

INCOME FROM SALARY

Any salary accrued to the assessee during the previous year is taxable under the head 'Income From Salary'. The tax provision relating to computation of net salary income is laid under section 15, 16 and 17 of The Income Tax Act 1961.

Basis of chargeability Sec 15:

1. Any salary due from an employer or former employer to an assessee in the previous year whether actually paid or not.
2. Any salary paid or allowed to an assessee during the previous year from an employer though not due or before it became due.
3. Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer, if not charged to income tax for any earlier previous year.

Definition Sec 17(1):

The term 'salary' include the following:

- a. Wages
- b. Any annuity or pension
- c. Any gratuity
- d. Any fees, commission, perquisites or profits in lieu of or in addition to any salary
- e. Any advance salary
- f. Any leave encashment received
- g. Transferred balance in a recognized provident fund to the extent it is taxable
- h. The contribution made by the central Government to the account of an employee under a notified pension scheme referred to in section 80CCD.

Important points:

1. The **relationship** between **the payer and receiver** should be of **employer and employee** or **master and servant**, then only the income is considered as salary income.
2. Salary income is chargeable to tax on the basis of **due or receipt whichever is earlier**.
3. Salary from more than one source or employer during the same previous year is taxable under the head salary.
4. Any foregoing of salary by employee included in the salary income.
5. Any surrender of salary to the Central Government as per section 2 of the Voluntary surrender Act 1961 is exempt from tax.
6. Salary income must be real and not fictitious.

Computation of Net Salary Income

Assessee:
Status : OR/NOR/NR
Category: Govt/Non Govt.

Assessment year: 2019-20
Previous year : 2018-19
PAN:

Particulars	Amount	Amount
Basic salary		XXX
Bonus		XXX
Commission		XXX
Fees		XXX
Interim Relief		XXX
Advance Salary		XXX
Arrears of salary		XXX
Leave salary		XXX
Gratuity		XXX
Pension		XXX
Allowance		XXX
Employer's contribution to RPF		XXX
Interest credited to RPF		XXX
Perquisites		XXX
Profit-in-lieu of salary		XXX
GROSS SALARY		XXX
Less: Deductions U/S 16:		
a. Standard deduction	XXX	
b. Entertainment Allowance	XXX	
c. Employment tax or Professional tax paid	xxx	XXX
NET SALARY OR TAXABLE SALARY		XXXX

Tax Treatment:

1. Basic salary: fully taxable
2. Bonus : fully taxable
3. Commission, Fees, interim relief, advance salary: fully taxable
4. Arrear of salary: it is fully taxable if it is not taxed in any earlier previous year

LEAVE SALARY Sec 10(10AA):

Encashment of leave by surrendering leave standing to one's credit is known as "leave salary".

Tax Treatment:

1. Leave salary received during the service period is fully taxable irrespective of the category of employees.
2. Leave salary received at the time of retirement or leaving the job:

For tax purpose employees are categorized into two kinds, they are:

- a. **Government Employees Sec 10(10AA)(i):** in the case of a Central or State Government employee, any amount received as leave salary in respect of period of earned leave at his credit at the time of his retirement is **exempt** from tax.
- b. **Non Government Employees Sec 10(10AA)(ii):** in the case of non Government employee (including an employee of a local authority or public sector undertaking), received leave salary at the time of his retirement is **exempt to the extent of least** of the following:
 - a. **Cash equivalent to the leave standing to the credit to the employee at the time of his retirement based on Average Salary**
 - b. **10 X Average salary**
 - c. **Maximum statutory limit Rs. 3,00,000**
 - d. **Leave salary received actually**

Computation of Taxable leave salary:

Particulars	Amount	Amount
Actual leave salary received		XXX
LESS: Exempt being least of the following:		
a. [leave entitled – leave availed] X Average salary	XXX	
b. 10 X average salary	XXX	
c. Maximum limit	3,00,000	
d. Actual leave salary received	XXX	XXX
TAXABLE LEAVE SALARY		XXX

