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# UNIT 6 SALARIES—II

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## 6.0 OBJECTIVES

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After going through this unit, you should be able to :

- define the term 'perquisite'
- list different types of perquisites made available to salaried employees
- compute the value of such perquisites
- explain statutory deductions available to a salaried employee.

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## 6.1 INTRODUCTION

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In Unit 5 you have learnt about the items to be included under the head 'Salaries'. You also studied about allowances which are nothing but perquisites received in cash. In this Unit you will learn about certain perquisites which are received in kind and can be converted into cash. You will also learn about the valuation of these perquisites and the deductions available from salaries.

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## 6.2 PERQUISITES

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Perquisites are payment, fees or profits attached to an office. They are made available to employees in addition to normal salary or wages. Perquisites may be either in cash or in kind, normally however, they are in the form of facilities in kind. The basic concept underlying taxation of perquisites is that it results in a personal advantage to the recipient. For example, if an employee is provided by his employer

with a motor-car which is used exclusively by the former in the discharge of his official duties only, then there is no perquisite involved. When the same is utilised partly for official purposes and partly for personal purposes, then, the value relating to personal use only is taxable. If the same is used exclusively for personal purposes, then, the entire value is taxable as a perquisite. Thus it is clear that reimbursement of travelling expenses to employees for carrying out official duties is not taxable as perquisite in the hands of the employees.

You know that 'perquisite' is a component of salary income. It follows, therefore, that there should exist employer-employee relationship before an item of perquisite can be brought to tax as salary. The value of any perquisite to a person, not arising out of employer-employee relationship is taxable as 'income from other sources'. Thus tips received by waiters from customers are taxable as 'income from other sources'.

It is important that the advantage arising to the employee should have a legal basis. Any unauthorised advantage taken by the employee would not amount to a benefit or advantage [C.I.T. v A.R. Addaikkappa Chettiar (1973) 19 ITR 90 (Mad) and C.I.T. v Kulandaivelu Konar (1975) 100 ITR 629 (Mad).] Suppose A Ltd., allots a bungalow to one of its general managers. Subsequently he resigns from the company. However, he continues to live in the company's bungalow for a year after which he was evicted from the premises through legal proceedings. Now the question arises as to whether any perquisite arises in the hands of the general manager the value of which would be charged as salary in his hands.

It is a fact that he enjoys the possession of the bungalow which does entail some cost to the company and hence there arises a perquisite. In the absence of an employer-employee relationship it is logical to assess the perquisite value as 'income from other sources'. Sometimes, the employees to whom a perquisite is provided, may waive it instead of utilising it. In which case value of the said perquisite cannot be assessed in his hands.

### 6.2.1 Definition of Perquisites

Interestingly the expression perquisite has also not been defined exhaustively under the Income Tax Act. However, an inclusive definition is given. Accordingly 'perquisite' includes the following:

- i) Rent-free **accommodation** provided to the employee by his employer— Section **17(2) (i)**: The value of this perquisite is to be calculated as prescribed by Rule 3 and is to be included in the taxable salary of all employees— whether their salary is below Rs. 24,000/- or not.
- ii) Accommodation at a concessional rent— Section **17(2)(ii)**: Many a times employers provide accommodation to their employees at concessional rent i.e. where the market rent for the same is much higher than what the employer charges from his employee. The value of concession is treated as a perquisite and is to be included in the taxable salary of all employees irrespective of the fact that their salary exceeds Rs. 24,000 or not.
- iii) The value of any benefit or amenity to specified employees— Section **17(2) (iii)**: Apart from accommodation free of rent or at concessional rent the value of which is to be included in the taxable salary of all the concerned employees without exception, there are many other benefits or amenities **provided** by the employers to their employees either free of cost or at concessional price. Free motor-car, gas, electricity, water, domestic servant, sweeper, gardener, free education etc., are some examples in this regard. The **value** of these perquisites are to be included in the **taxable** salary of employees only under specified conditions. These are:
  - a) By a **company** to an employee who is director thereof:
    - i) **Where** these benefits are provided by a company to its director who is an employee the value of such benefits is to be always included in **the** taxable salary of the director whether his salary is below **Rs. 24,000/-** or not. If the director is not an employee of the company, the value of the benefits should be taxed in his hands as 'income from other sources'. It should be clearly **noted** here that while defining 'income' Section **2(24) (iv)** includes the value of any benefit obtained from a company by a director, whether he is an employee or not.

However, for the purpose of valuing such benefits we cannot apply Rule 3 of the I.T. Rules, 1962 since they are specifically meant for valuation of perquisites provided to employees. It is logical, therefore, to opine that a value which is fair according to the opinion of the Assessing Officer is to be assigned to the perquisite and taxed in the hands of the director as income from other sources.

b) **By a company to an employee who has a substantial interest:** Where the benefits are provided by a company to its employee who has a substantial interest in the company the value thereof is always to be included in his taxable salary whether he is drawing below Rs. 24,000/- or not.

According to Section 2(32) where an employee of the company is the beneficial owner of equity shares carrying not less than 20% of the voting power he is deemed to be an employee who has a substantial interest in the company. Where such person is not an employee of the company, the observations made earlier in connection with a director as to the valuation of such a perquisite and the head under which it is to be charged will equally apply here.

c) **All other employers whose income under head salaries exceeds Rs. 24,000:** All employees, other than directors and employees substantially interested in a company, whose monetary income under the head 'Salaries' exceeds Rs. 24,000/- will be taxed in respect of the value of any benefit or amenity granted free or at a concessional rate by their employers. If the monetary income does not exceed Rs. 24,000/- the value of such benefits is not taxable in their hands.

**Calculation of Monetary income for determining specified employee:** First of all add all taxable monetary payments like salary, D.A., bonus, commission, fee, advance salary, salary arrears, pension, unexempted house rent allowance, taxable gratuity, profits in lieu of salary, annual accretion to the credit balance of the employee under recognized provident fund, taxable transferred balance of recognised provident fund, all taxable allowances etc..

From the above amount we have to deduct the permissible deductions like standard deduction, entertainment allowance and profession tax. A question arises here whether income under the head 'Salaries' as specified in Section 17(2)(iii) is income before or after allowing the above three deductions. The logical view seems to be that we have to give full effect to all the sections under a particular head of income before we can arrive at the income from that head. Hence the deduction permissible under Section 16 have to be excluded. Where an employee is serving with more than one employer, monetary payments made by all employers should be added up. Thereafter, the deductions under Section 16 should be allowed. If the balance exceeds Rs. 24,000/- the employee is to be treated as a specified employee.

iv) **Obligation of the employee paid or reimbursed by the employer—Section 17(2)(iv):** Where the employer pays or reimburses any amount to an employee towards an obligation which, if the employer had not made the payment, the employee would himself discharge will constitute a perquisite chargeable to tax in the case of all employees whether drawing a salary of Rs. 24,000/- or less.

Here we have to carefully distinguish between two things.

- a) An obligation which the employee himself will certainly discharge even if the employer does not pay or reimburse.
- b) A benefit which the employee himself does not want but keeps on the insistence of the employer.

**Examples of the first variety would include:** Payment or reimbursement of educational expenses, electricity bills, debts of the employee, income tax dues of the employee etc. However where an employee becomes a member of a club to further the business prospects of his employer then reimbursement of such club bills cannot be taxed under this clause because the employee by himself would not have incurred the expenditure. Even if he derives any personal advantage from such membership the value thereof will be taxable as a perquisite under clause 17(2)(iii) and not under 17(2)(iv). The same principle applies where the employee, on the instructions of his employer, keeps a gardener, pays him wages and gets reimbursement of such wages.

v) **Any, sum payable by the employer to effect an assurance on the life of the assessee or to effect a contract for an annuity:** Section 17(2)(v).

An employer can choose to effect an assurance on the **life** of the employee. Alternatively he can effect a contract of annuity with the LIC or an outside agency to enable his employee to get a regular sum after retirement. The payments towards the premium or the annuity contract **can** either be made directly or through a fund specifically created for this purpose. Under both the cases the payments are to be taxed as perquisites in the hands of the employee. However if the above payments are made through the following funds, they are not to, be treated as perquisites.

- a) A recognized provident fund.
- b) An approved superannuation fund.
- c) A Deposit **L**inked Insurance Fund established under Section 3G of the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948 or the Employees Provident Funds and **M**iscellaneous Provisions Act, 1952.

Payments of life insurance premium by the employer under group insurance scheme and **employees'** state insurance scheme is not a taxable perquisite because the employee has only an expectancy of benefit. This is due to the fact that payments thereof **will** be made to the employee's having on his death. Premium paid by an employer towards personal accident policy of an employee is also not a taxable perquisite C.I.T. v Lal'a Shri Dhar (1972) 84 ITR 192 (Delhi).

### 6.2.2 Types of Perquisites

From the point of view of taxability, perquisites may be classified as:

- A Perquisites taxable for all categories of employees
- B Perquisites taxable for specified employees
- C Tax-free **Perquisites**.

Let us now list the items included in the above three categories of perquisites:

#### A) Perquisites Taxable for all Categories of Employees :

- i) Rent-free house provided by the employer.
- ii) House provided at concessional rent.
- iii) Any payment made or obligation discharged by the employer in respect of such obligation of the employee which, but for such payment would have been made by the employee himself **e.g.**, payment of club or hotel bills, salary of domestic servant, educational expenses of children of the employee, loan, income tax, etc.
- iv) Any sum paid or payable by the employer in respect of insurance premia on the life of the employee, When an **assessee** (employee of foreign company) is deputed to supervise erection work in India, and is provided **with** rent-free accommodation, provision of which is necessary for discharge of his official duty, it will not be treated as a perquisite. [C.I.T. v D.S. Blackwood (1985) 178 ITR 470].

