

# INCOME FROM SALARY

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# Heads of Income

- A. Salaries
- B. Income from house property
- C. Profits and gains of business or profession.
- D. Capital gains
- E. Income from other sources.



# WHAT IS “SALARY”

- Salary is the remuneration received by or accruing to an individual, periodically, for service rendered as a result of an express or implied contract. The actual receipt of salary in the previous year is not material as far as its taxability is concerned. The existence of employer-employee relationship is the sine-qua-non for taxing a particular receipt under the head “salaries”.



# Employer-Employee Relationship

- To fall under the ambit of salaries, the relationship between the payer and payee has to be that of Employer-employee.
- An Employee should not be an agent of the Employer
- For ascertaining whether a person is an employee or an agent, a rough and ready test is whether under the terms of his employment the employer exercises a supervisory control in respect of the work entrusted to that person.
- An employee acts under the direct control and supervision of his employer. An agent on the other hand, in the exercise of his work, is not subject to the direct control or supervision of the principal
- Generally an agent is paid commission upon effecting the result which he has been instructed by his principal to achieve, an employee is paid wages or salary.



- Any salary due from an employer or former employer to an assessee in the previous year, whether actually paid or not,
- Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him.
- Any arrears of salary paid or allowed to him in a previous year by or on behalf of an employer or former employer, if not charged to income tax and for any earlier previous years



- For instance, the salary received by a partner from his partnership firm carrying on a business is not chargeable as “Salaries” but as “Profits & Gains from Business or Profession”. Similarly, salary received by a person as MP or MLA is taxable as “Income from other sources”, but if a person received salary as Minister of State/ Central Government, the same shall be charged to tax under the head “Salaries”. Pension received by an assessee from his former employer is taxable as “Salaries” whereas pension received on his death by members of his family (Family Pension) is taxed as “Income from other sources”.



# WHAT DOES “SALARY” INCLUDE

- Section 17(1) of the Income tax Act gives an inclusive and not exhaustive definition of “Salaries” including therein
  - (i) Wages
  - (ii) Annuity or pension
  - (iii) Gratuity
  - (iv) Fees, Commission, perquisites or profits in lieu of salary
  - (v) Advance of Salary
  - (vi) Amount transferred from unrecognized provident fund to recognized provident fund
  - (vii) Contribution of employer to a Recognised Provident Fund in excess of the prescribed limit
  - (viii) Leave Encashment
  - (ix) Compensation as a result of variation in Service contract etc.
  - (x) Contribution made by the Central Government to the account of an employee under a notified pension scheme.



# DEDUCTION FROM SALARY INCOME

- The following deductions from salary income are admissible as per Section 16 of the Income-tax Act.
- (i) Professional/Employment tax levied by the State Govt.
- (ii) Entertainment Allowance- Deduction in respect of this is available to a government employee to the extent of Rs. 5000/- or 20% of his salary or actual amount received, whichever is less.





- PERQUISITES

- “Perquisite” may be defined as any casual emolument or benefit attached to an office or position in addition to salary or wages. “Perquisite” is defined in the section 17(2) of the Income tax Act as including:

- (i) Value of rent-free/concessional rent accommodation provided by the employer.
- (ii) Any sum paid by employer in respect of an obligation which was actually payable by the assessee.
- (iii) Value of any benefit/amenity granted free or at concessional rate to specified employees etc.
- (iv) The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee.
- (v) The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds one lakh rupees; and
- (vi) the value of any other fringe benefit or amenity as may be prescribed.



# Tax-free perquisites (in all cases)

- (i) ***Medical Facilities***
- (ii) ***Refreshment***
- (iii) ***Subsidized lunch or dinner provided by employer***
- (iv) ***Recreational facilities***
- (v) ***Telephone facility***
- (vi) ***The value of transport***
- (vii) ***Personal accident insurance***
- (viii) ***Refresher Course***
- (ix) ***Free rations***
- (x) ***Family planning***
- (xx) ***Actual travelling expenses***
- (xxi) ***Leave travel concession***
- (xxii) ***Free holiday trips***



# Fully Taxable Allowances

- **Dearness Allowance, Additional Dearness Allowance and Dearness Pay**
- **Fixed Medical Allowance**
- **Tiffin Allowance**
- **Servant Allowance**
- **Non-practising Allowance**
- **Hill Allowance**
- **Warden Allowance and Proctor Allowance**
- **Deputation Allowance**
- **Overtime Allowance**
- **Other Allowances**



# INCOMES EXEMPT FROM TAX AND NOT INCLUDIBLE IN 'SALARY'

- **1. Leave Travel Allowance**
- **2. Remuneration of a person who is not a citizen of India**
- **3. Allowances payable outside India**
- **4. Remuneration of an employee working under the Co-operative Technical Assistance Programme**
- **5. Death-cum-retirement gratuity**
- **6. Amount received in commutation of Pension**
- **7. Encashment of earned leave**
- **8. Retrenchment compensation**
- **9. Payment received from Statutory Provident Fund**
- **10. Payment received from a recognized Provident Fund**
- **11. Payment received out of an approved Superannuation Fund**
- **12. House rent allowance**
- **13. Special allowances to meet the expenses of the duties**
- **14. Salary income of a member of Scheduled Tribe**
- **15. Salary income of a resident of Ladakh**



# DEDUCTIONS ALLOWED FROM SALARIES (SEC 16)

- ***(A) Standard deduction***
- ***(B) Entertainment allowance***
- ***(C) Tax on employment or Professional Tax***

