec10(10)- exempt with conditions*
- Commutation of pension[sec10(10A)]- exempt with conditions*
- Leave encashment[sec10(10AA)]- exempt with condition*
- Retrenchment compensation[sec10(10B)- exempt with conditions*
- Compensation received at the time of voluntary retirement [sec10(10C)- exempt with condition*
- Tax on perquisites paid by the employer [sec10(10CC)]- exempt with conditions*
- Receipts from life Insurance Policy [sec10(10D)]- Exempt with condition*

Continued....

Continued.....

- Exemption in respect of amount received from public provident fund (PPF)/ Statutory Provident Fund/Recognised Provident Fund/Unrecognised Provident Fund [sec10(11)/(12)/(13) – exempt with conditions*
- HRA (House Rent Allowance) [sec 10(13A)]- exempt with condition*
- Special allowance [sec10(14)- other than entertainment allowance- exempt to the extent of the actual expense incurred.
- Income received in the form of interest [sec10(15)] – exempt
- Income received by an Indian firm through the lease of an aircraft from a foreign firm or government [sec10(15A)- Exempt
- Income in the form of a scholarship [sec 10(16)- exempt
- Allowances granted to MLAs, MLCs, or MPs [sec1(17)

Continued..

Continued.....

- Income received in the form of a government award [sec 10(17A)- Exempt
- Income received in the form of pension by winners of awards for heroism [sec 10(18)] –exempt
- Income received by family members of the armed forces in the form of pension [sec10(19)]- exempt
- Income received from a single palace of an ex-ruler [sec10(19A)]- Exempt
- Income received by a localized body or authority [sec10(20)]- exempt
- Income received by an association involved with scientific research [sec10(21)]- exempt
- Income earned by a news/broadcasting agency [sec10(22B)- Exempt
- Income earned by certain professional institutes [sec10(23A)- EXEMPT

Continued.....

Continued.....

- Income acquired through regimental fund [sec10(23AA)- Exempt
- Income acquired through an employee welfare fund[sec10(23AAA)- exempt
- Insurance pension fund income [sec10(23MB) –exempt
- Income earned by village industry development institutions [sec10(23B)- exempt
- Income earned by state level khadhi and village industries board [sec10(23BB)]- exempt
- Income earned by regulatory bodies of institutions affiliated with religion and charity [sec10(23BBA)]- exempt
- Income received by the European Economic Community [sec 10(23BBB)- exempt

Continued....

Continued.....

- income received through SAARC funded regional projects [sec10(23BBC)- exempt
- Income received by the IRDA [sec10(23BBE)
- Income received through Prasar Bharti [Sec10(23BBH)
- Income received by any individual through certain specified funds [sec10(23C)]
- Income earned via Mutual Funds [sec10(23D)]
- Income earned via a Securitisation Trust [sec10(23DA)j]
- Income earned through an IPF [Sec10(23EA)]
- Income received by the Credit Guarantee Trust for Small Industries [sec10(23EB)]

Continued.....

Continued.....

- Income exemption of IPF [sec10(23ED)] - exempt
- Income exemption of specified income received by Venture Capital firms, funds or business [sec10(23DFB)] - exempt
- Income earned by authorised trade unions [sec10(24)] - exempt
- Income earned via Provident Funds and superannuation funds [sec10(25)] - exempt
- Income earned via Employees State Insurance Fund [sec10(25A)] – exempt
- Income earned by ST members [sec10(26), 10(26A) – exempt
- Income earned by an individual of Sikkimese origin [sec10(26AAN)]- exempt
- Marketing regulations with regard to agricultural produce [sec10(26AAB)]- exempt
- Income earned by corporations established for the upliftment of backward tribes and castes [sec10(26B)]

- Income earned by corporations established for the protection of minority interests [sec 10(26BB)]- exempt
- Income earned by corporations established for former servicemen [sec 10(26BBB)] – exempt
- Income earned by cooperative societies established for protection of scheduled castes and tribes interests [sec10(27)] – exempt
- Income received by the community boards [sec 10(29A)] – exempt
- Income earned in the form of subsidies via the tea board [sec10(30)]- exempt
- Income earned in the form of subsidies via the concerned board [sec10(31)] – exempt
- Income earned by a child in accordance with sec 64 of the Income Tax Act [sec10(32)] – exempt
- Income earned through Unit Trust of India capital asset transfer [sec10(33)] –exempt