#### B) Perquisites Taxable for Specified Employees

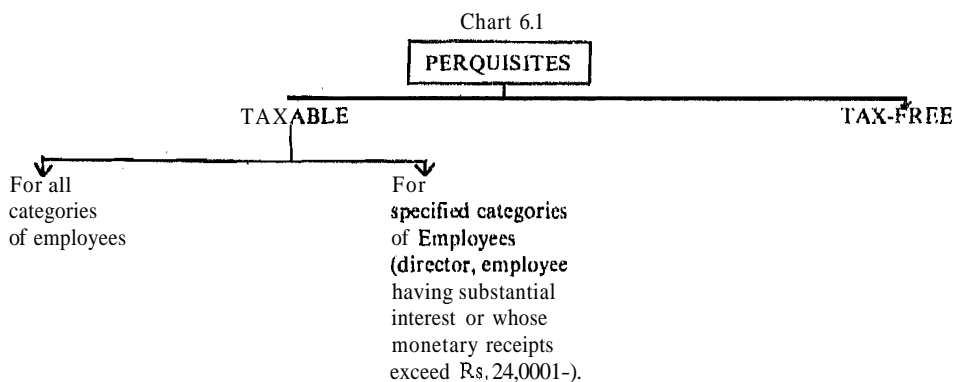
- i) Motor Car
- ii) Gas, electricity and water
- iii) **T**ransport
- iv) Free education to employee's children in employer's institution
- v) Sweeper, watchman, gardener, etc.
- vi) Refrigerator, heater, etc.
- vii) Facilities of free boarding and lodging at Holiday Homes
- viii) **I**ssue of shares at a concessional price
- ix) Free lunch.

#### C) **ax-free** Perquisites for **all** Categories of Employees :

- i) Medical benefits. The reimbursement of medical expenses or provision of medical facilities will be taxable only in excess of **Rs. 5,000 p.a.** (Circular No. 376 dated 6.1.1984.) However, medical facilities free of charge or reimbursement of medical expenses such as, operation fees, hospitalisation charges and cost of medicines, tests, etc. actually incurred in India by the employer on an **employee**, including Managers/ Directors, and his family members will not be treated as perquisite provided this expenditure is incurred on medical treatment in a recognised public hospital in India (Circular No, 441 F.No. 200/177/84-IT(A-1) dated 31.12.1985).

- ii) Refreshment during working hours in office premises.
- iii) Free telephone at the residence of the employee even though it is partly used for private purposes.
- iv) subsidized lunch or dinner provided during working hours.
- v) Recreational facilities.
- vi) Amount spent by the employer on refresher course training of the employees.
- vii) Goods sold by the employer to his employees at **concessional** rates.
- viii) Conveyance facility to employees from their residence to office and **vice versa**.
- ix) Free travel passes issued by Railways to its employees and their family members.
- x) Leave travel concession— Subject to a limit.
- xi) Employer's contribution to staff group insurance scheme.
- xii) Perquisites allowed outside India by the Government to its employees who are rendering services outside India.
- xiii) Value of free rations given to the armed forces personnel.
- xiv) **Value** of the facilities of promoting family planning among the employees.
- xv) Value of rent-free official residence, conveyance facilities and sumptuary allowance provided to the High Court and Supreme Court judges.
- xvi) Value of rent-free furnished residence (including **maintenance** thereof) provided to a Minister, an Officer of Parliament or a Leader of the Opposition in Parliament.
- xvii) Scholarship given by the employer to children of the staff members is not a perquisite to the employees. If it is treated as a perquisite, it is exempt u/s 10(6). [CIT v M.N. Nadkarni (1986) 161 ITR 544].

THE CLASSIFICATION WILL BE MORE CLEAR WITH THE HELP OF THE FOLLOWING



**Check Your Progress A**

- 1) State whether the following is a taxable perquisite for all employees, taxable for specified employees or tax free.
  - i) Refrigerator & heater provided by the employer .....
  - ii) Leave Travel Concession .....
  - iii) Training of employees on employers expenses .....
  - iv) Educational expenses of children of employee .....
  - v) Free education of employee's children in employer's institution.....

2) What do you mean by 'monetary income'?

.....

.....

.....

3) Who is a 'specified employee'?

.....

.....

.....

## 6.3 VALUATION OF PERQUISITES—ALL EMPLOYEES

For the purpose of computing the income chargeable under the head "Salaries" the value of the perquisites, not provided by way of monetary payment to the assessee shall be determined in accordance with the provisions of Rule 3 of Income Tax Rules, 1962.

### 6.3.1 Rent Free Accommodation—Rule 3(a)

An employer can provide his employee with rent-free accommodation which may be furnished or may not be furnished. For the purpose of determining the value of this perquisite, employees have been divided into three broad categories:

- A) Government Employees
- B) Semi-Government Employees
- C) Employees of Private Sector

#### A) Government Employees :

The following types of employees are included in this category:

- a) Central and State Government employees.
- b) Government officials who have been deputed to a body or undertaking under the control of the Government, occupying residential accommodation allotted to that body or undertaking by the Government.

#### i) Unfurnished accommodation :

The value of furnished rent-free residential accommodation is determined as follows. The type of employees is taken to be the rent which has been or would have been determined as payable by him in accordance with the rules framed by the government for allotment of residence to its officers.

#### ii) Furnished accommodation :

The value of furnished rent free-residential accommodation is determined as follows.

Value of unfurnished rent-free residential accommodation, as per (1) above.

Add 10% per annum of the original cost of the furniture (including television sets, refrigerators, other household appliances and air-conditioning plant or equipment)

OR

If the above furniture is hired add the actual hire-charges

..... —  
.....

Value of furnished rent-free residential accommodation

..... —  
.....

The value of rent-free residence provided to the following persons is totally exempt from income tax.

- i) Judge of a High Court or Supreme Court.
- ii) A Minister, an officer of Parliament and a leader of the opposition.

Look at Illustration No. 1 and see how the value of rent-free unfurnished and furnished accommodation is calculated for Government Employees :

#### Illustration 1

Mr. Y is an I.A.S. Officer in the Ministry of Home Affairs, New Delhi. He draws a basic pay of Rs. 6,000/- p.m. and dearness allowance of Rs. 1,200/- p.m. 50% of which is taken into account for computing retirement benefits. He is provided a rent-free house at Jor Bagh the fair market rent of which is Rs. 48,000/- p.a. However, as per Government rules the rent payable by Mr. Y is fixed at Rs. 9,600/- p.a. Determine the value of rent-free accommodation if the house is (i) unfurnished (ii) furnished and hire charges of furnishing are Rs. 2,000/- p.a.

#### Solution

- 1) In the case of a government employee, the value of rent-free unfurnished house is taken to be the rent which is payable by the employee as per rules framed by the Government. The fair market rent or the salary drawn by the employee are

not at all relevant. Hence in the present case the value of rent-free unfurnished accommodation is Rs.9,600/-.

ii)	Value of rent-free furnished accommodation	= Rs. 9,600.00
	Value of rent-free unfurnished Accommodation	= Rs. 2,000.00
	Add Hire charges of Furnishing	
		<u>Rs. 11,600.00</u>

#### B) Public Sector Employees or Semi-Government Employees

The following types of employees are included in this category:

- i) Employees of Reserve Bank of India.
- ii) Employees of a statutory corporation (established by a Central, State or Provincial Act) or a company in which all shares are held (whether singly or taken together) by the government or the Reserve Bank of India or by a Corporation owned by that Bank.
- iii) Employees of a company which is 100% subsidiary of a statutory corporation or a company referred to in (ii) above.
- iv) Employees of a body or undertaking including a registered society (under the Societies Registration Act, 1860) financed wholly or mainly by the Government. This covers the employees of a University or other recognised educational Institution.
- v) Officers of the Government whose services have been lent to or who are employed after retirement from Government services with any company in which not less than 40% of the shares are held (whether singly or taken together) by the Government or the Reserve Bank of India or a corporation owned by that Bank.

#### a) Unfurnished accommodation

The value of unfurnished accommodation will be determined as follows:

- i) 10% of salary due for the relevant period i.e. the period during which the accommodation was occupied by the employee; or
- ii) Fair rental value of such accommodation, whichever is less.

However it is necessary for the assessee to make a specific claim and the Assessing Officer should be satisfied that 10% of salary due exceeds the fair rental value. Then the value will be limited to the fair rental value.

#### Definition of 'Salary'

For valuing the above prerequisite the term salary includes the following:

- a) basic pay.
- b) dearness pay/dearness allowance if the terms of employment so provide i.e. if they are taken into account for determining the Provident Fund Contributions and Gratuity.
- c) bonus, fees
- d) commission payable monthly or otherwise. Thus any type of commission whether or not based on turnover achieved by the employee is included
- e) all other taxable allowances (excluding the exempted portion). For example in respect of HRA that portion of HRA exempt under Section 10(13 A) is to be excluded.
- f) income tax or profession tax paid by the employer on behalf of the employee— CIT v I.G. Mackintosh (1976) 99 ITR 419 (Mad).
- g) Value of electricity, gas, water expenses paid or reimbursed by an employer to his employees—CIT v C.M. Steel (1972) 86 ITR 821 (Ker).