NOTE:

1. Calculation of leave entitled:

Step-1: Eligible leave entitled;

Leave entitled as per service rule or employment rule

xxx

Maximum leave entitled as per income tax rule

30days/1 month

Whichever is lower

xxx

Step-2: Leave entitled;

Eligible leave entitled X no. of completed year of service

- Ignore any fraction of year of service

2. Calculation of average salary:

Salary includes Basic salary, Dearness allowance (if the terms of employment provided so) and fixed rate of commission on turnover achieved by the employee for preceding 10months from the date of retirement divided by 10.

GRATUITY

Gratuity refers to gratuitous payment made by the employer to the employee for the past service rendered.

Tax Provision:

Gratuity received while in service is fully taxable irrespective of the category of employee.

Death-cum-Retirement Gratuity Sec 10(10):

For tax purpose employees are categorized into;

1. **Government Employees Sec 10(10) (i):** government employees include the employee of Central/State Government and local authority. These employees received any gratuity at the time of retirement or in the event of their death are **completely exempt from tax.**
2. **Non Government Employees Sec 10(10)(ii):** these employees further divided into
 - a. **Covered under gratuity Payment Act1972:** this category includes employees of every factory, mines, oil field, plantation, port etc., gratuity received by these employees at the time of retirement or in the event of death is **exempt to the extent of least of the following:**
 1. **15 days salary for every year of service based on salary last drawn**
 2. **Maximum limit Rs. 20,00,000**
 3. **Gratuity actually received**

Computation of taxable gratuity

Particulars	Amount	Amount
Actual gratuity received		XXX
LESS: Exempt being least of the following:		
a. 15/26 x No. of years of service x last drawn salary	XXX	
b. maximum limit	20,00,000	
c. Actual gratuity received	XXX	XXX
TAXABLE GRATUITY		XXX

Note:

1. If, any fraction of the year of service more than 6 months, it shall be taken as one full year. If the period of service is 6months or less than 6 months shall be ignored. Example: 25 years 7 months 20 days shall be taken as **26** years. If it is 25 years 5 months 23days shall be taken as **25** years.
2. Last drawn salary means **Basic Salary** and **Dearness Allowance** of the **retiring month** of the employee

b. Not covered under Gratuity Payment Act 1972: any gratuity received by these employees at the time of retirement or in the event of death is **exempt to the extent of least of the following:**

- a. **Half months average salary for every completed year of service**
- b. **Maximum limit Rs. 20,00,000**
- c. **Gratuity actually received**

Computation of Taxable Gratuity

Particulars	Amount	Amount
Actual gratuity received		XXX
LESS: Exempt being least of the following:		
a. $\frac{1}{2}$ X No. of completed year of service x average salary	XXX	
b. maximum limit	20,00,000	
c. Actual gratuity received	XXX	XXX
TAXABLE GRATUITY		XXX

Note:

1. any fraction of the year of service shall be ignored
2. **average salary means, Basic Salary, Dearness Allowance (if the terms of employment provided so) and fixed rate of commission on turnover achieved by the employee for 10 months immediately preceding the month of retirement divided by 10.**

PENSION Sec 17(1)(ii):

Pension refers to the regular periodical payment made by the employer to the employee after his retirement. Pension received by the assessee during the previous year is **fully taxable** irrespective of category

COMMUTED PENSION Sec 10(10A):

It is a lump sum payment in lieu of periodical payment. An employee may commuted entire his pension or only a part of it.