- Income earned in the form of dividends through an Indian firm [sec10(34)] – exempt
- Income earned by a shareholder through the buyback of unlisted companies [sec10(34A)]
- Income received through the sale or transfer of Unit Trust of India units as well as other mutual funds [sec10(35)- exempt
- Income from a securitisation trust that is exempt [sec10(35A)- exempt
- Income received on the sale of shares under specific conditions [sec10(36)] – exempt
- Any capital gains made on the mandatory acquirement of land in relation to urban agriculture [sec10(37)- exempt
- Any long term capital gains made from share and security transfers that fall under the purview of Security Transaction Tax. [sec10(38)]- exempt
- Any income received from any international event or function relating to sports [sec10(39)] – exempt
- Any income acquired in the form of a grant from a company deemed to be a subsidiary of the parent company [sec10(40)] - exempt

- Any income received on any asset transfer of a company or project that conducts power distribution, generation and transmission [sec10(41)] – exempt
- Any income earned by any authority that has been established by more than one company [sec10(42)] – exempt
- Any income in relation to reversal of mortgage [sec10(43)] – exempt
- Income generated through the NPS Trust [sec10(44)]- exempt
- Any allowance or perks granted to the chairman or any member of the UPSC [sec10(45)]- exempt
- Any income that comes under the category of ‘specified income’ with regards to specific authoritative bodies [sec10(46)] – exempt
- Any income that is exempt under the category of infrastructure debt fund [sec10(47)] – exempt
- Any income earned by a foreign firm or company due to crude oil sales within India [sec10(48)] – exempt
- Any income earned by the NFHC (National Finance Holdings Co) [sec10(49)] - exempt

Leave travel concession [sec10(5)]

- Conditions:
- Where journey is performed by air- exemption will be lower of amount of economy class air fare of the National Carrier by the shortest route or actual amount spent.
- Where journey is performed by rail: least of the amount of air conditioned first class rail fare by the shortest route or actual amount spent.
- Where the place of origin and destination are not connected by rail and journey is performed by any mode other than air,
 - a. If recognized public transport- exemption will be lower of first class or deluxe class fare by shortest route or actual amount
 - b. If no recognized transport exists- lower of amount of air conditioned first class rail fare by shortest route or actual amount spent.

- Block: exemption is available for 2 journeys in a block of 4 years.
- Carry over: if not availed in the block, he can carry over one journey to the next block
- Family: family include spouse and children of the individual,(whether dependent or not) parents, brothers, sisters if dependent
- Exemption is restricted to only 2 surviving children born after October 1, 1998.

Death cum retirement gratuity [sec10(10)]

- a. Government employee- fully exempted in the hands of government or employees of local authority.
- b. Non-government employee: divided in to two categories
 - i. non-govt Eee covered by the Payment of Gratuity Act 1972.
 - ii. Non- govt Eee not covered by the payment of gratuity Act 1972.
non-govt Eee covered by the Payment of Gratuity Act 1972.

Least of the following:

15 days salary x number of years of service or

Max amount- Rs 20,00,000 or

Actual Gratuity received

Note

- In case of employees of seasonal establishment, only 7 days salary is taken instead of 15 days.
- 15 days salary= salary last drawn x 15/26
- Salary includes, basic salary and Dearness allowance only.
- In case of piece rate employees, 15 days salary will be computed on the basis of average of total wages received for a period of 3 months immediately preceding the termination of service.
- Part of the year, in excess of 6 months is considered as one full year.

Computation of taxable gratuity

Actual Gratuity received		XXXXXXX
Less least of the following:		
a. Actual amount received	XXXXXX	
b. Last salary x number of years of service x 15/26	XXXXXXX	
c. Maximum limit	20,00,000	XXXXXXXX
Taxable gratuity		XXXXXXXX

Eg:

- Udaykumar, an employee of Ashok Ltd receives Rs 205000 as gratuity under the payment of gratuity Act 1972. he retires on 10/09/2018 after rendering service for 35 years and 7 months. The last drawn salary was Rs 2700 pm.
- Calculate the amount of gratuity chargeable to tax.