Salary 'due' is to be the basis: Here 'salary' means salary due for the period during which the accommodation was occupied. For example if an employee draws during the current previous year advance salary which will be due only in the next previous year that cannot be included in the salary for valuing this prerequisite. This is because the advance salary is not for a period during which the accommodation was occupied. Similarly salary due at the end of the previous year, even if received only in the next year, has to be included.

During the period of occupation of the house, if salary is due to the employee from more than one employer, the aggregate salary due has to be considered even if the house has been provided only by one employer. CIT v Mohanlal Jalan (1989) 176

**LTR 478 (Bom).**

'Salary' does not include the following :

- a) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee.
- b) employer's contribution to the **provident** fund account of the employee.
- c) allowances which are exempt from tax.
- d) entertainment allowance to the extent deductible from salary.

It is of course, clear that the value of perquisites will not be considered as part of salary for this purpose.

## Fair rental value

- 1) This means the rent which a similar accommodation would realise in the same locality or the municipal valuation of the accommodation, whichever is higher.
- 2) Where, however, a Rent Control Act is in operation the fair rental value cannot exceed the standard rent determined or permissible under that Act. **Dewan Daulat Ram Kapoor v New Delhi Municipal Committee (1980) & SCR 607** and **Mrs. Shiela Kaushik v CIT (1981) 7 Taxman 1**. This rule will not of course be applicable to such accommodation in respect of which Rent Control Act is not applicable.
- 3) There are two ways in which an employer can provide rent-free residential accommodation to his employees. Firstly, he himself may be the owner of the house. Secondly, he may rent the house from third parties and provide it free of rent to his employee. In the former case, if the **employer** also provides the services of a gardener, the salary paid to the gardener and the maintenance expenses of the garden and the ground attached to the accommodation are to be included in the fair rental value. (Circular No. 122, dt. October, 19, 1973.)

## b) Furnished accommodation

To the above determined 10% of salary or fair-rental value whichever is less, we have to add 10% per annum of the original cost of the furniture (including television sets, refrigerators, other house-hold appliances and air-conditioning plant or equipment).

However, if such furniture is hired by the employer, the actual hire charges payable should be added.

Illustration 2 will help you to understand the calculation of value of rent free unfurnished and furnished accommodation given to public sector employees.

**Illustration 2**

A is a pilot in Air India. He draws Rs. 72,000/- **p.a.** as basic pay, Rs. 12,000/- as **D.A.** (not considered for computing retirement benefits), Rs. 6,000/- bonus and Rs. 6,000/- **p.a.** as educational allowance. He has got two children studying in the nearby school. He is also paid a flight allowance of Rs. 1,500/- p.m. to meet his personal expenses while on duty. He has been provided with a rent-free flat at Santa **Cruz** the fair rental value of which is Rs. 30,000/- **p.a.**: Determine the taxable value of the perquisite if—

- i) the house is unfurnished
- ii) the house is furnished and the cost of furnishing is **Rs. 50,000/-**.

## Solution

Let us first calculate the salary of A

Basic Pay	.....	Rs. 72,000/-
D.A. (not to be included in the salary due for determining the perquisite value)		
<b>Bonus</b>		6000/-
Educational allowance	Rs. 6,000/-	
Less exemption specified under <b>Sec. 10(14)</b> . $50 \times 2 \times 12$	Rs. 1,200/-	4,800/-
Flight allowance	Rs. 18,000/-	
<b>Less exemption specified</b> under <b>Sec. 10(14)</b> .		



70% of the allowance or Rs. 1,000 p.m. whichever is less	Rs. <u>12,000/-</u>	<u>6,000/-</u>
		<u>Rs. 88,800/-</u>

- i) Value of rent-free unfurnished accommodation  
10% of the salary or fair rental value whichever is less  
10% of the salary is Rs. 8,800 ( $10/100 \times 88,800$ )  
Fair rental value is Rs. 30,000.  
So the value of rent-free accommodation is Rs. 8,800.
- ii) Value of rent-free furnished accommodation is value of rent-free unfurnished accommodation plus 10% of cost of Furniture  
i.e.  $8,800 + (10/100 \times 50,000)$   
 $= 8,800 + 5,000 = \text{Rs. } 13,800$  .

### C) Employees of Private Sector

#### i) Fair rent less than 10% of salary

If the assessee claims and the Assessing Officer is satisfied that the fair rental value is less than 10% of salary for the relevant period, such fair rental value will be the value of the accommodation. The meaning of the terms 'salary' and 'fair rental value' remain the same as in the previous case.

#### ii) Fair-rent more than 10% of salary

Where the fair-rent is more than 10% of salary then, employees are divided into two categories.

#### a) Those residing at Delhi, Bombay, Calcutta and Madras:

The value of the perquisite for employees residing in any of these four metropolitan cities will be 10% of salary for the relevant period plus Excess of fair-rental value over 60% of the salary.

#### b) Those residing in any other place:

The perquisite value will be 10% salary for the relevant period plus excess of fair-rental value over 50% of salary. Hence if the accommodation is situated in the specified cities excess of fair rent over 60% of salary will be added to the basic 10%. If it is situated in any other places the excess of fair rent over 50% of salary will be added to the basic 10%.

### Furnished accommodation

To the above determined value in respect of unfurnished accommodation, we have to add 10% per annum of the original cost of the furniture (including television sets, refrigerators, other household appliances and air-conditioning plant or equipment). However if such furniture is hired by the employer, the actual hire charges payable should be added.

Look at Illustration 3 and see how the value of rent-free accommodation of a private sector employee is calculated.

### Illustration 3

Mr. Bansal is the Chairman of Hyderabad Tobacco Co. Ltd., Hyderabad. His particulars for the financial year ending 31.3.90 are as follows:

	Rs.
Basic Pay	10,000/- p.m.
D.A. (not considered for retirement benefits)	1,000/- p.m.
Bonus for the year	12,000/-
Arrears of earlier years' bonus	10,000/-
Commission on profits for 89-90	60,000/-
Advance salary for April PO drawn in Mar 90	10,000/-
Employer's contribution to provident fund	12% of salary
Profession tax paid by the company	1,000/- p.a.
Income tax paid by the company	5,000/- p.m.
Electricity bills for the year paid by the company	Rs. 5,000/-
Fees for attending board meetings	Rs. 3,000/-

His two children are studying in Doon School, Dehradun the education expenses during the year being Rs. 20,000/- fully met by the company. He has also been given

a spacious bungalow in Banjara Hills free of rent. The company owns the bungalow. The fair rental value of the bungalow is Rs. 8,000/- p.m.

There is a swimming pool inside the bungalow compound the maintenance cost of which was Rs. 10,000/- for the year, met by the company. The garden inside the compound wall is maintained by the company. The gardener is paid a salary of Rs. 600/- p.m. The maintenance cost came to Rs. 5,000/- during the year. The chairman has also been provided with a security and a sweeper whose salaries amounting to Rs. 500/- p.m. and Rs. 400/- p.m. respectively have been paid by the company. The entire bungalow is richly furnished with furniture costing Rs. 1,50,000/-.

Determine the perquisite value of the rent-free bungalow in the hands of Mr. Bartsal.

Will your answer be different if the company does not own the bungalow but rents the same for Rs. 8,000/- p.m. and provides it free to the Chairman?

### Solution

	Rs.
i) <b>Salary due:</b>	1,20,000/-
D.A. (not to be included only for the specific purpose of calculating salary due)	12,000/-
Arrears of earlier years' bonus cannot be included in salary since the arrears, even though taxable in this year on receipt basis, relate, to an earlier period other than the period during which the accommodation was occupied by the employer during the previous year.	60,000/-
Commission on profits	60,000/-
Advance salary for April 90 drawn in March 90 even though taxable on receipt basis cannot be included in salary for the same reason as explained for bonus.	—
Employer's contribution to Provident fund account— not to be included even if it exceeds 10% of salary.	—
Profession tax paid by the company.	1,000/-
Income tax paid by the company	60,000/-
Electricity bills paid by the company.	5,000/-
Fee for attending board meetings— not to be included since it is not income from salary.	—
Education expenses met by the company.	20,000/-
Perquisite value of sweeper, gardener and watchman is to be calculated separately and included, in taxable salary income but not to be included in salary due for the purpose of ascertaining the value of rent-free house	2,78,000/-
ii) Fair Rental Value	
Fair rental value*	Rs. 96,000/-
Add Gardener's salary	Rs. 7,200/-
Maintenance cost of garden	Rs. 5,000/-
Maintenance of swimming pool	Rs. 10,000/-
	1,18,200/-

iii) Value of perquisite 10% of salary	Rs. 27,800/-
Since Mr. Bansal is in a place other than Bombay, Calcutta, Delhi, and Madras the excess of Fair rental value over 50% of salary due is to be included in the perquisite value. Rs. 1,18,200/- — Rs. 1,39,000	= Rs. Nil
<b>Add</b> 10% of the Original cost of furniture	Rs. 27,800/- Rs. 15,000/-
	<u>Rs. 42,800/-</u>

If the company rents the bungalow for Rs. 8,000/- then, gardener's salary, maintenance cost of garden and swimming pool will not be included in the fair rental value, Hence Rs. 96,000/- will constitute the rental value and the same is less than 50% of salary due. The final answer will therefore, remains the same.

Where the employee pays fair rent then there is no question of any concession arising in this regard. Thus the value of the perquisite will be nil.

### 6.3.2 Accommodation at Concessional Rent—Rule 3(b)

Where the accommodation is provided to the employee at a concessional rate of rent, the value of such accommodation is first determined as if the accommodation were provided free of rent (as explained earlier). From the above value, the rent paid or payable by the employee for the period during which he occupied the house during the previous year, should be deducted. The resulting amount will be added to his salary as value of-concession.