TAX TREATMENT:

For tax purpose employees are categorized into

- a. **Government employees Sec 10(10A)(i):** this category includes the employees of State/Central Government, local authority and statutory corporation. Any commuted pension received by these employees is **completely exempt from tax.**
- b. **Non Government employees Sec 10(10A)(ii):** again these employees further divided into:
 1. **Employees who received gratuity at the time of retirement: it is exempt to the extent of 1/3 of full value of commuted pension**
 2. **Employees who did not received gratuity: it is exempt to the extent of $\frac{1}{2}$ of full value of commuted pension.**

Note; pension received by the employees of UNO, Judges of high court and supreme court, family pension received by the family members of armed forces is completely **exempt from tax.**

Compensation Received at the time of Voluntary Retirement Scheme (VRS) Sec. 10(10C)

Computation of Taxable compensation

Particulars	Amount	Amount
Actual compensation received		XXX
LESS: Exempt being least of the following:		
a. 3 X No. of completed year of service x salary	XXX	
b. maximum limit	5,00,000	
c. salary at the time of retirement x balance months of service left before the date of his retirement on superannuation	XXX	XXX
TAXABLE COMPENSATION		XXX

ALLOWANCES

Allowances refers to a fixed sum of money paid regularly in addition to salary for meeting some particular requirements connected with the service rendered by the employee.

For tax purpose allowances are categorized into:

1. **Taxable Allowances:** following are the taxable allowances irrespective of the category of employee;
 - a. Dearness Allowance (DA)
 - b. Fixed medical allowance (MA)
 - c. Tiffin/Lunch allowance
 - d. Servant allowance
 - e. Non-practicing allowance
 - f. Warden allowance
 - g. Overtime allowance
 - h. City compensatory allowance (CCA)
 - i. Project allowance
 - j. Rural allowance
 - k. Any special allowance not specified as exempt

2. **Partially taxable Allowance:**

- **House Rent Allowance (HRA) Sec 10(13A):** it is an allowance granted an employee to meet the rental obligation of his residential accommodation. It is **exempt** to the extent of **least** of the following :
 - a. Actual HRA received during the previous year
 - b. Excess of rent paid over 10% of salary
 - c. 40% or 50% of salary

Computation of taxable HRA

Particulars	Amount	Amount
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Actual HRA received		XXX
LESS: Exempt being least of the following:		
a. Actual HRA received	XXX	
b. (Rent paid – 10% salary)	XXX	
c. 40% OR 50% of salary	XXX	XXX
TAXABLE HRA		XXX

NOTE;

1. Salary means **Basic Salary, Dearness Allowance** [if the terms of employment so provided] and **fixed rate of commission of turnover** achieved by the employee for the period during which rental accommodation occupied by him in the previous year.
2. **50%** of salary is to be considered if the employee resides in **Mumbai, Kolkata, Chennai and Delhi**. In other places consider 40% of salary.
3. In the following cases HRA is **fully taxable**:
 - a. Employee resides in his own house
 - b. Employee resides in a house for which he did not pay any rent
 - c. Actual rent paid by employee is less than 10% of salary
4. In the following cases HRA is **fully exempt**:
 - a. Employees of UNO
 - b. Judges of High Court and Supreme Court
 - c. Leaders of opposition and officials of parliament

2.children education allowance; it is exempt upto Rs. 100 per month per child for a maximum of two children.

3. Hostel Expenditure allowance: exemption limited to Rs.300 per month per child for a maximum of two children

4. Transport Allowance : It is an allowance given to the employees for meeting the expenses while commuting between place of residence to the place of work. It is exempt only **In case of blind and orthopedically handicapped person exempt upto Rs. 3,200 per month. Any other person it is fully taxable**

5. Allowance to transport employees: it is an allowance granted to the employees who are working in transport undertakings for meeting their personal expenditure while running between one place to another. **It is exempt to the extent of least of the following ;**

- | | | |
|--|---|----------------------------|
| <ol style="list-style-type: none"> a. 70% of such allowance or b. Rs. 10,000 per month | } | which ever is lower |
|--|---|----------------------------|

6. Tribal area allowance or Scheduled area allowance: it is exempt upto **Rs. 200 per month** if, the employee working in Madhya Pradesh, Tamilnadu, Uttar Pradesh, Karnataka, Tripura, Assam, West Bengal, Bihar and Orissa.