Calculation of taxable gratuity of Mr Uday kumar for the AY 2019-20

particulars	Amount	Amount
Gratuity received		2,05,000
Less: least of the following		
a,. Actual gratuity received	2,05,000	
b. Statutory amount	20,00,000	
c. $15/26 \times$ completed years of service \times salary pm ($15/26 \times 36 \times 2700$)	56,077	56,077
Taxable gratuity		1,48,923

Non-government employee not covered by the payment of gratuity Act

- Exempted to the extent of lower of the following:
 1. Actual gratuity received
 2. Rs 10,00,000
 3. $\frac{1}{2}$ x completed years of service x average salary pm

Note:

- a. Ignore the fraction of the year of service
- b. Average salary= Basic+DA+Commission being last 10 months average salary immediately preceding the retirement.
- c. If DA is not part of retirement benefit then, same shall not be included.
- d. The hike of max limit 2000000 is not applicable for employees not covered under the Act

Actual gratuity received		XXXXXXXX
Less least of the following:		
Actual amount received	XXXXXXXX	
$\frac{1}{2}$ month's average salary x No of completed years	XXXXXXXX	
Max limit	10,00,000	XXXXXXXXXX
Taxable gratuity		XXXXXXXXXX

Problem 1

- Mr Nethaji who is not covered by the payment of gratuity Act 1972, retires on Nov 20, 2018 and receives Rs 1,86,000 as gratuity after service of 38 years and 10 months, his salary is Rs 8000 p m upto july 31,2018 and Rs 9000 p m from August 1, 2018. besides he gets Rs 500 p m as DA(69% of which is part of salary for computing all retirement benefits but 100% of DA is considered for computing PF)
- What amount of gratuity will be exempt from tax?
- Previous 10 months- oct, sep, aug, - 9000
- july,-8000
- june, may, april, march, feb, jan 2018
- DA- $500 \times 10 = 5000 \times \frac{69}{100}$

Working note:

- Computation of average monthly salary

particulars	Amount
Basic salary from 1/1/2018 to 31/10/2018(8000x7+9000x3)	83,000
Add: 69% of DA (500X10) X 69/100	<u>3,450</u>
Total salary	86450
Avarage monthly salary 86450/10	8645

Computation of taxable Gratuity

Particulars	Amount
Amount of Gratuity received Less least of the following: Actual amount received $\frac{1}{2}$ x average salary x no of completed years of service ($\frac{1}{2}$ x 8645 x 38) Max limit	1,86,000 1,86,000 1,64,255 10,00,000 1,64,255
Taxable Gratuity	21,745

Gratuity received after the death of employee

- Gratuity received by a legal heir shall not be taxable in the hands of recipient.

- MR yoganand retired from service in private co on 31/12/2018. he has put in 33 years of service . On retirement, the co paid him a gratuity of Rs 6,50000/-.
- Completed years- 33
- Salary since 1/10/2013- 24,000
- DA 6000
- HRA- 4000
- A. if covered under the Act
- B. if not covered

Covered under the payment of gratuity Act 1972

Particulars	Amount	Amount
Actual amount received		6,50,000
Less least of the following:		
Actual amount received	6,50,000	
15/26 x completed years of service x salary	3,96,000	
Maximum limit	20,00,000	3,96,000
Taxable gratuity		2,54,000

Not Covered under the payment of gratuity Act 1972

Particulars	Amount	Amount
Actual amount received		6,50,000
Less least of the following:		
Actual amount received	6,50,000	
$\frac{1}{2}$ x Average salary x No of fully completed years of service	5,88,467	
[1/2]	1000000	5,88,467
Maximum limit		
		61,533

Commutation of pension [sec10(10A)]

- On certain cases, the employee withdraws a lump sum amount from the pension. It is known as commutation of pension.
- Computation of taxable commuted pension:

Government employee (central/state/local authority/statutory corporation)	Fully exempted
Non-Govt employee who has also received Gratuity	Amount received Less: 1/3 of full value of commuted pension
Non-Govt employee who has not received Gratuity	Amount received Less: ½ of full value of commuted pension

Note

- Pension received by a widow or legal heir of a deceased employee shall not be taxable as salary but as income from other sources
- Where commuted pension is taxable, relief u/s 89 is available.
- Pension received from United Nations Organisation is not taxable.