## 6.4 VALUATION OF PERQUISITES—SPECIFIED EMPLOYEES

As discussed in Section 6.2, there are certain perquisites which are taxable in case of specified employees. i.e. directors of a company, person having substantial interest in the company or a person whose monetary salary exceeds Rs. 24,000/-. Let us now discuss in detail how the value of such perquisites is calculated.

### 6.4.1 Motor Car

When an employer owns a motor-car or hires the same and provides it to his employee, it becomes a perquisite in latter's hands. Its value is to be charged under Section, 17(2) (iii) only in the hands of specified.

Where, however, the motorcar is owned by the employee but the employer meets the maintenance cost, then it is not a perquisite in kind but an obligation of the employee discharged by the employer. The value of the obligation is always chargeable in the hands of employee whether he is a specified employee or not.

The provisions of Rule 3(c) regarding valuation of perquisite of car may be summarised as follows :

Usage	Running and maintenance cost fully met or reimbursed by the employer	Running and maintenance cost fully met by the employtr.
-------	--	---

#### A. Where the car is owned or hired by the employer—17(2) (iii)

- |                                     |  |                                   |
|-------------------------------------|--|-----------------------------------|
| 1) Used fully for official purposes | No perquisite arises                                       | No perquisite arises              |
| 2) Used fully for personal purposes | a) Running and maintenance cost i.e. petrol, repair etc. + | a) Depreciation or hire charges + |

	b) Depreciation (if <b>owned</b> by the employer) or hire <b>charges</b> +	b) <b>Salary</b> of chauffeur if provided by the employer.
	c) Salary of chauffeur if provided by the employer.	
3) Used partly for official use and <b>partly</b> for personal <b>use</b> .	Proportionate share of a + b + c above <b>attributable</b> to private <b>use</b> .	Proportionate share of a + b above attributable to private use.
	OR	OR
	Where it is difficult to work out the above proportion.	Where it is difficult to work out the above proportion
	i) <b>Rs. 300</b> p.m. (where <b>horsepower (h.p.)</b> rating does not exceed <b>16</b> ) or <b>Rs. 400</b> p.m. (where <b>h.p.</b> rating exceeds <b>16</b> ) <b>plus</b>	i) <b>Rs. 100/-</b> p.m. (where <b>h.p.</b> rating <b>does</b> not exceed <b>16</b> ) or <b>Rs. 150/-</b> p.m. (where <b>h.p.</b> rating exceeds <b>16</b> ) <b>plus</b>
	ii) <b>Rs. 150</b> p.m. for salary of chauffeur, if any.	ii) <b>Rs. 150/- p.m.</b> for <i>salary</i> of chauffeur, if any.

**B. Where the car is owned or hired by the employee—17(2) (iv)**

1) Used fully for <b>official</b> purposes	No requisite arises	No requisite arises
2) <b>Used fully</b> for personal purposes	Actual expenditure borne by the employer	No requisite arises
3) Used partly for official use <b>and</b> partly for personal use	<b>Reasonable</b> proportion of expenditure borne by the employer which in the opinion of the Assessing Officer can be attributed towards personal use.	No requisite arises

**C. Where motor-cycle or scooter or any other conveyance is provided by the employer**

1) <b>Used</b> fully for <b>official</b> purposes	No requisite <b>arises</b>	No requisite arises
2) Used fully for personal <b>purposes</b>	Running and maintenance cost + Depreciation or hire charges.	Depreciation or hire charges
3) Used partly for <b>official</b> use and partly for private use.	<b>Reasonable share</b> of expenditure borne by <b>the</b> employer which in the opinion of <b>the Assessing Officer</b> can be attributed towards personal use.	Proportionate share of depreciation of hire charges

**Note :**

- i) Where no particular car is placed at the disposal of the employee but he is allowed to use one or more cars out of a pool of cars owned or hired by **the** employer, the requisite value will be calculated **as if he has been provided with a separate car**. All rules relating to **h.p.** chauffeur's salary etc. will be applied on the above basis.
- ii) If a car **is** provided at a concessional rate, the valuation will be made according to the above rules as if the employee had been provided a **free** motor-car and the amount so computed will be reduced by the amount charged by the employer for the use of the car.
- iii) Where transport facility is provided by the employer for a group of employees **for** going from residence to the place of work or from such place back to residence requisite under Section 17(2) (iii) would be taken to be nil.

The use of any vehicle provided by an employer for journey by the **assessee** from his residence to his office or other place of work or from such office or place to his residence will not be regarded **as a** **perquisite**.

**Illustration 4**

In the following situations in regard to Mr. A, determine the requisite value of motor-car for the assessment year 1990-91. Ascertain the above value on the assumption that (a) A is a specified employee [i.e., he is (i) a director—employee of a company (ii) a substantially interested employee of a company (iii) an employee drawing more **than Rs. 24,000/-** by way of monetary salary and] b) A is not a specified employee.

- 1) A **uses his** own car fully for official purposes. The cost of maintenance and depreciation comes to **Rs. 8,000/- p.a.** to his employer.

- 2) A uses his own car for personal purposes. He meets the petrol cost which amounting to Rs. 5,000/- and the employer bears the cost of the maintenance amounting Rs. 3,000/-.
- 3) A uses his own car fully for private purposes. The employer reimburses the entire cost of running and maintenance amounting to Rs. 6,000/-.
- 4) The employer provides his own car to A for his private use. WDV of the car as on 1.4.89 is Rs. 30,000/- . Applicable rate of depreciation is 33 1/3%. The employer spends Rs. 8,200/-, on running and maintenance of the car.
- 5) A uses his employer's car one-third for private purposes and his two thirds for official purposes, other facts remain the same as in 4 above.
- 6) Employer provides own fiat car to Mr. A for his official and personal use. W.D.V. of the car as on 1.4.89 Rs. 36,000/-. Depreciation is admissible at the rate of 33 1/3%. The employer spends Rs. 8,100/- on running and maintenance and pays Rs. 6,000/-, as driver's salary. Expenditure attributable towards private use of the car is 80%.
- 7) Employer provides a car to A for his private purposes. W.D.V. as on 1.4.89 is Rs. 42,000/-. Depreciation admissible at the rate of 33 1/3%. A meets a running and maintenance cost.
- 8) Employer provides car to Mr. A for travelling from residence to office and back from office to residence.

### Solution

Determination of the perquisite value of car in the hands of Mr. A in different situations:

Particulars	Situation concerned under	Where A is a specified employee Rs.	Where A is not a specified employee Rs.
1) Mr. A owns the car. Uses it fully for official purposes. Employer meets all costs—No perquisite arises.	—	Nil	Nil
2) Mr. A owns the car. Uses for personal A meets petrol cost and employer meets maintenance obligation.	17(2) (iv)	Rs. 3,000/-	Rs. 3,000/-
3) Mr. A owns the car. Fully used for private purposes. Employer meets entire cost obligation.	17(2) (iv)	Rs. 6,000/-	Rs. 6,000/-
4) Employer owns the car. Use-fully private, Entire cost met by Employer perquisite	17(2) (iii)	Rs. 18,200/- (Rs. 8,200 + 10,000 Dep)	Nil
5) Employer owns the car. Usefully private, entire cost met by 1/3 depreciation Rs. 3333/- 1/3 maintenance Rs. 2733/-	17(2) (iii)	Rs. 6,066/-	Nil
6) Depreciation Rs. 9,600/- Maintenance Rs. 6,480/- Driver's salary Rs. 4,000/-	17(2) (iii)	Rs. 20,880/-	Nil
7) Depreciation Rs. 14,000/-	17(2) (iii)	Rs. 14,000	Nil
8) Statutory exemption No perquisite arises	—	Nil	Nil

Note : It may be noted that when the employee owns the car any payment or reimbursement of expenses by the employer becomes an obligation met by the latter chargeable under Section 17(2) (iv) and hence the value thereof is taxable both in the hands of specified and non-specified employees. But when the car is owned by the employer and is provided to the employee for user it results in a perquisite chargeable under Section 17(2) (iii). In those cases only specified employees will be trapped. Non-specified employees will escape taxation.

### 6.4.2 Free Lodging and Boarding to Hotel Employees

It is common practice for modern hotels to give free board and lodging to employees whose services are necessary on a continuous basis. The value of **such** free boarding and lodging is to be determined as under :

- i) **Lodging** : If it is unfurnished determine it as per provisions applicable to 'employees of private sector' explained above. For furnishing add 10% per annum of cost of furniture or actual hire charges, as the case may be.
- ii) **Board** : The value of free food is determined in such basis and such amount as the Assessing Officer **considers** fair and reasonable (Circular No. 311 dated 4th August, 1981).

### 6.4.3 Free Supply of Gas, Electricity and Water—Rule 3(d)

Free supply of gas, water and electricity provided by the employer to the employees for their private purposes is a chargeable perquisite.

#### When it is chargeable under Section 17(2) (iii) as a perquisite :

Where the supply connection for these facilities is in the name of the employer, any payment by the employer for these facilities for the benefit of the employees is a perquisite taxable only in the hands of specified employees.

#### When it is chargeable under Section 17(2) (iv) as an obligation met :

Where the supply connection for **gas/electricity/water** is in the name of the employee and the bills thereof are paid or reimbursed by the employer it is an **obligation** of the employee met by the employer. Such payment or reimbursement is taxable in the hands of **all** employees.

