
UNIT 6 SALARIES-II

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6.0 OBJECTIVES

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; and
- explain statutory deductions available to a salaried employee.

6.1 INTRODUCTION

In Unit 5, you have learnt about the items to be included under the head 'Salaries', you will also study 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.

6.2 PERQUISITES

Perquisites are casual emoluments or benefits, which is made available to employees in addition to normal salary or wages. Perquisites may be either in cash or in kind, normally, 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.

You know that ‘perquisite’ is a component of salary income. It follows, therefore, that there should exist ‘employer-employee relationship’, before the 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 unauthorized 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 manager. 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 utilizing it. In this case, value of the said perquisite cannot be assessed in his hands.

6.2.1 Definition of Perquisites [Section 17(2)]

As per section 17(2) of the Income Tax Act, 1961 “Perquisite includes”

- i) The value of rent – free accommodation provided to the assessee by his employer.
- ii) The value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer;
- iii) The value of any benefit or amenity provided free of cost or at concessional rate in the following cases. Anyone who fulfill any one of the following condition is called as specified employee:-
 - a) By a company to an employee who is director thereof.
 - b) The employee has acquired at least 20% or more equity shares in employer’s company, or the employee has substantial interest in employer’s company.
 - c) By any employer to an employee to whom the provisions of a) and b) above do not apply but whose income under the head ‘salaries’ (whether

due from or paid or allowed by one or more employers) exclusive of value of all benefits or amenities not provided for by way of monetary payment exceeds Rs. 50,000. In other words, an employee whose monetary salary exceeds Rs. 50,000.

- iv) Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee.
- v) Any sum payable by the employer, whether directly or through a fund, other than a recognized provident fund or an approved superannuation fund, or a deposit linked insurance fund, to effect an assurance on the life of the assessee or to effect a contract for an annuity.
- vi) The value of any specified security or sweat equity shares allowed or transferred directly or indirectly by the employer or former employer free of cost or at concessional rate to the assessee;
- vii) The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee to the extent that it exceeds Rs. 1,50,000;
- viii) The value of any other fringe benefit or amenity as may be prescribed.

6.2.2 Types of Perquisites [Section 17(2)]

On the basis of taxability, perquisites may be classified into following categories:

- a) Perquisites taxable for all employees (General Perquisites)
- b) Perquisites taxable for specified employees
- c) Tax-Free perquisites for all employees

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

a) **Perquisites Taxable for all categories of employees (General Perquisites)**

These perquisites are provided by the employer to any type of employee (Government, semi-government or employed in private undertakings) or to employees of any category. Such types of perquisites are given below:

1) **Rent-Free house or accommodation:**

The value of rent-free accommodation provided to the assessee by his employer is taxable perquisite in the hands of every employee. The house provided by the employer may be owned by him or may have taken some accommodation on rent for providing it to his employee.

2) **Concessional rent free house or accommodation:**

The employer may provide the accommodation to his employees charging less amount of rent or deducting some amount of rent from his salary. It is called concessional rent-free house.

3) **Payment of employee's obligations by employer:**

Such obligation can be paid in two ways, first, directly by employer on behalf of the employee, second, the employee may make payment first himself and then these are reimbursed by the employer.

The actual amount of such payment is taxable perquisite in the hands of the employee and is included in his income from 'Salaries'. Such obligations may be of the following types:

- i) Payment of employee's personal loan.
- ii) Payment of employee's hotel or club bills, but if an employee becomes the member of a club or spends in a hotel for the benefit of his employer; this will not be treated as perquisite in the hands of the employee.
- iii) Payment of education fees or other expenditure in connection with the education of employee's children.
- iv) Payment of income tax on employee's salary.
- v) Payment of salary to the domestic servants engaged by an employee.
- vi) Payment of employee's personal and legal expenses.
- vii) Payment of gas, electricity or water for household if connection is in the name of the employee.
- viii) Medical expenses reimburses in excess of Rs. 15,000.
- ix) Premium paid for life insurance or an annuity of the employee.
- x) Payment of employment tax or professional tax of the employee by the employer.

Note: Any perquisite, benefit or facility, bills of which are issued in the name of employee and the payment there of is made by the employer, shall fall under this category, i.e. payment of employee obligation and therefore, shall be included in the employee's income from 'salaries'.