Eg:

- Mr Raja is getting a salary of 5400 p m since 1/1/17 and DA of 3500 pm, 50% of which is a part of retirement benefits. He retires on 30th Nov 2018 after 30 years and 11 months of service. His pension is fixed at Rs. 3800 pm. On 1/2/2019 he gets 3/4th of the pension commuted ay 1,59,000. compute the taxable pension
 - a. If he receives pension along with gratuity
 - b. He receives pension but no gratuity

He receives pension with gratuity

Computation of taxable pension of Mr Raja for the AY 2019-20

Actual commuted value of pension	1.59,000
Less exempted u/s 10(10A) 1/3 of full value of commuted pension [2,12,000x1/3]	70,667
Taxable commuted pension	88,333

Without Gratuity

- Full amount of pension= $159000 \times 75/100 = 212000$

Actual amount of commuted pension	1,59,000
Less: ½ of full amount of commuted pension ($1/2 \times 2,12,000$)	1,06,000
Taxable commuted pension	53000

Leave encashment [sec10(10AA)]

- Govt or non govt employee – leave encashment while in service – fully taxable
- Relief – U/s 89
- Leave encashment on retirement:
 - i. government employees- fully exempt
 - ii. Non- Govt employee:
next slide

Particulars	Amount	Amount
Amount received on Leave encashment Less: exemption u/s 10(10AA) <ul style="list-style-type: none"> i. Actual amount of leave encashment ii. Approved period of earned leave to his account x Average monthly salary iii. 10 months x Average monthly salary iv. Maximum Limit 	Xxxxxxx Xxxxxxxx Xxxxxxxx 3,00,000	Xxxxxx xxxxxxxx
Taxable leave encashment		xxxxxxx

Note

- Approved period- non govt employee- 30 days(1 month)

Eg:

- Mr Narayan was a manager in private co. he retired premature on 1/11/2018 after 25 years of service. His salary for 10 months was Rs 36,900. he had 7 months leave to his credit on the basis of 30 days per year which was approved and he was paid Rs 27,300 as salary.
- Compute the amount of encashment exempt, if his last drawn salary is Rs 3900.
- Average monthly salary= $36900 / 10 = 3690$

Computation of taxable leave salary

particulars	Amount	Amount
Amount received on Leave encashment		27,300
Less: exemption u/s 10(10AA)		
i. Actual amount of leave encashment	27,300	
ii. Approved period of earned leave to his account x Average monthly salary (7 x 3690)	25,830	25,830
iii. 10 months x Average monthly salary (10 x 3690)	36,900	
iv. Maximum Limit	3,00,000	
Taxable leave encashment		1,470

- Retired- 31/3/2019
- 18 months leave – credit
- Rs 1,26,000
- Allowed- 1 ½ months for every completed years of service.
- Availed- 12 months leave.
- DA- Rs. 3000
- Last increment- Rs. 1000 in basic on 1/4/2018
- Find the taxable leave encashment.

Working note

1. Total No of years of service- availed+ leave at credit
12 + 18 = 30 months leave

1 year= 1 ½ months

1 ½= 3/2

3/2-1

30-?

$\frac{30 \times 1}{3/2} = 30 \times \frac{2}{3} = 20$ years

2. Salary means – Basic +DA + COMMISSION being last 10 months average

Basic salary = 1,26000/18 =7000

DA= 3000

Basic + DA = 7000 + 3000 = 10000

Average salary for 10 months= 10000 x 10/10 = 10000 approved period—1 month per year

Total No of years of service = 20 therefore total months of approved leave encashment--- 20 months

Leave already availed- 12 months therefore the remaining No of months= 20-12 =8 months

Calculation of taxable leave encashment of Mr Anil Kumar

Particulars	Amount	Amount
Amount received on Leave encashment		1,26,000
Less: exemption u/s 10(10AA)		
i. Actual amount of leave encashment	1,26,000	
ii. Approved period of earned leave to his account x Average monthly salary [(20-12)] x 10,000)	80,000	
iii. 10 months x Average monthly salary (10 x 10,000)	1,00,000	
iv. Maximum Limit	3,00,000	80,000
Taxable amount of leave encashment		46,000

Retrenchment Compensation {sec 10(10B)}

The amount is exempted from tax to the extent of least of the following:

- Actual amount received or
- Maximum limit Rs 5,00,000
- An amount calculated in accordance with the provisions of sec 25F(B) (equivalent to 15 days average pay, for every completed year of service or any part thereof in excess of 6 months)
 - Average pay means (a) for salaried people average of last 3 months
 - (b) for labourers- last 4 completed weeks @ daily wages-wages of last full 12 working days
- Salary means- allowances including D A, value of accommodation, water, medical benefits and travel concession. But does not include bonus, employers contribution to pension fund, PF and gratuity.