**Valuation** : The taxable perquisite under Section 17(2)(iii) is to be valued as follows:

- i) Where such supply is made from resources owned by the employer without purchasing them from any other outside agency, the value thereof is taken to be nil. For example if Indian Oil Corporation provides free gas supply to its employees the perquisite thereof is nil.
- ii) Where the supply is made by an outside agency, the amount paid by the employer to such agency is the perquisite value.
- iii) Where the Assessing Officer is satisfied that the gas, electric energy or water supply to the employee are also consumed for the purposes of his official duties, the value of the perquisite is taken (a) either, the amount paid on that account by the employer to the agency supplying the gas, electric energy or water or (b) an amount equal to  $6\frac{1}{4}\%$  of salary whichever is less, "Salary" for this purpose has not **been** defined. We may however follow the rule that salary includes basic pay plus dearness allowance if it is **considered** for calculating superannuation benefits. Commission paid at a fixed percentage of turnover achieved by the employee can also be included vide **Gestener Duplicator (P) Ltd., v.C.I.T. (1979) 117 ITR 1 (S.C.)**.

A connected question arises. If the employer charges anything from the employee for providing this facility, should it be deducted from the perquisite value? The rule is silent in this regard. It is logical of course to deduct the same from the value of the perquisite.

### 6.4.4 Free Education—Rule 3(e)

There are two ways in which an employer can provide for the free education of his employee's children.

I. The employer can run the educational institution by himself for the benefit of all his employees as a group. It is not necessary that such institution should be run for the exclusive benefit of the employees' children. Outside children can of course be admitted. This **results** in a perquisite taxable in the hands of the employee. The value should be determined with reference to the cost of such education to the other students studying in that institution. If, however, such institution is run exclusively for the benefit of employees' children only than the value of the perquisite will be equal to the cost of such education in a similar institution in or near the locality.

It should be noted that the value of this perquisite is chargeable in the hands of **specified** employees only.

2. The employer may pay the amount of fees directly to **the** concerned educational institution, or, he may reimburse his employee. The actual expenditure so incurred by the employer is taken as the value of the perquisite. This value being an **obligation** met is to be included in the salary of both specified and non-specified employees.

Scholarship: Where any scholarship is paid by an employer to any child of an employee, the scholarship **so** paid to the child cannot be **treated** as perquisite to the employee—C.I.T. v. M.N. Nadkarni (1986) 161 ITR 544 (Bom).

Education to **Employees**: Amount spent on free education and training of employees **is** not taxable as a perquisite.

Education allowance: Fixed education allowance paid to employees to meet the cost **of** education of his family members is taxable in all cases. However notified exemption under Section 10(14) can be claimed.

### 6.4.5 Conveyance Facility by Transport Undertaking—Rule 3(f)

Where any undertaking engaged in carriage of goods or passengers provides transport facility to any employee, dependent family members of the employee or his dependent relatives, either free of charge or at a concessional rate, the same **is** not taxable provided the conveyance used for this purpose is owned by the employer. Thus free passes and privilege ticket orders (**PTOs**) **granted** to railway employees and similar facility made available to the employees of Air India and Indian **Airlines** are not taxable.

### 6.4.6 Free Sweeper, Watchman, Gardener, etc.

	Where employer owns the house and gives the same to the employee,	Where employer rents a house and provides the same to his employee or where the <b>employee arranges</b> his own accommodation
1) Sweeper	75% salary paid to sweeper or Rs. 601-p.m. <b>whichever</b> is less is taxable	Entire salary paid to sweeper is taxable
2) Watchman	50% of salary paid to watchman or <b>Rs. 601-p.m.</b> , whichever is less is taxable	Entire salary paid to watchman is taxable
3) Gardener	Salary paid to gardener is not taxable as a perquisite. However for calculating fair rental of rent-free house, gardener' wages, maintenance cost of garden and swimming pool are to be added.	Entire salary paid to gardener is <b>taxable</b>
4) Any other Servant	Entire <b>salary</b> paid is taxable	Entire <b>salary paid</b> is taxable.

Note: Where the employee engages the services and where the employee engages the services—Distinction in taxability.

If it is the former case and the employer pays or reimburses the salary then it is an obligation met and falls under Section 17(2)(iv) and is taxable in the case **of** both specified and non-specified employees,

If it is the latter case, it is a perquisite taxable only in the hands of specified employee—Section 17(2)(iii).

### 6.4.7 Medical Benefits

- i) Not taxable at all: Provision of medical facilities or reimbursement of actual medical expenses by the employer for the treatment of employee including Manager (Director) or the members of his family in a recognised public hospital under CGHS and **CS(MA)** in India **is not** to be treated as a perquisite. There is no monetary limit in this regard. However the Assessing Officer will

examine the genuineness of the expenditure at the time of assessment—Circular No.445 dated December 31, 1985.

- ii) **Taxable beyond Rs. 5,000/-** : In the case of any other, hospital the exemption limit is one month salary of the employee or **Rs. 5,000/-** whichever is higher.

However fixed medical allowance paid is always taxable in the hands of all employees.

#### 6.4.8 Other Perquisites

a) **Holiday home for employees**: Where an employer maintains holiday homes for his employees with boarding, lodging and transport facilities, it is a taxable perquisite only in the hands of specified employees under Section 17(2)(iii). The value thereof cannot be arbitrarily fixed.

Factors like quality, location and extent of accommodation, period of stay, other connected facilities and cost of getting similar facilities from outside sources should be duly considered.

b) **Sale of assets by the employer to the employee at concessional rates**: Where the employer sells any asset to the employee at concessional rate, the value of such concession is taxable in the hands of specified employee under Section 17(2)(iii). However recently views have been expressed that where a company sells an asset like a car, air-conditioner etc. to its employees at their book value, while the market rate may be higher, no perquisite is involved since it is purely a commercial transaction between the parties at an agreed price.

c) **Interest free loan to employer** : If an employer grants interest free loan to any employee, the cost to the employer for arranging such a benefit is a taxable perquisite in the hands of specified employees under Section 17(2)(iii). Thus where the employer borrows money from outside and gives the same interest free to his employee the amount of interest payable by the employer thereon is the taxable value of the perquisite. Where the loan is advanced to the employee out of the employer's own funds, a reasonable sum of interest which the employer has to pay on such amount will be taken to be the perquisite value. However the above perquisite is chargeable in the hands of specified employees only..

d) **Shares issued at concessional rates**: Where shares are issued by a company to its employees at concessional rates, the value of the concession is a taxable perquisite in the hands of specified employees under Section 17(2) (iii).

e) **Any other benefit or amenity—Rule 3(g)** : The value of any other benefit or amenity is to be determined on such basis and in such amount as the Assessing Officer considers fair and reasonable.

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### 6.5 FULLY EXEMPTED PERQUISITES

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There are certain other perquisites which are exempt in the hands of all employees. They are enumerated below :

#### 1) Premium paid on personal accident policy

Where an employer pays a premium on a personal accident policy taken by him on the life of the employee, the payment is not a perquisite. It is because the employee has not voluntarily taken the insurance policy and the employee has no vested interest in the policy—CIT v Lala Shri Dhar (1971) 84 ITR 192.

#### 2) Recreational Facilities

Provision of recreational facilities by an employer to groups of employees is exempt from tax. However, the facility should be made available in general and should not be restricted to a few employees. If so restricted, the value thereof is taxable as a perquisite in the hands of specified employees under Section 17(2) (iii).

#### 3) Refreshment during office hours

Provision of refreshments like coffee, tea, cold drinks, snacks etc., to the employees during office hours in the office premises is exempt from tax. The value of subsidised



lunch or dinner provided to employees is also exempt. But free lunches are taxable in the hands of specified employees.

#### 4) Residential Telephone

Where an employer provides a telephone connection to the employee for official use, the payment of telephone bills does not constitute a perquisite in the hands of the **employee**, even if he uses the telephone for personal purposes also. The logic behind this is that it is difficult for the Assessing Officer to segregate personal and official calls.

#### 5) Perquisites to government employees posted **abroad—Sec. 10(7)**

Perquisites paid or allowed outside India by the government to a citizen of India for rendering service outside India are fully exempt from income tax.

#### 6) Fees paid for refresher courses

Expenditure incurred by an employer for providing training to an employee in new management techniques or for improving his knowledge to discharge his official functions in a better way or for sponsoring him for any refresher course or for attending any seminar connected with the business of the employer is not a taxable perquisite even if such expenditure includes boarding and lodging expenses of the employee.

#### 7) Leave Travel Concession—Section 10(5) read with Rule 2 B.

An employee, whether he is a citizen of India or not is fully exempt from tax in respect of the value of leave travel concession provided to him by his employer. The extent of **exemption** is specified in Rule 2 B. which says. The value of any leave travel concession or assistance received by or due to an individual.

- a) from his employer for himself and his family in connection with his proceeding on leave to any place in India is exempt; and
- b) from his employer or former employer for himself and his family, in connection with his proceeding to any place in India after retirement from service or after the termination of his service, is exempt.

This exemption shall be subject to such conditions as may be prescribed (including conditions as to number of journeys **and** the amount which shall be exempt per head) having regard to the travel concession or assistance granted to the employees of the Central Government.

Further the amount exempt under this clause shall in no **case** exceed the amount of expenses actually incurred for the purpose of such travel,

Explanation. In this clause the word 'family' means:

- i) the spouse and children of the individual; and
- ii) the parents, brothers and sisters of the individual, wholly or mainly dependent on the individual.