4) Payment of employee's life insurance and annuity premium:

The amount payable by an employer, directly or indirectly, for the assurance of the life of an employee or to effect a contract of an annuity, would be taxable perquisite in the hands of every such employee. Such premium may be paid/payable by the employer directly or through any fund other than the following funds:

- i) Recognized provident fund.
- ii) Approved superannuation fund.
- iii) Deposited linked insurance fund established under Section 3G of the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948.

But any premium paid or payable by the employer under Employee's state insurance scheme, would not be perquisite in the hands of the employee and shall not be taxable for the employee as this scheme is in the interest of the employee. It should be noted that the amount becomes taxable as soon as it becomes due for payment. Actual payment during the previous year is not necessary.

5) Specified security or sweat equity share allotted or transferred to an employee:

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, would be taxable in the hands of every such employee and included in the income from salaries.

6) Employer's contribution to an approved superannuation fund:

Any amount contributed by the employer in employee's approved superannuation fund in excess of Rs. 7, 50,000 would be taxable as perquisite. [Sec 17(2) (vii)]

7) Fringe Benefits

Prescribed fringe benefits or amenities are as follows:

- i) Interest free loan or concession loan to an employee [Rule 3(7)(i)]
- ii) The value of travelling, touring and any other expenses paid for or borne or reimbursed by the employer to the employee or any member of his household.
- iii) Free food, non-alcoholic beverages or refreshment facilities. [Rule 3(7)(iii)]
- iv) Any gift or voucher or token. [Rule 3(7) (iv)]
- v) Credit card facility [Rule 3(7)(v)]
- vi) Club expenditure [Rule 3(7)(vi)]
- vii) Use by an employee or any member of his household of any moveable asset belonging to the employer.[Rule 3(7)(vii)]
- viii) Transfer of employer's moveable asset to an employee or any member of his household. [Rule 3(7)(viii)]
- ix) Any other benefit, amenity, service, right or privilege provided by employer [Rule 3(7) (ix)]

b) Taxable Perquisites for specific employees [Section 17(2)(iii)]

According to section 17(2) (iii) of the Act, Perquisites which are taxable in the hand of specified employees only, are called as specific perquisites.

Meaning of a Specified Employee:

A person who fulfills any one of the following condition shall be considered as a specific employee:

- i) If the employee is a director in employer's company – full time or part time.
- ii) The employee has acquired at least 20% or more equity shares in employer's company or the employee has substantial interest in employer's company.
- iii) The total monetary receipts of an employee must exceed Rs. 50,000. An employee (not covered under any of the above two categories) whose taxable 'monetary income' under the head 'salary' (excluding the value of non-monetary perquisites) exceeds Rs. 50,000 is a specified employee. In case

an employee gets salary from more than one employer, he will be treated as specified employee, if the aggregate monetary salaries from all the employers exceed Rs. 50,000.

‘Monetary salaries income’ includes all taxable cash receipts e.g., basic salary, dearness allowance, bonus, commission, taxable allowance, obligations of employee paid by employer, e.g.- income tax, employment tax, payment of gas, electricity and water and also received at the time of retirement, e.g., taxable gratuity, encashment of earned leave or sum received from provident fund, etc.

Name of specific perquisites, taxable in the hands of specific employees

- 1) Facility of motor car.
- 2) Facility of domestic servants
(Sweeper, Gardner, Watchman, or Personal Attendant) for the personal works of an employee employed and engaged by the employer and paid by the employer.
- 3) Facility of free gas, electricity and water
- 4) Free education facility provided by the employer to the children of an employee in a school run by the employer or in some other school.
- 5) Personal or private journey provided free of cost or at concessional rate to an employee or member of his household.
- 6) The value of any other benefit, amenity, service, right or privilege provided by the employer.

c) Tax – Free Perquisites for all employees

- i) Medical facility
- ii) Facility of refreshment
- iii) Transport facility or conveyance facility
- iv) Employer’s contribution
- v) Use of laptop or computer of employer
- vi) Facility of entertainment
- vii) Accommodation in remote area
- viii) Perquisites provided outside India
- ix) Facility of telephone
- x) Facility of refresher course or training
- xi) Payment of accidental insurance premium
- xii) Educational facility for children of the employee
- xiii) Tax paid by the employer on non-monetary perquisites
- xiv) Leave travel concession
- xv) Free conveyance facility to employees by an undertaking engaged in transport business
- xvi) Facility of residence and conveyance to high court/Supreme court judges.
- xvii) Facility of rent free accommodation to minister of parliament (including maintenance).