Amount received from PPF/SPF/RPF/URPF

Statutory Provident Fund	
Employer's Contribution	Employer's contribution to such fund is not treated as income of the employee.
Interest	Interest credited to such fund is exempt in the hands of the employee.
Amount received at the time of termination	Lump sum amount received from such fund, at the time of termination of service is exempt in the hands of employees.

Recognised Provident Fund	
Employer's contribution	Employer's contribution to such fund, up to 12% of salary is not treated as income of the employee.
Interest	Interest credited to such fund up to 9.5% per annum is exempt in the hands of the employee, interest in excess of 9.5% is charged to tax in the hands of the employee.
Amount received at the time of termination	If certain conditions are satisfied, then lump sum amount received from such fund, at the time of termination of service, is exempt in the hands of employees

	UNRECOGNISED PROVIDENT FUND
Employer's contribution	Employer's contribution to such fund is not treated as income of the employee.
Interest	Interest credited to such fund is exempt in the hands of the employees.
Amount received at the time of termination	See note 3

	PUBLIC PROVIDENT FUND
Employer's contribution	Employers do not contribute to such fund.
Interest	Interest credited to such fund is exempt.
Amount received at the time of termination	Lump sum amount received from such fund at the time of termination of service is exempt from tax.

Note

- Salary includes basic salary, DA, and commission based on fixed percentage of turnover.
- Accumulated balance paid from a RPF is fully exempt in the following cases
 1. If the employee has rendered a continuous service of 5 years or more.
 2. If the service is terminated before the period of 5 years due to ill health.
 3. If the balance is transferred from the previous employer.

House Rent Allowance (HRA)

- HRA is exempt to the extent of least of the following:
 - 1. actual HRA received
 - 2. excess of rent paid by the employer over 10% of salary
 - 3. (i) in case of employee resides at metropolitan city- 50% of salary
 - (ii) other than metropolitan city- 40% of salary.
- Note: if the employee is residing in own house- full HRA is taxable
- Salary means: Basic+ DA+ commission based on fixed percentage
- HRA=RENT, HRA LESS THAN RENT, HRA More than rent

Eg:

- Mr A is entitled to a basic salary of Rs 10,000 pm and DA of Rs 2,000 pm, 40% of which forms part of retirement benefits. He also entitled to HRA of Rs 4,000 pm. He actually pays 4000 pm as rent for a house in Bombay. Compute the taxable HRA.
- $[(10000 \times 12) + (40\% \times 2000 \times 12)] = 1,29,600$ Actual rent paid- $4000 \times 12 = 48,000$
- $2000 \times 12 = 24,000$ $24,000 \times 40/100 = 9,600$ $9,600 + 1,20,000 = 1,29,600$ 10% of salary = $1,29,600 \times 10/100 = 12,960$.
- HRA = $4000 \times 12 = 48,000$

PARTICULARS	AMOUNT	AMOUNT
House Rent Allowance Received		48,000
Less: least of the following		
Actual HRA	48,000	
50% OF Salary $1,29,600 \times 50/100$	64,800	
Rent paid in excess of 10% of salary $(48,000 - 12,960)$	35,040	35,040
Taxable HRA		12,960

Problem 2.

- Mr Chinmay Raja resident of Ajmir, receives Rs 48000 as basic salary during the previous year 19-20. In addition, he gets Rs 4800 as DA forming part of basic pay, 7% commission on sales made by him (sale made by X during the relevant previous year is Rs 86,000) and Rs 6000 as house rent allowance. He however pays Rs 5800 as house rent.
- Determine the quantum of exempted HRA.