7. **Underground allowance:** it is an allowance granted to the employees working in unnatural climates. It is exempt upto Rs.800 per month.

8. **High altitude allowance:** this allowance given to the members of Armed forces operating in high altitude. If the altitude between 9000 to 15000 feet exempt upto Rs.1,060 per month. If the altitude above 15,000 feet exempt upto Rs. 1,600 per month.

9. **Counter Insurgency Allowance:** it is granted to the member of Armed Force who are operating away from their permanent base. It is exempt upto Rs. 3,900 per month.

10. **Entertainment allowance;** it is an allowance given to the employees to meet the expenditure to entertain the customers and visitors of the company; it is first added to the salary income and thereafter a deduction is given U/S 16(2) as under;

a. **Government employees-** (State/Central Government) exempt to the extent of least of the following:

- | | | |
|-------------------------|-----------|---|
| 1. 20% of Basic Salary | xxx | } note: actual expenditure not to be consider |
| 2. Maximum | Rs. 5,000 | |
| 3. EA actually received | xxx | |

b. **Non Government employees-** not eligible for exemption, it is fully taxable

3. **Tax Free Allowances:**

these are the allowances are exempted on the basis of

- | | | | |
|--|------|----|----------------------|
| a. Amount of such allowance | xxxx | or | } whichever is lower |
| b. Amount spent for specific purpose
For which the allowance is given | xxxx | | |

Following are tax free allowances;

- Travelling or transfer allowance
- Conveyance allowance
- Daily allowance
- Helper allowance
- Research allowance
- Uniform allowance

4. **Exempted allowances:** the following allowances are fully exempted:

- Foreign allowance to government employees
- Allowance from UNO
- Allowance to High/Supreme Court Judges

PROVIDENT FUND

Provident fund refers to a scheme established by the Government to provide social security to the employee after his retirement. Under this scheme a fixed sum is deducted from the salary of the employee as his contribution towards the fund and the employer also contributes simultaneously to the same fund. This amount is invested in Gilt Edged Securities and interest earned thereon is also credited to the PF a/c of the employee. At the time of retirement or at the time leaving the job, the accumulated balance in the PF a/c is paid to the employee.

Kinds of Provident Funds:

1. **Statutory Provident Fund (SPF):** it is a fund established by the Government under the provision of The Provident Fund Act 1925 for the employees of Government and Semi-Government.
2. **Recognised Provident Fund (RPF):** it is a scheme established under the provision of The Provident Fund Act 1952 for Non Government employees. This scheme is recognised by the commissioner of Income Tax.
3. **Unrecognised Provident Fund (URPF):** it is also established under the provision of The Provident Fund Act 1952 for Non Government organization but it is not recognised by the commissioner of income tax.
4. **Public Provident Fund (PPF):** it is a scheme established by the Government for the benefit of general public to mobilize the personal savings. This fund is administered by SBI.

TAX TREATMENT;

Particulars	SPF	RPF	URPF	PPF
Employer's contribution	Exempt from tax	Exempt upto 12% salary* in excess of 12% is taxable	Exempt from tax	Employer does not contribute
Employee's own contribution	Eligible for deduction U/S 80C	Eligible for deduction U/S 80C	Not Eligible for deduction U/S 80C	Eligible for deduction U/S 80C
Interest credited to PF	Exempt from tax	Exempt upto 9.5% per annum , in excess of 9.5% p.a is taxable	Exempt from tax	Exempt from tax
Lump sum payment at the time of retirement or termination of service	Exempt from tax	exempt from tax subject to certain conditions, otherwise it is treated as URPF	Payment received in respect of employee's own contribution is exempt from tax. interest on employee's contribution is taxed as ' income from other sources ' and employer's contribution and interest thereon is taxable under the head ' income from salary '	Exempt from tax

Note:

1. Salary* means Basic salary, dearness allowance (if the terms of employment so provided) and fixed rate of commission on turnover achieved by the employee.
2. Lump sum payment from RPF is exempt if the employee satisfied the following conditions:
 - a. He has rendered continuous service with his employer for a period of 5 years or more.
 - b. If the employee not able to fulfill the above condition due to his ill health or by the reason of contraction or discontinuance of employer's business or due to some other reason beyond the control of the employee.
3. **Transferred balance;** an organization maintain URPF, it has obtained recognition to its provident fund with existing balance from the commissioner of income tax during the previous year. The amount transferred from URPF to RPF is called **Transferred balance**.