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(1)

As per rule 3(1), for the purpose of valuation of rent-free accommodation, all employees are divided into two categories.

- 1) **A) Government employees:** The following are included under this category:
 - a) Employees of Central and State Governments.
 - b) Government employees on deputation and presently serving with any body or undertaking under the control of Government. Foreign Government employees are not included in this category. They are included in the second category.

- B) Other than Government employees:** All employees not covered under first (A) category are included under this category.

Types of Rent free accommodation: The accommodation provided by the employer to his employee may be of one of the following two categories:

- i) *Unfurnished accommodation* – The accommodation which is not fitted with any furniture or other things of amenities is termed as unfurnished.
- ii) *Furnished accommodation* – The accommodation which is equipped with furniture or other things of amenities such as television, refrigerator, air conditioning plant or equipment and other domestic appliances, etc. is termed as furnished.

Further, such accommodation may be provided.

- a) Rent free, or
- b) At concessional rate

2) In case accommodation provided by Government to its employees

- i) **Where the accommodation is unfurnished:** The value shall be the license fee determined by Union or State Government in respect of accommodation in accordance with the rules framed by that government as reduced by the rent actually paid by employee.

Valuation = License fee determined by Central or State Government in respect of accommodation in accordance with the rules framed by that government – Rent actually paid by the employee.

- ii) **Where the accommodation is furnished:** The value of perquisite shall be determined as if it is an unfurnished accommodation (i.e. value

determined as per clause (i) above). Such value shall be increased by 10% of the cost of furniture (including television, radio, refrigerators, other household appliances, air conditioning plant or equipment) or if such furniture is hired from third party, the actual hire charges paid or payable for the same. The valuation of furniture shall be reduced by any charges paid or payable for such furniture by the employee during the previous year.

Valuation = as unfurnished + 10% of the cost of furniture installed in the accommodation (if the furniture is owned by the Government)

Or

Actual rent or hire of furniture installed in the accommodation paid by the Government (if the furniture installed in the accommodation has been taken on hire by the Government)

Note:

- 1) Meaning of salary = Basic salary due (except advance and arrears of salary) + Dearness allowance or pay (if under the terms of employment) + fees + bonus and commission + all other taxable allowances (excluding the portion not taxable) + any monetary payment (by whatever name called), but does not include the following:
 - a) Dearness Allowance or Dearness Pay (which is not under the terms of employment)
 - b) Employer's contribution to assessee's Provident Fund.
 - c) Exempted Allowances
 - d) Value of any Perquisites under section 17(2).
 - e) Any payment or expenditure specifically excluded under proviso to sub clause (iii) of clause (2) relating to employees stock option plan or scheme) or proviso to clause (2) of section 17 (relating to medical facility or reimbursement of medical expenses);
 - f) Any lump sum payment like Gratuity, Leave Encashment, Commuted Pension, etc, received at time of termination of service or at the time of voluntary retirement or superannuation.
- 2) 'Accommodation' includes a house, flat, farm house, or part thereof, or accommodation in a hotel, motel, service apartment, guest house, caravan, mobile home, ship or other floating structure.
- 3) Rent free official residence provided to a judge of a high court or to a judge of the Supreme Court is exempt from tax.
- 4) Rent free accommodation given to an official of parliament, a union minister and a leader of opposition in parliament is exempt from tax.

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. 12,000 p.m. and dearness allowance of Rs. 1,200 p.m. He is provided a rent free house at Jor Bagh, the fair market rent of which is Rs. 72,000 p.a., Bonus – 3 months' basic pay; education allowance @ 6,000 p.m.; city

compensatory allowance @ 6,000 p.m.; cost of furniture – Rs 50,000; license fee determined by the government – Rs 12,000 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:

i) Mr. Y (Government employee - unfurnished)

Valuation for rent free house = License fee determined by the Government
= Rs. 12,000.

Note:

- 1) License fee determined by the Government is Rs. 12,000 p.a. Hence, Rs. 12,000 shall be the value of rent free accommodation.
- 2) Market rental value of the accommodation and the salary of the employee are irrelevant for valuation and rent free accommodation of a Government employee, when license fee is given.

ii) Mr. Y (Government employee - furnished)

Valuation for rent free house = License fee determined by the Government
+ hire charges of furnishing.