Computation of taxable HRA of Mr Chinmay for the A Y 2020-21

Particulars	Amount	Amount
House Rent Allowance Received		6000
Less: Least of the following		
Actual HRA received	6000	
40% of salary of Rs (58,820x40/100)	23,528	
Excess of rent paid over 10% of salary. (rent-5800, 10% of salary- 58820x10/100) 5800-5882	00000	00000
Taxable HRA		6000

Working Note:

Salary= basic+ DA+ Commission

$$48000+4800+(86000 \times 7/100)$$

$$48000+4800+6020 = 58820$$

Deduction U/S 80 sec 80C

- Under Sec 80C, a deduction of Rs 1,50,000 can be claimed from the total income.
 1. LIC premium- not exceeding 20% of the total policy on life of assessee, spouse and any child.
 2. Sum paid under a contract for a deferred annuity- on life of assessee, spouse and any child.
 3. Contribution to RPF
 4. Contribution to an approved superannuation fund
 5. Subscription to notified savings certificates (NSC VIII Issue)
 6. Contribution to UTI
 7. Certain payments for purchase/construction of residential house property
 8. Subscriptions to Mutual Fund/UTI
 9. Subscriptions to equity shares/debentures of public cos/Fis
 10. Term deposits for a fixed period not less than 5 years
 11. Bonds of NABARD
 12. Deposits under Senior Citizen Saving Schemes
 13. 5 year post office deposits

Deductions U/S 80CCC

- Claims made to certain pension funds.
- Max deduction Rs 1,50,000 during a year on costs incurred in buying a new policy or continuing an existing plan that pays pension.
- But the amount of pension received, including interest/bonus is taxable.
- Deduction limit under sec80CCC is clubbed with the limit u/s 80C and sec 80CCD.
- That means, the total deduction can be claimed on all the three should not exceed Rs 1,50,000

Deduction U/S 80CCD- deduction for contribution to Pension Account

- Sec 80CCD(1)- allowed to an individual who makes deposits to his/her pension account
- Max amount allowed- 10% of salary or
- Rs 1,50,000 whichever is less
- Sec 80CCD(1B)- additional deduction for amount deposited by a tax payer to their NPS(National Pension System) account and Atal Pension Yojana.
- Eligible amount- Contribution up to Rs 50,000
- Employer's contribution- sec 80 CCD(2) – Deduction allowed up to 10% of salary.

Speciman for sec 80C, 80CCC, 80CCD

Particulars	Amount
Deduction u/s 80C	XXXXXX
Deduction u/s 80CCC	XXXXXX
Deduction u/s 80CCD[Other than deduction in respect of employer's contribution and additional deduction u/s 80CCD(1B)]	XXXXXXXX
Total [Restricted to max of Rs 1,50,000 u/s 80CCE]	XXXXX
Add: contribution to the pension scheme by an individual u/s 80CCD(1B) Max Rs 50000	XXXXX
Add: employers contribution to New Pension System [max 10% of salary]	XXXX
Total deduction available	XXXXXXXX

- Sec 80D- deduction for premium paid for medical insurance- up to Rs 25000
- For individuals above 60 years- 50,000
- Additional amount for parents- 50,000
- Total- 1,00,000
- Deduction u/s 80E:
- Deduction for interest on education loan for higher education
- Deduction- amount paid during the year

Deduction u/s 80CCF

- Offers tax-saving benefits for tax payers who invest in government-approved infrastructure bonds.
- Max deduction – Rs 20,000

Module II Heads of Income

- Income from salary:
- The term Salary for Income Tax purpose include both monetary and non-monetary facilities /perquisites.
- Points to be considered:
 1. There should be a employee-employer relationship
 2. Employee may be full time or part time.
 3. If the employee works for more than one employer, all the salary should be considered.
 4. If an employee surrenders his salary to the central government, the amount is exempt from the payment of tax.
 5. If gifts are given purely on a selective basis, they are chargeable to tax.

Characteristics of salary

- The relationship of a payer and payee should be of employer and employee.
- Salary and wages are considered in the same manner.
- Employer may be more than one.
- Salary is taxable either on due basis, receipt basis or arrears basis.

The head salary u/s17(1) includes the following

- Wages
- Dearness Allowance (DA)
- Bonus
- Gratuity
- Annuity
- Pension
- Advance salary
- Fees/commissions. Perquisites, profit in lieu of salary in addition to salary
- Leave encashment
- Employers contribution to PF in excess of 12% of salary
- Interest earned in excess of 9.5% on recognised Provident Fund.

