

Introduction

- Income under the head 'Salaries' comprise remuneration in any form (including perquisites) due for services in the nature of employment under an express or implied contract of employment or service. Thus the contractual relationship should be as between an employer and employee. Income from "salaries" is chargeable to tax on the basis.

SALARY [SECTION 17]•

Salary includes –

- Wages;
- any annuity or pension,
- any gratuity;

- any fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages;
- any advance of salary;
- any payment received by an employee in respect of any period of leave not availed of by him;
- employer's contribution to recognized provident fund is excess of 12% of salary of an employee.

ALLOWANCES

An Allowance is defined as a fixed amount of money given periodically in addition to Salary for the purpose of meeting some specific requirements connected with the service rendered by the employee or by way of

compensation for some unusual conditions of employments.

- These allowances are generally taxable and are to be included in gross salary unless a specific exemption has been provided.

Fully Taxable Allowances

- ≡ Dearness Allowance or Special Allowance
- ≡ Fixed Medical Allowance
- ≡ Tiffin Allowance
- ≡ Servant Allowance
- ≡ Non-Participating Allowance
- ≡ Hill Allowance
- ≡ City Compensatory Allowance
- ≡ Field Allowance

- ≡ Service / Professional Allowance
- ≡ Overtime Allowance
- ≡ Warden / Proctor Allowance
- ≡ Any other allowance not specifically exempted otherwise.

Allowance Not fully Taxable

- ⇒ House Rent Allowance
- ⇒ Special Allowance for performance of official duty
- ⇒ Conveyance Allowance
- ⇒ Leave Travel Allowance
- ⇒ Entertainment Allowance
- ⇒ The detailed listing of the prescribed allowances which are exempt and the limits of exemption under section 10(14) Rule 2bb (Some examples are –

Education Allowance, Hostel Allowance, Border Area Allowance, Tribal area allowance, Island duty allowance etc.)

Leave Salary @ Retirement•

Leave salary in the case of central/state Government employees, amount of leave salary received is fully exempt from tax

- Leave salary to other employees-leave salary is exempt from tax to the extent of the least of the following—
 - ❑ Cash equivalent of the leave salary in respect of the period of earned leave standing to the credit of employees at the time of retirement (earned leave entitlements cannot exceed 30 days forever year of actual service rendered

for the employer from whose service he has retired);

OR 10 months' "average salary";

OR the amount specified by the Govt., i.e., Rs. 3,00,000/-

OR the amount of leave encashment actually received at the time of retirement.

Gratuity @ Death or Retirement

- Any death-cum-retirement gratuity received under the revised Pension Rules of the Central Government is exempt
- Employees covered by the payment of Gratuity Act, 1972 –Least of the following amount of gratuity is exempt from tax –[₹] 15 day's salary (7 days in

the case of employees of seasonal establishments) based on salary last drawn forever completed year of service or part thereof in excess of six months

- Rs. 10,00,000/
- Gratuity actually received.

In any other case –Least of the following amount of gratuity is exempt from tax –

- to the extent it does not exceed one-half month's salary for each year of completed service [calculated on the basis of the average salary for the ten months immediately preceding the month]

- Subject to maximum of Rs. 10,00,000/-
- Gratuity Actually Received

PENSION

Pension received by a person from the employer after his retirement is taxed as salary.

- The Pension can be either Pension received by a person from the employer after his retirement is taxed as salary.
- The Pension can be either uncommuted or commuted.
- Commuted Pensions received the government employees are wholly exempt under section 10(10A).
- For other employees, following amount is exempt —
 - if employee has received gratuity then commuted value of 1/3rd of the pension which he is entitled to receive and

≡ in any other case, commuted value of 1/2 of the pension which he is entitled to receive.

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