

FEATURES OF SALARY INCOME:

The main features of salary income are as under:

- (1) The relationship of the employer and employee must exist.
- (2) The employer may be present or past or prospective.
- (3) The salary receipt may be on account of current, arrears or advance salary.
- (4) Amount received as salary should be for some past, present or future services.
- (5) Salary is taxable on receipt basis.
- (6) Salary received in arrears may be taxed on accrual basis, by giving a notice to the Commissioner, if the result of charging tax on arrears in the year of receipt is higher amount of tax.
- (7) Any expenditure incurred by an employee for deriving salary income shall not be allowed to deduct in computing the "Taxable Salary".

RULES REGARDING THE VALUATION OF PERQUISITIES, ALLOWANCES AND BENEFITS RECEIVED BY AN EMPLOYEE

(1) ACCOMMODATION:

Accommodation is one of the benefits provided by the employer to his employee. The accommodation facility can be provided in the following manners.

(a) House Rent Allowance:

If the employer does not provide any accommodation to his employee but pays house rent or accommodation allowance then the amount of such allowance shall be fully taxable.

Illustration 1:

Mr. A is working in a company and his present basic salary is Rs. 30,000. He also receives Rs. 12,000 per month from his employer as accommodation allowance. Compute the taxable salary of Mr. A.

Solution:

Income from Salary U/S 12:

	Rs.
Basic salary (30,000 × 12)	360,000
Accommodation allowance (12,000 × 12)	144,000
Taxable salary	<u>504,000</u>

(b) Rent Free Unfurnished & Furnished Accommodation:

Rent Free Unfurnished Accommodation includes building, electric lights, fans, built in cupboards, cooking range and water heater whereas Rent Free Furnished Accommodation includes basic furniture, refrigerator, heating and cooling apparatus besides unfurnished accommodation. If the employer provides a furnished or an unfurnished accommodation to the employee then the value of such accommodation shall be taxable according to the following rule.

- (i) Amount receivable or entitled for accommodation if accommodation was not provided.
 - (ii) 45% of minimum time scale.
- (Whichever is higher between (i) and (ii) shall be taxable)

(c) Accommodation Facility in Mufasal Areas:

Where Furnished or Unfurnished Accommodation is provided to the employees serving in mufasal areas (areas other than big cities) then the value of accommodation shall be determined @ 30% of minimum time scale instead of 45%.

Notes:

- (i) *In the absence of minimum time scale, 45% of basic salary shall be taken.*
 - **Minimum Time Scale (MTS)** means the starting amount of the Basic Pay Scale (BPS) or the amount from where the salary scale of an employee starts.
 - **Basic Salary (BS)** means the present or current pay (without the allowances) withdrawn on monthly basis by an employee.
- (ii) *If amount receivable or entitled for accommodation is not known then 45% or 30%, as the case may be, of MTS / basic salary shall be taxable.*

Illustration 5:

Assume that in Illustration 3, the employee is serving or employed in Phalia or Chunian (Considered as mufasal area) and he have also been provided accommodation in the same area. Compute his taxable salary.

Solution:

Income from Salary U/S 12:

	Rs.
Basic salary (22,000 × 12)	264,000
Bonus (22,000 × 2)	44,000
Dearness allowance	24,000
Commission	40,000

Furnished / Unfurnished Accommodation Provided:

(i) Annual value of accommodation Rs. 120,000

(OR)

(ii) 30% of MTS $\left(20,000 \times 12 \times \frac{30}{100}\right)$ Rs. 72,000

Whichever is higher between (i) & (ii) — Taxable 120,000

Taxable salary 492,000

(2) CONVEYANCE:

Where an employer provides to his employee either conveyance or conveyance allowance, the value of such allowance or facility shall be included in the salary income of the employee according to the following rules.

(a) Conveyance Allowance:

If the employer does not provide any conveyance facility to his employee but pays conveyance allowance then such allowance shall be totally taxable.

(b) Conveyance Owned by Employee:

If the employee uses his conveyance for personal / official purposes and receives any amount as conveyance allowance from the employer then such allowance shall be included in the taxable salary of the employee.

(c) Conveyance Provided by Employer:

Sometime, the employer provides conveyance facility to his employee. The tax treatment or value of conveyance in such case shall be determined as per following procedure.

(i) For Private Use of the Employee Only:

10% of the cost of vehicle if the vehicle has acquired by the employer or 10% of the Fair Market Value (FMV) at the commencement of the lease if the vehicle has taken on lease by the employer, shall be included in the taxable salary of the employee.