The Government has announced that **w.e.f.** 1.4.1989 the exemption will be available to an employee in respect of two journeys performed in a block of four calendar years commencing from the calendar year 1986. If such a concession is not **availed** of by an individual during a block of four calendar years, an amount in respect of leave travel concession first availed of by the **individual** during first calendar year of the immediately succeeding block of four calendar years (**i.e.**, the 5th calendar year after the block of four calendar years) shall be eligible for exemption. The concession **shall not** be taken into account for the number of journeys in the aforesaid immediately succeeding block of four years.

Conditions prescribed under Rule 2B

Amount actually incurred on the performance of such travel shall be exempt subject to the following conditions:

- i) Where the journey is performed by rail, an amount not exceeding the air-conditioned second class rail fare by the 'shortest route';
- ii) Where the places of origin of journey **and** destination are connected by rail but the journey is performed by any other mode of transport an amount not exceeding the air-conditioned second class rail fare by shortest route;

- iii) Where the places of origin of journey and destination or part thereof are **not** connected by rail and the journey is performed between such places, the amount eligible for exemption shall be—
  - A) Where a recognised public transport system exists, an amount not exceeding the first class or deluxe class fare, on **such** transport by the shortest route; and
  - B) Where no recognised public transport system exists, an amount equivalent to the air-conditioned second class rail fare by the shortest route, as if the journey had been performed by rail.

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## 6.6 DEDUCTIONS FROM 'SALARIES'

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The income chargeable under the head "Salaries" is subject to certain deductions allowable under Section 16. They are

- i) Standard Deduction
- ii) Entertainment Allowance
- iii) **Tax** on Employment

Let us now discuss these deductions in detail :

### 6.6.1 Standard Deduction—Section 16(i)

- a) With effect from 1990-91 assessment year the standard deduction will be equal to 33<sup>1</sup>/<sub>3</sub>% of salary or Rs. 12,000/- whichever is less.
- b) 'Salary' for the above purpose has been defined in Section 17(1). It includes all monetary payments and all perquisites.
- c) Even if the employer provides conveyance facility to the employee for personal purposes there will be no restriction on the amount of standard deduction.
- d) Where an employee receives salary from more than one employer, standard deduction is to be computed with reference to the aggregate salary due, paid or allowed to the **assessee** by all the employers. In no case can it exceed the ceiling limit of 33<sup>1</sup>/<sub>3</sub>% or Rs. 12,000/- whichever is less.
- e) Standard deduction is available to pensioners also.

### 6.6.2 Entertainment Allowance—Section 16(ii)

Entertainment allowance is normally given to Senior Officers. Entertainment allowance is part of salary. Hence it is first to be included in the salary income. Thereafter a deduction, as explained below, will be allowed.

- i) **Government employee:** The least of the following will be allowed as a deduction:
  - a) Rs. 5,000
  - b) 1/5th of the salary
  - c) amount of entertainment allowance granted during the year.

- ii) **Non-government employee (including semi-Government employee)**

The deduction for entertainment allowance is available to those non-government employees who satisfy the following two conditions:

- a) The employee must have been in continuous service with the present employer from a date prior to 1.4.1955.
- b) He must have been receiving entertainment allowance from his present employer continuously from a date before 1.4.55 till the relevant previous year.

If an employee does not satisfy both the conditions, entertainment allowance is fully taxable.

If both the conditions are satisfied the least of the following is allowed as a deduction :

- a) Rs. 7,500/-
- b) Rs. 20% of salary

- c) amount of entertainment allowance granted during the relevant previous year or  
 d) amount of entertainment allowance received during the financial year 1954-55.

'Salary' for this purpose excludes any allowance, benefit or other perquisites.

It may be noted that the prescribed deduction will be available even if the entertainment allowance received is not actually spent or spent for purposes other than entertainment of customers.

### 6.6.3 Tax on Employment

Any sum paid by the assessee on account of a tax on employment, leviable by or under any law, is allowed as a deduction:

Look at Illustration 5, 6 and 7 and see how taxable income from salaries is calculated.

#### Illustration 5

A joined PQR Ltd., in 1950. He received Rs. 4,000/- p.m. as basic salary Rs. 400/- p.m. as D.A., Rs. 150/- p.m. as education allowance for two children and Rs. 300/- p.m. as entertainment allowance during the previous year 1989-90. In the financial year 1954-55 he received an entertainment allowance of Rs. 100/- p.m.

Determine the taxable income under the head 'salaries' for 1990-91 assessment year.

#### Solution

		Rs.
Basic pay		48,000/-
D.A.		4,800/-
Education allowance	1,800/-	
less exemption under Section 10(14)		
$50 \times 2 \times 12$	<u>1,200/-</u>	600/-
Entertainment allowance		<u>3,600/-</u>
Gross salary		57,000/-
<b>Less :</b>		
i) Standard deduction $33\frac{1}{3}\%$ or Rs. 12,000/- whichever is less	Rs. 12,000/-	
ii) <b>Entertainment allowance :</b>		
Least of		
i) Rs. 7,500/-		
ii) Rs. 9,600/- (20% of Rs. 48,000)		
iii) Rs. 3,600/- (allowance received during 89-90)		
iv) Rs. 1,200/- (allowance received during 54-55)	<u>1,200/-</u>	<u>13,200/-</u>
Taxable salary		<u>43,800/-</u>

Let us now take few comprehensive illustrations and calculate the taxable salary of an employee.

#### Illustration 6

Mr. Naresh is an employee of a private sector company in Bombay and gives you the following information regarding his receipts during the financial year 1990-91. You are required to compute his income taxable under the head salaries for the A Y 1991-92 Salary @ Rs. 3,000 per month for 12 months. Dearness allowance Rs. 600/- per month. (The DA is not eligible for computation of retirement benefits) Bonus Rs. 6,000/-, Entertainment allowance Rs. 6,000/- (prior to 1.4.55 he was receiving only Rs. 250 per month). He is also provided with a rent-free furnished accommodation. The fair rental value of the unfurnished accommodation is Rs. 18,000/-. The cost of furniture in the building is Rs. 10,000/-. A watchman is

by the employer. The employer has also provided him with a chauffeur driven car of 20 h.p. which is used by him partly for his personal use and partly for business purposes. The expenses for running and maintenance for private purposes are, however, met by him. He receives an education allowance of Rs. 450/- per month to meet the cost of education of his three children. He pays school fees of Rs. 100/- each for his first two children, and Rs. 250/- for the third child who is studying in a hostel. A telephone is provided at his residence and the bill thereof amounting to Rs. 3,000/- for the financial year 1990-91 was met by the employer. His wife was operated in a recognized public hospital and the fees and other incidental expenses thereof amounting to Rs. 4,000/- were met by the employer. He is also receiving Rs. 250/- per month as lunch allowance, and is provided with the services of a cook, whose salary of Rs. 200/- p.m. is met by his employer. He pays a tax on employment amounting to Rs. 400 during the year.

### Solution

Taxable Income under head salary of Mr. Naresh for the Assessment year 1991-92

	Rs.
Salary @ Rs. 3,000 per month	36,000
Dearness Allowance @ Rs. 600 p.m.	7,200
Entertainment Allowance	6,000
Bonus	6,000
Lunch Allowance @ Rs. 250 p.m.	3,000
Valuation of Rent-Free Furnished Accommodation	5,500
Value of perquisite for Motor-Car	3,600
Children's Educational Allowance	3,000
Salary of Watchman	720
Salary of Cook	2,400
Gross Salary	73,420
<b>Less</b>	
Standard Deduction u/s 16(1)	12,000
Entertainment Allowance u/s 16(ii)	3,000
Tax on employment	400
Taxable Salary Income	58,020

### Working Notes

1) Valuation of Rent-free Furnished Accommodation	
10% of Salary Rs. 4,500 (Salary, Bonus and Entertainment Allowance portion not exempt).	4,500
Fair Rental Value	Rs. 18,000
∴ Less 60% of salary	Rs. 27,000
Add 10% cost of furniture	1,000
	5,500

Since FRV is not in excess of 60% salary hence value of perquisite will be taken as 10% of salary only.

- 2) **Value of perquisite for motor-car** : Since he is meeting the cost of running for personal use, value will be taken at Rs. 150 p.m., plus Rs. 150 p.m. for Chauffeur.
- 3) Educational allowance is exempt for 2 children' only at Rs. 50 each, however in case of child staying in a hostel the amount exempt is Rs. 150 per month. Hence in case of Mr. Naresh the exempt amount will be Rs. 150 + 50 = 200. Taxable perquisite is Rs. 250.

### Illustration 7

Mr. X is employed in Star Paper Mills. as it Sales Manager since 1962. He furnishes the following particulars for the year ending 31st March, 1991,

Salary Rs. 1,200 p.m.

D.A Rs. 400 p.m.

Entertainment allowance 100 p.m.

He is entitled to a commission on sales @ 2%. Total sale for of the company for the year amounts to Rs. 2,00,000. He owns a car and uses it for official purpose etc. The entire expenditure on the car for the year amounts to Rs. 3,500 out of which an amount of Rs. 2,000 was reimbursed by the employer towards the use of car for official purpose. He is provided with the facilities of free water and electricity by the company, the company paid Rs. 500 during the year for the same.

A servant employed by the company on a salary of Rs. 100 p.m. renders free service to him in his house. He spent Rs. 600 on books of new marketing techniques for improving his performance. He is in receipt of house rent allowance @ Rs. 500 p.m. but the actual rent paid by him is Rs. 1,000 p.m. Calculate in salary income.