PERQUISITES

Perquisites refers to any casual emoluments or benefits attached to an office or position in addition to salary or wages. It may be provided in cash or in kind.

Definition: Sec 17(2): the term perquisites includes;

- a. The value of rent free accommodation provided to the assessee by his employer.
- b. The value of accommodation provided to the assessee by his employer at concessional rate.
- c. The value of benefits or amenities granted to specified employees.
- d. Any personal obligation of assessee paid by the employer.
- e. The value of any other fringe benefit or amenities as may be prescribed.

TAX FREE PERQUISITES:

1. Computers, laptops given to an employee for official or personal use
2. **Free medical facilities:**

Where the treatment is taken	Amount of exemption
Treatment taken in India: <ol style="list-style-type: none"> a. In government hospital b. In employer's owned hospital c. In hospitals recognised by the commission of IT d. In unrecognized or private hospitals 	Exempt Exempt Exempt Nil
Treatment taken in outside India <ol style="list-style-type: none"> a. Expenditure of medical treatment b. Travelling expenditure 	It is exempt only to the extent permitted by the Reserve Bank India It is exempt only in case of an employee whose gross total income does not exceed Rs.2,00,000

3. Employer's contribution to staff group insurance scheme
4. Telephone facility including mobile phones provided to the employees
5. Leave Travel Concession (LTC)- exempt up to 2 journeys in a Block of 4 years
6. Transfer of movable assets (other than computers, car and electronic items) after using such assets for more than 10 years by the employer.
7. Interest free loan not exceeding Rs. 20,000.
8. Gift in kind not exceeding Rs. 5,000.
9. Free ration to the members of Armed forces
10. Rent free accommodation to the judges of high/supreme court and to the employees in remote area.
11. Any fees for refresher or management courses including cost of training to the employee
12. Reimbursement of expenditure for professional books and journals.

TAXABLE PERQUISITES

Following perquisites are taxable to all the employees:

1. Rent free accommodation
2. Accommodation at concessional rent
3. Obligation of employee paid by the employer
1. **Rent free accommodation(RFA);**

For valuation of rent free accommodation, employees are categorized into;

- a. Government employees
- b. Private sector employees or other employees.

A. Unfurnished Rent Free Accommodation:

- a. **Government Employees:** this category includes Central/State Government Employees only.

Basis of valuation- the value of perquisite in respect of accommodation provided to such employee is **equal to the license fee** which would have determined by the Government in accordance with the rules framed by them for allotment of houses to its officers.

- b. **Private sector employees or other employees:** under this category are covered those employees who do not fall in the above category.

Basis of Valuation: the value of perquisite in respect of rent free accommodation depends on salary of the employee and lease rent of the accommodation. This is shown as under:

Population of city as per 2001 census where accommodation is provided	Where the accommodation is owned by the employer	Where the accommodation is taken on lease or rent by the employer
Exceeding 25 lakh	15% of salary* in respect of which the accommodation is occupied by the employer	Amount of lease rent paid or payable or 15% of salary*, whichever is lower
Exceeding 10 lakh but not exceeding 25 lakh	10% of salary* in respect of which the accommodation is occupied by the employer	Same as above
Any other	7.5% of salary* in respect of which the accommodation is occupied by the employer	Same as above