Salary= [basic+allowances+perquisites+profit in lieu of salary]- Entertainment Allowance and Professional Tax

Specimen format

Computation of income under the head salary of -----for the AY 20-21

Particulars	Amount	Amount
Salary/advance salary/arrears(if not taxed earlier)		Xxxx
Fees		Xxxx
Commission		Xxxx
Bonus		Xxxx
Gratuity		Xxxx
Leave encashment		Xxxx
Pension		Xxxx
Retrenchment compensation		xxxx
Compensation received under Voluntary Retirement Scheme		xxxxxx
Dr Beena		

continued

Continued.....

Allowances		
DA/DP (Dearness Pay)	Xxxx	
House rent Allowance	Xxxx	
Children Education Allowance	Xxxx	
Children Hostel Allowance	Xxxx	
Entertainment Allowance	Xxxx	
Medical Allowance	Xxxx	
Conveyance Allowance	Xxxx	
City Compensatory Allowance CCA	Xxxx	
Uniform Allowance	Xxxx	
Professional Development Allowance	Xxxx	
Transport Allowance	Xxxx	
Other Allowances	xxxx	XXXXX

Continued....

Perquisites u/s 17(2)		
Any obligation of employee paid by the employer	Xxxx	
Accommodation	Xxxx	
Shares and securities issued under ESOP	Xxxx	
Employers contribution to superannuation fund	Xxxx	
Gas, electricity and water	Xxxxx	
Medical facility	Xxxx	
Other fringe benefits	xxxx	XXXX
Leave travel concession		XXXX
Contribution of employer to provident fund		XXXX
Interest on recognised provident fund		XXXX
Any other item		XXXX

Continued....

Gross Salary		XXXX
Less: Deduction u/s 16		
(i) Standard deduction (Rs 50000 or gross salary whichever is less)	XXXX	
(ii) Entertainment Allowance	XXXX	
(iii) Tax on employment /Professional tax	XXXX	XXXX
TAXABLE SALARY		XXXXXX

Allowances

- There are three types of allowances
 1. Fully taxable
 2. Exempted to some specific limit
 3. Fully exempted allowances

Fully taxable allowances

1. Dearness Allowances
2. Overtime allowance
3. City compensatory allowance (CCA)
4. Servant allowance/warden allowance
5. Lunch allowance/tiffin allowance
6. Family allowance
7. Fixed medical allowance
8. Entertainment allowance(in case of non-govt employees)
9. Deputation allowance
10. Split duty allowance
11. Dating allowance
12. Non-practicing allowances for govt medical doctors
13. Hill allowance (more than 1000 mts height from sea level- Exempt)
14. Other allowances such as marriage allowance, telephone allowances, education allowances, dinner allowances, holiday allowance.

2. Exempted up to specific limit

1. House Rent Allowance

2. Entertainment allowance: EA is first included in salary income and there after a deduction is given u/s 16(ii)

In the case of a govt employee(central/state), the least of the following is deductible.

a. Rs 5000 or

b. 20% of basic salary or

c. Actual entertainment allowance received.

In the case of non-govt employee, EA is fully taxable.

Note:

1. Salary excludes any allowances, benefits and other perquisites

2. Amount actually spent should not be considered.

continued...

Other allowances exempt to certain limit

SL No	Nature of Allowance	Exemption as per rule 2BB
01	Special compensatory (Hill area) allowance	Exemption varies from Rs 300 – 7000 pm
02	Border area/remote area/difficult area allowance	Rs 200-1300 pm
03	Tribal area(MP,TN,UP,KAR, Tripura, Orissa, Bihar)	200/- pm
04	Allowances for the employee working in transport system to meet his personal expenditure to perform duty in course of running of such transport	Least of the following: 70% of transport allowance given or Rs 10000 pm
05	Children education allowance	Exempt to the extent of Rs 100 pm per child for two children
06	Children hostel allowance	Exempt to the extent of Rs 300 pm per child for 2 children

Continued....