= Rs. 12,000 + 2,000 = Rs. 14,000

B) In case accommodation is provided by any other employer

Accommodation provided as rent free or at concessional rate may be owned by the employer or taken on lease or rent by the employer.

It includes other employees like employees of Reserve bank of India, nationalized banks, educational institutions, universities, statutory corporations, companies of private sector, partnership firms and other industrial and trading institutions etc.

The taxable value of this facility shall be determined as follows:

1) Where the Accommodation is Unfurnished

Table 6.1: Unfurnished Accommodation

Nature of Accommodation	Accommodation provided in cities having population upto 10 lakh as per 2001 census	Accommodation provided in cities with population exceeding 10 lakhs but not exceeding 25 lakhs as per 2001 census	Accommodation provided in cities having population exceeding 25 lakhs as per 2001 census
(a) Where the accommodation is owned by the employer	7.5% of salary in respect of the period during which the said accommodation was occupied by the employee during the previous year.	10% of salary in respect of the period during which the said accommodation was occupied by the employee during the previous year.	15% of salary in respect of the period during which the said accommodation was occupied by the employee during the previous year.
(b) Where the accommodation is taken on lease or on rent by the employer	Actual amount of lease or rent paid or payable by the employer or 15% of salary, whichever is less	Actual amount of lease or rent paid or payable by the employer or 15% of salary, whichever is less	Actual amount of lease or rent paid or payable by the employer, or 15% of salary, whichever is less.

Explanation:

- 1) In case, the house is provided at concessional rate, the value determined as per (a) or (b) above shall be reduced by the rent, if any, actually paid by employee.
- 2) Where the Accommodation is furnished: The value of perquisite shall be determined as if it is an unfurnished accommodation (i.e. value determined as per chart given above. Such value shall be increased by 10% of the cost of furniture (including television, radio, refrigerators, other household appliance, air conditioning plants or equipment or other similar appliance or gadgets) or if such furniture is hired from a third party, the actual hire charges payable for the same. Such valuation of furniture shall be as reduced by any charges paid or payable for such furniture by the employee during the previous year.

Valuation = Valuation as unfurnished accommodation + 10% of the cost of furniture

Or

Valuation as unfurnished accommodation + actual rent or hire charge of the furniture paid by the employer (if furniture is taken on lease or hire)

C) Where the accommodation is provided by the employer (Govt. or other employer) in a hotel

The value of the accommodation shall be –

- i) 24% of salary paid or payable for the previous year, or
- ii) The actual charges paid or payable to such hotel, whichever is lower, for the period during which such accommodation is provided. However, if the employee pays any rent, the value so determined shall be reduced by the rent actually paid or payable by the employee.

There will be no perquisite value, if the accommodation is provided in a hotel if the following two conditions are fulfilled:

- a) Such accommodation is provided for a period not exceeding 15 days; and
- b) It has been provided on the transfer of the employee from one place to another.

Valuation = 24% of salary paid or payable for relevant period of the previous year

Or

Actual charge paid or payable by the employer to such hotel, whichever is less. (Such accommodation is treated as furnished)

Note: For the purpose of valuation of rent-free accommodation, the following should be understood clearly:

- 1) Meaning of Salary – Salary for this purpose is to be taken as salary of the period for which rent free accommodation is given to the employee. Salary means and includes the following:

- a) Basic salary
- b) Dearness Allowance or Dearness Pay, if it is under the terms of employment. All the allowances paid by the employer to the employee on monthly basis or otherwise, such as fees, bonus, commission, dearness allowance or dearness pay (if it is under terms of employment) and all other taxable allowances (excluding the portion not taxable)
- c) Bonus
- d) Commission
- e) Any monetary payment (by whatever name called)

But, the following are not included in the salary:

- i) Dearness Allowance or Dearness Pay, if it is not under the terms of employment.
 - ii) Employer's contribution to provident fund account of the employee
 - iii) All Allowances exempt from income tax.
 - iv) Value of any Perquisite u/s 17(2).
- 2) "Accommodation" includes a house, flat, farm house or part thereof, or accommodation in hotel, motel, service apartment, guest house, caravan, mobile home, ship or other floating structure.
 - 3) "Hotel" includes licensed accommodation in the nature of motel service apartment or guest house.
 - 4) Salary is to be computed on 'due' basis for the period for which the rent free accommodation has been provided to the employee e.g., if the rent free accommodation is provided for the period from 1.1.2021 to 31.3.2021, then only the salary due for the months of January, February and March shall only be taken.
 - 5) If the employee receives salary from more than one employer, the aggregate of the salary received from both the employers, for the period for which the accommodation is provided, has to be taken into account for valuation of rent free accommodation even though the accommodation has been provided only by one employer.