(ii) For Private and Official Use:

5% of the cost of vehicle if the vehicle has acquired by the employer or 5% of the Fair Market Value (FMV) at the commencement of the lease if the vehicle has taken on lease by the employer, shall be included in the taxable salary of the employee.

Note: No other case and information regarding conveyance shall be taken into consideration by the employee for tax purposes.

(4) UTILITIES ALLOWANCE / REIMBURSEMENT: [Section 13(6)]

If an employer provides some amount to his employee for meeting the charges of gas, water, telephone and electricity, it is called as utility allowance and it is fully taxable. The reimbursement or payment of utility bills by the employer is also taxable.

(5) AMOUNT PAYABLE WAIVED BY EMPLOYER: [Section 13(9)]

Any amount payable by the employee to employer shall be included in the taxable income of the employee if it is waived of by the employer.

(6) OBLIGATION OF EMPLOYEE PAID BY EMPLOYER: [Section 13(10)]

Any payment made by the employer to another person on the behalf of his employee shall be included in the salary income of the employee. e.g., life insurance premium, loan and membership fee of a club etc.

(7) TRANSFER OF PROPERTY TO EMPLOYEE: [Section 13(11)]

If an employer transfers any property to his employee then the value of the property as reduced by any payment made by the employee shall be included in the income of the employee.

(8) LOAN TO EMPLOYEE: [Section 13(7)]

The employer can provide another benefit to his employee in the form of loan. The employee can take loan from the employer which is interest free or at concessional / lower than the benchmark rate. The benefit obtained against this facility shall be included in the taxable salary on the employee. The Board determines the benchmark rate and for tax year 2018 the benchmark rate is 10%.

(a) If the amount of loan is Rs. 1,000,000 or less then nothing shall be included in the income of an employee.

(b) In case the amount of loan is above / more than Rs. 1,000,000 then the tax treatment of this facility / benefit is given below:

(i) If the loan is Interest Free:
= Amount of loan × 10% Taxable

(ii) If Interest Rate is less than 10%:
= Amount loan × (10% – Given %) Taxable

(iii) If Interest Rate is 10%:
= Nothing shall be taxable —

(iv) If Interest Rate is above 10%:
= Nothing shall be taxable —

(9) MEDICAL CHARGES:

In case of an employee:

- (a) If the facility of medical treatment or hospitalization or reimbursement of medical expenses is provided by employer under employment agreement then above facilities shall be:

Tax Treatment = Totally Exempt

- (b) If the employee receives any amount as allowance for medical treatment or expenses if facility under above (a) is not provided then such allowance shall be:

Tax treatment = Exempt upto 10% of basic salary

Note: Medical allowance shall be totally taxable if received in addition to medical facility according to the terms of employment.

Illustration 12:

Basic salary		Rs. 200,000
Medical allowance	Rs. 24,000	
Less: 10% of Basic Salary ($200,000 \times 10/100$)	20,000	4,000
Taxable salary		<u>204,000</u>

(10) ENTERTAINMENT:

- (a) Entertainment facility like free tea or coffee etc. provided by the employer at the office premises during working hours and reimbursement of entertainment bills by the employer shall be fully exempt.
- (b) If the employer pays entertainment allowance in cash in place of entertainment facility then the amount of such allowance shall be fully taxable.

(11) SPECIAL ADDITIONAL ALLOWANCE:

If any civilian employee receives any amount as special additional allowance from his organization then such allowance shall be totally taxable.

Amount of Allowance:

The amount of special additional allowance is:

- (a) 25% of minimum time scale (MTS) up to basic pay scale (BPS) 16.
- (b) 20% of minimum time scale (MTS) above basic pay scale (BPS) 16.

(12) SPECIAL ALLOWANCE:

If an employee receives any amount as special allowance for the performance of official duties from his organization then such allowance shall be:

Tax Treatment = Totally Exempt

Examples:

- (i) Travelling allowance (TA).
- (ii) Daily allowance (DA).
- (iii) Uniform or kit allowance.

Note: The special allowance remains exempt even actual expenses are less than the amount of allowance. Special allowance does not include conveyance and entertainment allowance.

(13) OTHER ALLOWANCES GIVEN BY THE EMPLOYER:

Some other allowances or remuneration given by the employer to his employees for their services are also taxable and included in the incomes of the employees for tax purposes. For example: qualification pay, senior post allowance, orderly allowance, special relief allowance, ad-hoc relief allowance, PhD allowance, project allowance, overtime pay and special pay etc.