07	Compensatory field area allowances (not allowed to employee covered under border area allowance)	Exemption up to Rs 2,600 pm
08	Compensatory modified area allowance (not allowed to the employee covered under boarder area allowance)	Up to Rs 1000 pm
09	Counter insurgency allowance (granted to members of armed forces but not to employees getting boarder area allowance)	Up to Rs 3900 pm
10	Transport allowance	Up to Rs 800 pm (1600 for blind or orthopedically handicap)
11	Under ground allowance	Up to Rs 800 pm
12	High altitude allowance – altitude of 9000-15000 feet Rs 1060 For altitude above 15000 ft- Rs 1600 pm	Up to Rs 1060 or 1600 pm
13	Highly active field area allowance to the members of armed forces	Up to Rs 4200 pm
14	Island duty allowances to the members of armed forces	Up to Rs 3250 p m

Fully exempted allowances

- Allowances to govt employees render service outside India
- Allowances to high court judges u/s 22D(b)
- Allowances received by employees from UNO sec 2 of the UN
- Compensatory allowance paid under 222(2) of the constitution
- Sumptuary allowances to high court/supreme court judges
- Salary received by a teacher/pro from SAARC member
- Per-diem allowances paid to the employees for the use of lodging or boarding.

Perquisites

- Taxable in all cases:

1. Rent free accommodation
2. Obligation of the employee met by the employer
3. Interest free loan
4. Sale of employers movable assets
5. Use of employers movable assets
6. Free holiday home facility
7. Free lunch and gifts
8. Travelling and touring
9. Credit card facility
10. Club facility
11. Sweat equity shares

Perquisites taxable in specified cases

Specified employees:

- He/she must be an employee-director in the employers company
- He/she should be beneficial owner of equity shares carrying 20% or more voting power in employers company
- The total taxable monetary receipts of employee during the PY after deductions u/s 16 must exceed Rs 50000.

The following perquisites are not taxable in the hands of specified employees:

1. Salary of domestic servants
2. Free children education
3. Free gas, electricity and water facility
4. Medical facility
5. Leave travel concession
6. Transport facility
7. Motor car facility

Tax free perquisites

- Computers, laptops given to an employee for official/personal use
- Employer's contribution towards pension or deferred annuity scheme
- Employer's contribution to staff group insurance scheme
- Fees for refresher/management course paid by the employer
- Free ration received by the members of armed forces
- Goods manufactured by the employer is sold to the employees at concessional rate
- Hotel accommodation in the case of transfer for not exceeding 15 days
- Interest free loan given by the employer shall exempt in the hands of employee, not exceeding the loan amount 20000
- Interest free loan given for medical treatment of employee or his/her family members
- Medical insurance premium paid by the employer
- Premium paid on personal accident policy by the employer
- Perquisites to government employees poste abroad

Continued.....

Continued.....

- Rent free accommodation to high court/supreme court judges, union minister, an official parliament etc.
- Rent free accommodation provided to the employees in remote areas.
- Reimbursement of expenditure on books and journals.
- Scholarship to employees children
- Telephone facility including mobile provided by the employer either for personal or official use.
- Tax on perquisites in kind paid by the employer.
- Transfer of a movable assets other than computers, car and electronic items to the employees after using such assets for more than 10 years by the employer.

Rent Free Accommodation

- Government employees- State/Central

Amount determined as per government rules	XXXXXX
Add: 10% of original cost of furniture	XXXX
Add: Hire charges	XXXX
	XXXXX
Less: Rent paid by the employee	XXXXX
Taxable value of HRA	XXXXX

Non-government employees

If house is owned by the employer			House rented by the Er	
Population more than 25 lakh	10 – 25 lakhs	Less than 10 lakh		
15% salary xxxx (+) 10% of furniture xxxx (+) hire charges <u>xxxx</u> xxxxx (-) rent paid by the employee xxxx	10% of salary xxxx (+)10% of cost of furniture xxxx (+) Hire Charges <u>xxxx</u> xxxxx (-) rent paid by the employee xxxx	7.5 of salary xxxx (+)10% of cost of furniture xxxx (+) Hire Charges <u>xxxx</u> xxxxx (-) rent paid by the employee xxxx	Lease rent or 15% of salary Whichever is less xxxx (+) 10% of original Cost of furniture xxxx (+) hire charges <u>xxxx</u> xxxxx (-) Rent paid by the employee xxxx	
Taxable value of Rent Free Accommodation xxxxxx	Taxable value of Rent Free Accommodation xxxxxx	Taxable value of Rent Free Accommodation xxxxxx	Taxable value of Rent Free Accommodation xxxxxx	

Continued.....

- c. If the hotel accommodation is provided to an employee at the time of transfer for a period not exceeding 15 days, the value of hotel accommodation will not be taxable in the hands of employee.
- d. If Rent Free Accommodation is located in a remote area, it is not taxable.