Illustration 2

A is a pilot in Air India. He draws Rs. 72,000 p.a. as basic pay, Rs. 12,000 p.a. as D.A. (it is under terms and conditions), Rs. 6,000 as bonus and Rs. 6,000 p.a. as educational allowance. He has got two children studying in the nearby school. While on duty, he has been provided with a rent-free flat at Santa Cruz, Mumbai, 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. 1,00,000/-

Solution:**i) When accommodation is unfurnished**

Valuation = 15% of salary

Total salary = 93,600

15% of salary (As population of Mumbai is above 25 lakhs) = Rs 14,040

Note:

- 1) Meaning of salary = 72,000 (B.S.) + 12,000 (D.A.) + 6,000 (B) + 3,600 (E.A.) = Rs. 93,600
- 2) D.A. is under terms of conditions so it will be included.
- 3) Education allowance is exempt upto 100 p.m. per child (maximum two children, i.e. 2,400 is exempt). Taxable portion of education allowance and all other allowances will be included in salary.

ii) When accommodation is furnished

Valuation = 15% of salary + 10% of cost of furniture
 = 14,040 + 10,000 = 24,040

Note:

Salary = Rs. 93,600 (15% of Rs 93,600 = Rs 14,040)

Cost of furniture = Rs. 1, 00,000

Illustration 3

Mr. Ajay Dubey is a General Manager in a M.N.C. He gets Rs. 25,000 p.m. as salary, Rs. 1,500 p.m. as marriage allowance, Rs. 2,000 p.m. children allowance and Rs. 1,500 p.m. dearness allowance (of which half the amount is added in salary to ascertain the contribution to Provident Fund.). He also gets a transport allowance for commuting from residence to office @ Rs. 400 p.m. Besides, he gets a bonus equal to 3 month's basic pay per year. The company has provided him a rent free bungalow in which air conditioning plant, refrigerator, radio set and other furniture of the cost of Rs. 1,60,000 belonging to the company, are installed. The monthly rent of the bungalow payable by the company is Rs. 7,000 p.m. Calculate the Rent free accommodation value of the bungalow.

Solution:

As the bungalow is not owned by the company, the valuation of rent free furnished bungalow will be as under.

Valuation = Lease or rent paid or payable or 15% of salary (whichever is less)
 + 10% of the cost of furniture.
 = [Rs. 84,000 or 15% of Rs. 4, 30,800] + 10% of Rs. 1, 60,000
 = [Rs. 84,000 or Rs. 64,620] + Rs. 16,000
 = [Rs. 64,620 + Rs. 16,000 = Rs. 80,620]

Note:

- 1) For this purpose, salary will include one half of the dearness allowance as it is deemed to be under the terms of employment. Thus, salary will be Rs. 4,30,800 [Rs. 3,00,000 (salary) + Rs. 18,000 (marriage allowance)+Rs. 24,000 (children allowance) + Rs. 9,000 (D.A.) + Rs. 4,800 (T.A.) + Rs. 75,000 (bonus)]
- 2) Marriage Allowance and Children Allowance are fully taxable.

6.3.2 Accommodation at Concessional Rent

When the accommodation is provided to the employee at a concessional rate of rent, the value of such accommodation is determined as if the accommodation was provided free of rent.