Note: salary* means

Basic salary	xxx
A. All taxable portion of allowances other than DA	xxx
B. Bonus	xxx
C. Commission (any)	xxx
D. Dearness allowance (if the terms of employment Provided so)	xxx
E. Fees	xxx
F. Interim relief	xxx
G. Leave salary pertaining to the current year	xxx
Salary	xxx

B. Furnished Accommodation:

Value as per Rent Free Accommodation (unfurnished) xxx

ADD: 10% p.a on original Cost of Furniture provided	xxx
Actual hire charge of furniture paid by the employer	xxx
VALUE OF FURNISHED ACCOMMODATION	XXX

2. Value of accommodation at concessional rent:

Value as per RFA	xxx
Less: Rent paid by the Employee	xxx
Value of perquisites	xxx

Note; if the employee is provided with a hotel accommodation exceeding 15 days, the taxable value is **24% of salary or Hire charges payable by the employer whichever is lower**

3. Personal obligation of employee paid by the employer:

The following are the obligation of the employee paid by the employer:

- a. Life insurance premium paid by the employer on behalf of employee
- b. Income tax, professional tax of employee paid by the employer
- c. Gas bill, electricity bill, water bill etc., of employee paid by the employer
- d. Domestic servants appointed by the employee but salary of them paid by the employer
- e. Reimbursement of employees' children's school/college fees

PERQUISITES TAXABLE TO SPECIFIED EMPLOYEES:

Specified employee refers to the employee who fulfill any one of the following conditions:

- a. A Director employee in the employer company
- b. An employee who has substantial interest in the employer company (who holds atleast 20% voting power in the employer company)
- c. An employee's monitory receipts under salary income exceeds Rs. 50,000 after allowing deductions U/S 16

Following are specified perquisites:

- A. Domestic servants facility
- B. Free Education facility
- C. Free gas, water and electricity supply
- D. Motor car facility
- E. Free transport facility
- F. Medical facility
- G. Leave travel concession

A. **Domestic servants facility:** Servants like Cook, Sweeper, Gardner, watchman appointed by the employer at the residence of the employee is taxable to specified employees' only at the **value that actual salary paid by the employer to the servants.** (if the servants are appointed by the employee and salary paid by the employer is taxable as obligation of employee paid by the employer)

B. **Free Education Facility:**

1. **Education** facility provided to the children of employee, it is **exempt upto Rs. 1,000 P.M per child (less any amount recovered from the employee)**
2. Education facility provided to the other members of his house hold, **actual cost incurred by the employer is taxable (less any amount recovered from the employee).**

C. Free gas, water and electricity supply:

1. **Supply** from own source of the employer: **taxable value is equal to the manufacturing cost per unit incurred by the employer.**
2. **Supplied** from outside source:
 - a. Connection in the name of the employer - actual cost incurred by the employer is taxable to specified employees'
 - b. Connection in the name of the employee - actual cost incurred by the employer is taxable to all the employees as personal obligation paid by the employer.

D. Motor car facility:

1. If the car owned by the employee but expenses are met by the employer;

Car is used only for official purpose	Taxable value is NIL
Car is used only for personal purpose by the employee	Actual expenditure incurred by the employer minus amount recovered from the employee
Car is used for both official and private purpose	Actual expenditure incurred by the employer minus standard value*

2. If the car is owned by the employer and expenses met by the employer

Car is used only for official purpose	Taxable value is NIL
Car is used only for personal purpose by the employee	Running and maintenance expenses plus 10% of original cost of the car minus amount recovered from the employee
Car is used for both official and private purpose	standard value*

3. If the car is owned by the employer but expenses are met by the employee

Car is used only for official purpose	Taxable value is NIL
Car is used only for personal purpose by the employee	10% of original cost of the car (hire charges if car is on hire) plus driver salary paid by the employer
Car is used for both official and private purpose and expenses for private purpose are paid by employee	standard value**

NOTE:

- a. if the employee has been provided with more than one car. Only one car must be treated for tax purpose.
- b. Standard value*

Capacity of car	Expenses are met by employer*	Expenses are met by employee**
Is 1,600 cc or less	Rs. 1,800 per month	Rs. 600 per month

Is more than 1600cc	Rs. 2,400 per month	Rs. 900 per month
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If the driver (chauffeur) facility is also provided Rs. 900 per month is added to the above values.

