

9 Income from the Head of Salary

9.1 **Salary** means cash amount received by employee & monetary value of benefits provided by Employer free of cost or at concession rates. Here gross salary includes-

1. All cash receipts: Basic salary, taxable/tax-free allowances, bonus, commission etc.
2. Advance salary, Arrears (if income tax is not paid earlier)
3. Gratuity, one stroke pension etc. at the time of retirement
4. Valuation of perquisites; House (free of cost or on concession rates), car etc.
5. Profit in lieu of salary and contribution of employer in provident fund and NPS

9.2 Important Facts relating to salary

- (a) Any receipts will be called as *salary* only if the relation between receiver & payer is of Employer & Employee. For example, Salaries or Payments of MPs & MLAs does not come under salary head because Assembly & its members do not have a relation of Employer & Employee.
- (b) From the perspective of income tax there is no specific difference between *Salary & Wages*. Employee or Labour receives some payment against their services, which is called Salary.
- (c) As Salary is earned, it comes into the category of income, whether it is actually paid to the assessee or not during the financial year. This way, on the basis of Salary estimated or received, whichever is earlier, Salary becomes taxable e.g. in case of Govt. employees salary is due on first of next month, i.e. Jan month's salary will be due on first Feb. *So from the view of income tax salary of 12 months from Mar. 2012 to Feb. 2013 will be known as income of financial year 2013-14.* But for the employee whose salaries are due on the last day of the month, salary of 12 months from April 2012 to March 2013 will be known as income of financial year 2013-14.
- (d) After retirement the regular monthly pension given to the employee by the employer is considered as Income from salary head. But in case of death of the employee, family pension received by his dependents will be known as income from other sources.

9.3 How to calculate income from salary head?

- (a) Basic salary, dearness allowance, house rent allowance & other tax-free/taxable allowances received in the financial year is combined.
- (b) If the employees are getting perquisites then the amount obtained from valuation of perquisites is added to (a). Here Perquisites includes - housing facility either free or on concession rates, medical allowance, domestic servant, transports allowance, gas either free or on concession rates, electricity, water, education etc.
- (c) Profit in lieu of salary: Any amount obtained from present or past employer as per service agreement (because of transfer / end of service) & amount received from key men insurance. This way summation of (a), (b) & (c) will be called as *Gross Salary*.
- (d) Now deduct the totally tax-free or partially tax-free allowances as per section 10 from gross salary. Then deduct professional tax as per sec. 16.

The amount balance after (d) will be called as Income from salary head.



9.4 Fully Taxable Allowances:

1	Dearness Allowance	8	Tiffin Allowance
2	Interim Relief, if any	9	Deputation Allowance
3	City Compensatory Allowance	10	Servant Allowance
4	Non Practice Allowance	11	Pension / Annuity
5	Over Time Allowance	12	Subsistence Allowance
6	Bonus	13	Project Allowance
7	Honorarium	14	Fixed Medical Allowance

9.5 Partially / Fully Tax-free Allowances

- Value of Leave Travel Concession (LTC) as per section 10(5):* If an employee himself, husband/wife, dependent parents, brother/sister and children are travelling within India during leave or after retirement and getting amount of LTC, then it will be tax free up to the limit of actual expenditure. But without travelling, encashment of LTC will be fully taxable.
- Tax paid on perquisites u/s 10(10CC):* If the employer wishes, he can pay the income tax due on perquisites given to employees. In this case, the amount incurred by the employer will be tax-free for the employee.
- HRA U/s 10(13A)*
 - If residing in rental house: Minimum of following 3 (a, b, c) will be the tax-free portion of HRA
 - Amount received as HRA
 - Difference amount of rent paid & 10% of salary
 - 40 % of salary (for other cities), 50% of salary for metros

- Note
- where salary = Basic + DA + GP (If DA is taken for calculating pensionary benefit)
 - If residing in a rented house, for some months, not for the whole year then the salary of corresponding months will be considered for the above calculation
 - If HRA is up to Rs. 3,000 p.m. then rent receipt is not required to submit to DDO.

- If residing in own house, the amount of HRA received will be fully taxable.

4. Details of partially / fully tax free allowances u/s 10(14)

Particulars of Allowances	Tax free Portion
Uniform Allowance	To the extent such expenses are actually incurred
Travelling Allow. on tour/transfer	To the extent such expenses are actually incurred
Washing allowance	To the extent such expenses are actually incurred
Conveyance allowance	To the extent such expenses are actually incurred
Compensatory (helper) allowance	To the extent such expenses are actually incurred
Transport Allowance (Home to office)	Rs. 1600 per month for normal, Rs. 3200 for disabled
Tribal area Allowance	Rs. 200 per month (in some areas)
Children education Allowance	Rs. 100 per month for two children
Hostel expenditure Allowance	Rs. 300 per month for two children
Underground Allowance	Rs. 800 per month