### Solution

Taxable income under head salary of Mr. X for the Assessment year 1991-92

	Rs.
Salary @ Rs. 1,200 p.a.	14,400
Dearness Allowance @ Rs. 400 p.m.	4,800
Entertainment Allowance	1,200
Commission	4,000
	24,400
<b>Less</b> standard deduction 1/3 of salary or Rs. 12,000 whichever is less	8,133
Total Income	16,267

### Working Notes

1) HRA		
Actual HRA	500	500
Actual Rent paid	1,000	
Less 1/10 of salary	120	880
1/2 of salary		600

Hence exempted amount is Rs. 500 therefore no perquisite arises.

2) Since Mr. X's monetary is less than Rs. 24,000 so he is not a specified employee. Therefore the value of perquisites like motor-car, free gas, electricity servant etc is nil.

### Check Your Progress B

- 1) State whether following statements are True or False.
  - i) In respect of government employees ten per cent of cost of furniture should not be added while computing the perquisite value of the furnished house.
  - ii) For computing the value of rent free accommodation 'salary' for the entire year should be considered irrespective of the period of occupation of the house.
  - iii) For computing 'salary' for the above purpose exemptions under Section 10 should be allowed.
  - iv) If the house is not owned by the employer, salary of gardener and maintenance expenses of the garden should not be added.
  - v) A is an officer in a five star hotel. He has been given a rent-free room to live in. The perquisite value of the same is 'nil'.
  - vi) Where the employer owns the motor-car used by the employee, the perquisite value in respect thereof is taxable in the hands of both specified and non-specified employees.
  - vii) Gas, supplied free by Indian Oil Corporation to its employees is a taxable perquisite.
  - viii) Medical reimbursement for treatment in private hospitals is fully exempt without any limit.

- ix) X Co. Ltd. sells a car owned by it to one of its directors. The book value is Rs. 20,000. The director takes the car at Rs. 10,000. No perquisite arises in this transaction.
  - x) Value of subsidised lunches is exempt while the value of free lunches is taxable perquisite.
- 2) Gross Salary of A is Rs. 50,000. What is the amount of standard deduction available to A? .....
  - 3) B is a government employee. His basic pay is Rs. 50,000 and he receives a sum of Rs. 6,000 as entertainment allowance. What is the amount of deduction for entertainment allowance available to him?

## 6.7 LET US SUM UP

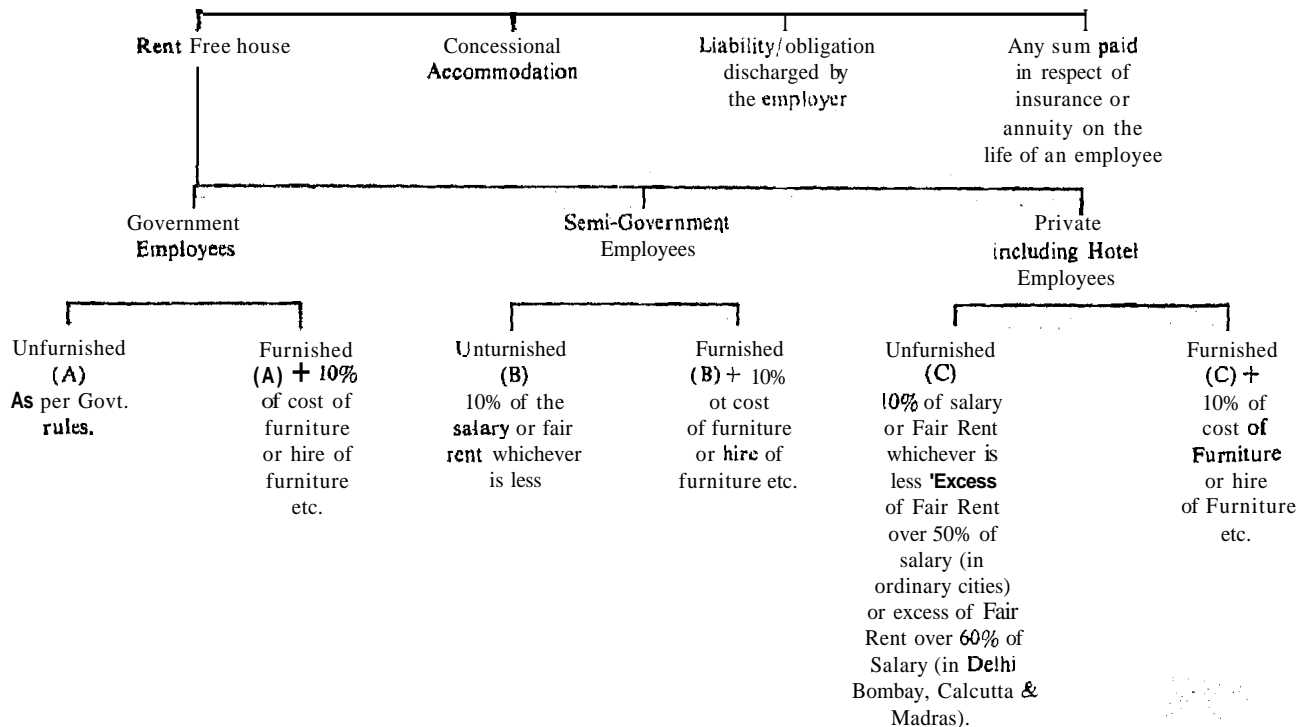
Apart from cash payment an employee also receives certain benefits in kind which can be converted into cash. These are called perquisites. Perquisites may be tax-free, taxable for specified employees, taxable for all employees. These perquisites are to be valued and included in the salary of an employee. Charts 6.2, 6.3 and 6.4 will give the list and valuation of all types of perquisites. After the value of perquisites is calculated and included in the salaried income certain deductions are available from the gross salary. They are

- i) Standard deduction
- ii) Entertainment Allowance
- iii) Tax on Employment.

The net taxable income under the head salary is arrived at after deducting the quantum of permissible deductions mentioned above, from the gross income from salaries.

Chart 6.2

### PERQUISITES TAXABLE FOR ALL CATEGORIES OF EMPLOYEES



Note: 'Salary in case of Semi-Government Employees and Private Employees is Basic + Bonus + Commission + Taxable allowance + D.A. if given under the terms of employment or Dearness Pay.