- c. Conveyance between office and residence is not taxable
- E. **Free transport facility:**
 Any transport facility provided by the employer to the employee or his family members, then the taxable value is **actual expenditure incurred by the employer minus amount recovered from the employee.**
- F. **Medical facility** - already discussed in tax free perquisites
- G. **Leave Travel Concession** - already discussed in tax free perquisites

FRINGE BENEFITS

Fringe benefits are additional benefits provided to the employee in the course of employment. They are

1. Interest free loan or concessional loan
2. Use of employer's movable assets
3. Sale of employer's movable assets
4. Free holiday home facility
5. Free lunch
6. Gifts
7. Credit card facility
8. Club facility

1. **Interest free loan or concessional loan:**

Any interest free loan is provided by the employer to employee not exceeding Rs. 20,000 is **not taxable**. If the amount of loan is exceeding Rs. 20,000 is taxable at the rate specified by **state Bank of India** (any amount of interest recovered from the employee is deduct from the total interest).

Any loan given for medical treatment of the employee of his family members is not taxable.

2. **Use of employer's movable assets:**

Movable assets of employer other than car, computers, laptop, used by the employee is chargeable to tax at **10% of original cost of the assets (if not owned by the employer consider Hire charges)** minus **amount recovered from the employee.**

3. **Sale of employer's movable assets:**

Any movable assets used by the employer sold to the employee at concessional rate. The taxable value of perquisite is computed as under:

Original cost of the asset	xxx
Less; depreciation till the beginning of the year	xxx
	Xxx
Less; price paid by the employee	xxx
Taxable value of perquisites	XXX

Note; the rate of depreciation;

- a. For computers and printers at **50% on written down value**
 - b. For motor car at **20% on written down value**
 - c. Any other assets is at **10% on original cost**
4. **Free holiday home facility**

Actual cost incurred by the employer is taxable **minus** any amount recovered from the employee.

5. **Free lunch/ meal;**

If it is provided in office premises or outside the premises through non transferable paid vouchers during office hours, cost of the meal upto Rs. 50 per meal is exempt in excess of it is taxable.

6. **Gift and gift vouchers:**

Any gift in kind in excess of Rs.5, 000 **is taxable**. If the gift in cash or gift cheque are **fully taxable**

7. **Credit card facility:**

Actual expenditure incurred by the employer is fully taxable

8. **Club facility:**

Actual expenditure incurred by the employer in respect of club facility used by the employee or his family members is fully taxable.

Profit in lieu of salary:

'Profits in lieu of salary' is defined by section 17(3). These payments are made to an employee in lieu of or in addition to salary. These are the following:

- Compensation for loss of employment or modification of the employment terms
- Payment from unrecognized provident or superannuation fund
- Payment under Keyman insurance policy
- Any payment before or after employment
- Payment in appreciation of service

Permissible Deductions from salary Sec 16:

- a. **Standard Deduction (sec 16(i)):** it is a compulsory deduction Rs. 50,000 or the amount of gross salary which ever is lower
- b. **Entertainment allowance [sec 16(ii)];** as explained earlier, entertainment allowance is first included in salary and thereafter a deduction is allowed in accordance with the rules mentioned under the head allowance.
- c. **Professional Tax or Tax on employment [Sec 16(iii)]; the following points to be kept in view;**
 - a. Deduction is available only in the year in which professional tax is paid
 - b. If the employment tax paid by the employer on behalf of an employee, it is first added in the salary of the employee as 'perquisite' and thereafter the same amount is allowed as deduction on account of 'professional tax' from gross salary
 - c. If the employment tax is paid by the employee it is deducted directly from the gross salary.