Chart 6.3

PERQUISITES TAXABLE FOR SPECIFIED CATEGORIES OF EMPLOYEES

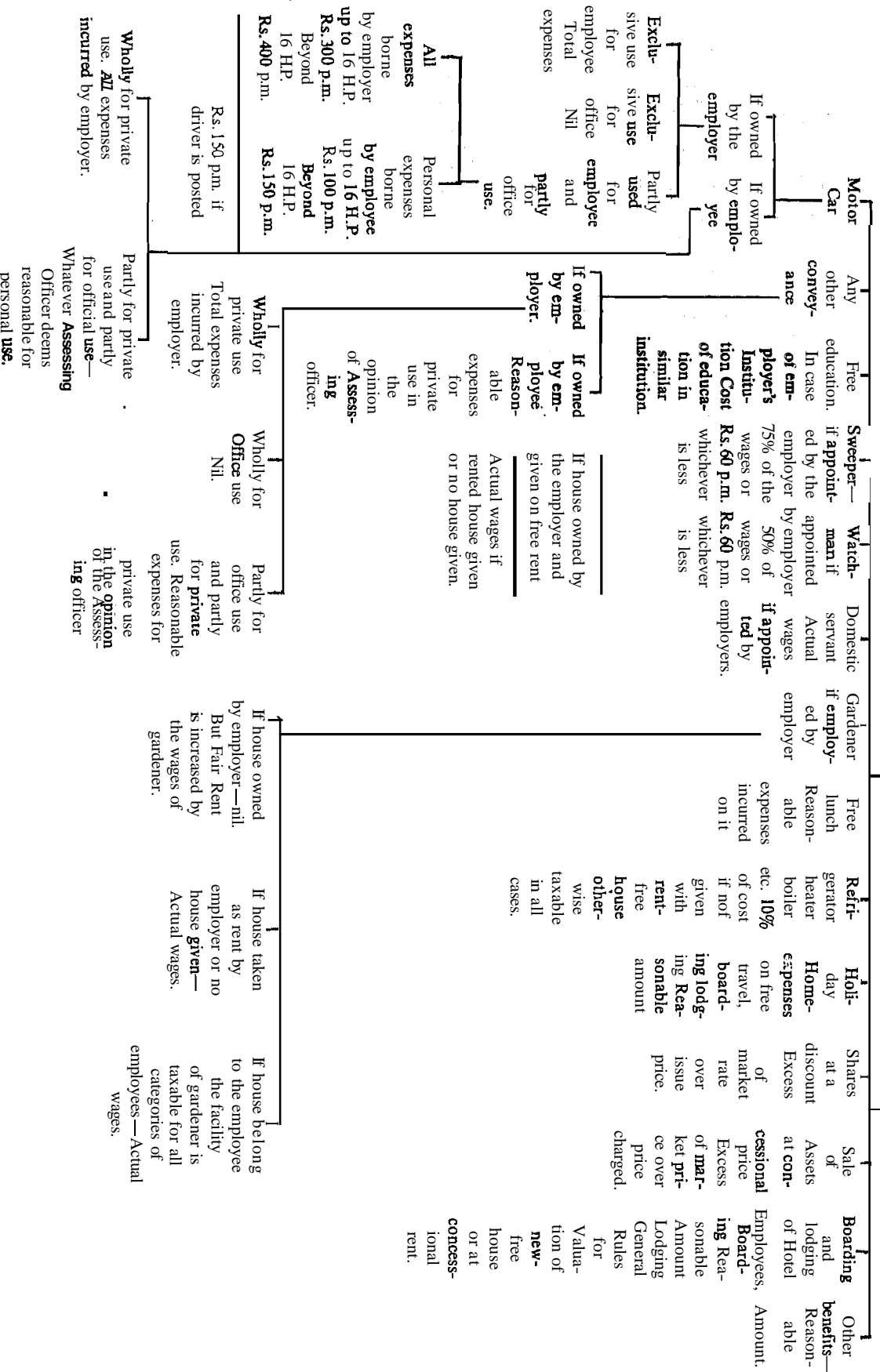


Chart 6.4

**TAX FREE PERQUISITES**

<b>Free</b> Medical and or <b>reimbur-</b> <b>sement</b> of medical expenses incurred in India in recog- <b>nised</b> Public Hospital, otherwise up to <b>Rs. 5,000</b>	<b>Free</b> Refresh- <b>ment</b>	<b>Recrea-</b> <b>tional</b> <b>Facili-</b> <b>ties</b>	<b>Tele-</b> <b>phone</b> <b>facili-</b> <b>ties</b>	<b>Refre-</b> <b>sher</b> <b>course</b>	<b>Convey-</b> <b>ance</b> <b>Facility</b> <b>from</b> <b>residence</b> <b>to office</b> <b>and vice-</b> <b>versa</b> and also other transport facility by employer engaged in transport <b>business</b> in its own <b>conveyance.</b>	<b>Free</b> Ration to <b>Armed</b> <b>Person-</b> <b>nel</b>	<b>Family</b> <b>Planning</b> <b>Facilities</b> <b>to employ-</b> <b>ees.</b>	<b>Perquisites</b> given to Govt. employ- <b>em, serving</b> <b>abroad.</b>	<b>Rent-Free</b> houses to <b>High Court,</b> <b>Supreme</b> <b>Court</b> <b>Judges,</b> <b>Ministers,</b> Leaders of <b>Opposition</b>	<b>Interest</b> <b>Free</b> loan for construction on purchase of house or any conveyance.	<b>Goods</b> sold to employees <b>at concess-</b> <b>ional</b> rate	<b>Leave</b> <b>Traavel</b> Concession <b>subject to</b> <b>certain</b> <b>rules.</b>
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- iv) Taxable for all **employees**  
 v) Taxable for specified employees
- B 1 i) False ii) False iii) True iv) True v) False vi) False **vii)** False  
 viii) False ix) False x) True  
 2 Rs. 12,000 3 Rs. 5,000

## 6.8 KEY WORDS

**Accommodation:** This refers to the residential house provided to the employee by the employer either free of rent or at concessional rent.

**Fair-rental value:** This means the rent which a similar accommodation would realise in the same locality or the municipal valuation of the accommodation whichever is higher. Where however, a Rent Control Act is in **operation**, the fair rental value cannot exceed the standard rent determined or permissible under the Act.

**Monetary income:** This represents **receipts** obtained by a salaried employee by way of money. Obviously perquisites in kind are to be excluded while calculating monetary income.

**Perquisite:** Payment, fee or profit attached to an office.

**Personal accident policy:** This is policy usually taken on the life of certain key executives whose functions and **movement** may expose them to fatal accidents or whose existence is for the company's prosperity. The premiums are invariably paid by the employer.

**Specified employee:** This term denotes those employees who are directors, employees substantially interested in a company or when monetary income under the head 'salaries' exceeds Rs. 24,000.

**Standard deduction:** It is one of the three statutory deductions permissible under the Act.

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## 6.9 ANSWERS TO CHECK YOUR PROGRESS

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- A 1 i) Taxable for specified employees.  
 ii) Tax-free  
 iii) Tax-free  
 iv) Taxable for all employees  
 v) Taxable for specified employees
- B 1 **i)** False ii) False iii) True iv) True v) False vi) False **vii)** False  
 viii) False ix) False x) True  
 2 Rs. 12,000 3 Rs. 5,000

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## 6.10 TERMINAL QUESTIONS/EXERCISES

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### Questions

- 1) What do you mean by a 'perquisite' and what does it include?
- 2) What is not included in 'salary' for calculating the value of rent-free accommodation for a public employee?
- 3) What are **provisions** of Section 16(ii) regarding entertainment allowance received by a non-govt. employee? .

## Exercises

- 1) Compute the monetary income of 'A' from the following particulars for assessment year 1990-1991 to ascertain whether he is a specified employee or not
- Basic pay Rs. 4,000 p.m.
  - D.A. (not forming part of salary for calculating retirement benefits) Rs. 400 p.m.
  - Education allowance Rs. 200 p.m.
  - Income tax paid by the employer on behalf of A Rs. 500 p.m.

(Answer : A is a monetary employee, monetary income Rs. 48,000)

- 2) A and B are joint chief officers in the Reserve Bank of India. The bank has allotted free of rent identical flats to both A and B in Nariman point, Bombay, the fair-market rent of each flat being Rs. 5,000/- p.m. In April '89 A was promoted as chief officer but he continues to occupy the same flat. The Bank has also furnished the above flats. The original cost of furniture provided in each flat works out to Rs. 25,000/-  
The salary particulars of A and B are as follows:

	A Rs.	B Rs.
Basic	6,000/- p.m.	4,500/- p.m.
Dearness pay (considered for computing retirement benefits)	750/- p.m.	600/- p.m.
Dearness allowance	500/- p.m.	400/- p.m.
Educational allowance	300/- p.m.	200/- p.m.
Children hostel allowance	300/- p.m.	200/- p.m.
Petrol allowance	600/- p.m.	500/- p.m.

Determine the perquisite value of the flat in the hands of A and B.

**Answer:** (A) Rs. 11,560; (B) Rs. 9,340

- 3) C is a private sector employee for the previous year ending 31.3.1990. He gives you the following particulars.
- Basic pay Rs. 4,000 p.m.
  - D.A. (not included for computing retirement benefits) Rs. 400 p.m.
  - Bonus Rs. 9,000 for the year
  - Commission (not based on turnover achieved by C) Rs. 3,600 p.m.
  - HRA received Rs. 6,000. Exempted HRA Rs. 3,000
  - Education allowance Rs. 300 p.m. C has got two children.
- C was residing in a house provided by the company during June, 89 to March, 89. Compute 'salary' for the purpose of arriving at the perquisite value of the accommodation.

(Answer: Rs. 54,000)

- 4) From the following particulars determine the fair-rental value of the housing accommodation owned by A Co. Ltd. and given free to its director E.
- |  |                |
|--|----------------|
| Period of occupation                                     | 9 months       |
| Fair market rent   | Rs. 5,000 p.m. |
| Standard Rent determined under the Rent Control Act      | Rs. 4,000 p.m. |
| Salary of gardener paid by the company                   | Rs. 500 p.m.   |
| Maintenance expenses of the garden and the swimming pool | Rs. 6,000 p.a. |

(Answer: Rs. 45,000)

- 5) Determine the perquisite value of motor-car in the following situations. Assume that A is a specified employee.
- A uses his own car for personal purposes. He meets the petrol cost which amounted to Rs. 5,000 and the employer bore the cost of maintenance amounting to Rs. 3,000.
  - Employer provides a car to A for his private purposes. W.D.V. as on 1.4.89 is Rs. 42,000. Depreciation admissible @ 33 $\frac{1}{3}$ % A meets the running and maintenance cost.

- iii) Employer provides car to Mr. A for travelling from residence to office: and back from office to residence.

(Answer: i) Rs. 3,000 ii) Rs. 14,000 iii) Nil)

- 6) D joined E Private Ltd. in 1950. He received Rs. 5,000 p.m. as basic salary, Rs. 500 p.m. as D.A., Rs. 200 p.m. as education allowance for one child and Rs. 400 p.m. as entertainment allowance during the previous year 1989-90. In the financial year 1954-55 he received an entertainment allowance of Rs. 200 p.m. During the year he paid Rs. 600 as profession tax.

Determine the taxable income under the head 'salaries' for assessment year 1990-91  
(Rs. 57,600)

- 7) Ramesh is General Manager of a Limited Company at Rs. 5,000 p.m. as his basic pay. He is provided with a rent-free house for which the company pays Rs. 1,200 p.m. as rent. It has also provided him the necessary furniture costing Rs. 20,000. The company pays Rs. 90 p.m. for electricity and Rs. 90 for the services of a free gardener.

The Company has given him a 16 H.P. car with the chauffeur. He is getting Rs. 800 p.m. as entertainment allowance. He is in service of this company since 1952 and getting Rs. 600 p.m. as entertainment allowance from the beginning, which was increased to Rs. 800 w.e.f. January 1960. Mr. Ramesh himself bears the personal expenses of the car. He is also provided with free lunch in the office costing Rs. 250 p.m. Calculate his taxable income.

(Answer: Rs. 66,908)

- 8) X is working in a private company in Delhi and is drawing a salary of Rs. 4,000 p.m., an entertainment allowance of Rs. 500 p.m., bonus Rs. 10,000.

He is provided with a rent-free furnished house, in respect of which the company pays Rs. 8,000 as rent per annum and Rs. 3,000 as rent for the furniture installed therein. A gardener on a salary of Rs. 125 p.m. is employed by the company. The electricity and water charges of Rs. 800 are also borne by the company. X has his own car which he uses for private purposes. The company pays Rs. 2,000 against the expenses of maintenance of the car. During the year he got Rs. 2,000 reimbursement for medical expenses and Rs. 3,000 by way of L.T.C. The company contributed Rs. 6,000 towards provident fund. X is working in this company for the last 15 years and is getting same entertainment allowance.

Calculate his taxable income.

(Answer: Rs. 65,980)

**Note :** These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.