From the 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 the salary as value of concession. Generally, the employer deducts a fixed sum from the salary of his employee towards the rent of the accommodation provided to him. The sum deducted as rent is less than the actual fair rental value of the accommodation. If the employee pays fair rent of the accommodation, it cannot be said that he is receiving any concession in the matter of rent. There would be no prerequisite in such a case. But, when the rent paid by him or deducted from his salary is less than the fair rental value of the accommodation, he is said to have received concession in the matter of rent. This would be a prerequisite. Generally, 20% of salary or 15% of salary, as the case may be, is taken to be fair rent of the accommodation. The accommodation provided to an employee at concessional rent may be either furnished or unfurnished. Concession in rent will be valued as below:

A) In case of an unfurnished accommodation provided by an employer other than the Central Govt. or any State Government:

- a) Where the accommodation is owned by the employer:
Value of Concession in rent = 15% or 10% or 7.5% of salary (as the case may be) – Rent recoverable from, or payable by the assessee
- b) When the accommodation is taken on lease or hire by the employer:
value of Concession in rent = Actual lease or rent paid or 15% of salary, (whichever is less) – Rent recoverable from the assessee

B) In case of an unfurnished accommodation provided by the Central or any State Government-

Value of concession in rent =
License fee determined – Rent recoverable from the assessee

C) In case of a furnished accommodation provided by the Central or any State Government-

Value of concession in rent = License fee determined + 10% of the cost of furniture – Rent (or charges for furniture recoverable from the assessee)

D) In case of a furnished accommodation provided by an employer other than the Central or any State Government –

a) Where the accommodation is owned by the employer:

Value of concession in rent = Value as unfurnished + 10% of the cost of furniture or rent (charges for furniture Recoverable from the assessee)

b) Where the accommodation is taken on lease or rent by the employer:

Value of concession in rent = Value as unfurnished + 10% of the cost of furniture – Rent or charges for furniture recovered from the assessee

E) In case of an accommodation provided by the employer in a hotel –

Value of concession in rent = 24% of salary or Actual charge of hotel paid (Whichever is less) – Rent recoverable from the assessee

Note:

- 1) If accommodation in hotel is provided for 15 days or less, its value shall not be taxable.
- 2) Value of furniture installed in an unfurnished accommodation, 10% of the cost of furniture or actual hire charge of the furniture, if furniture is taken on hire.

In brief, value of concession in rent will be calculated as below.

For all category of employees

Value of concessional Rent free accommodation (Furnished & unfurnished) = Valuation as rent free accommodation – Rent paid or payable by or deducted from the employee

Table 6.2: Valuation of Rent Free House

Unfurnished	Government employees	Private sector employees	
		Accommodation owned by the employer:	Accommodation hired by the employer:
	License fee determined by the government	a) 15% of salary (in cities with population exceeding 25 lakhs) Or b) 10% of salary (in cities with population exceeding 10 lakhs but not exceeding 25 lakhs) Or c) 7.5% of salary (in other cities)	Hire charges or rent paid or payable Or 15% of salary (whichever is less) (In respect of all cities)
Furnished (for all employees)	Valuation as unfurnished + 10% of the cost of furniture or actual rent or hire of the furniture paid by the employer		

6.3.3 Fringe benefits

Prescribed fringe benefits or amenities are as follows:

1. Interest free loan or concession loan to an employee [Rule 3(7)(i)]

Following points shall be kept in mind:

- i) The loan shall be given to the employee or his family member (Spouse, children and their spouses, Parents, Servants and dependents) by his employer or on his behalf in the previous year.
- ii) Interest shall be calculated on the maximum outstanding monthly balances.
- iii) The taxable value of the loan shall be the sum equal to the interest calculated at the rate charged per annum by State Bank of India on 1st day of previous year.
- iv) No value is taxable, if the loan is taken for the treatment of diseases specified in Rule 3A.
- v) If the total amount of loan does not exceed Rs 20,000, it shall not be included in employee's salary.

Note:

- a) The rate of interest for such loans is given by State Bank of India for every financial year.
- b) Maximum outstanding monthly' balance means the aggregate outstanding balance for each loan as on the last day of each month.

Illustration 4

Determine the taxable value of taxable interest in case of interest free loan provided by the employer to the employees for assessment year 2021-22.

- a) An employer, Ambani Ltd, gives the following interest free loan to Mr Amit, an employee of the company, Rs 10,000 for children education and Rs 6,000 for purchasing a washing machine. No other loan is given by Ambani Ltd. Compute taxable value of interest.
- b) Ambani Ltd gave loan to Mr Amit on 1st April, 2020 to buy a car of Rs 50,000. Ambani Ltd recovers interest @ 2.90% per annum from Mr Amit. Find out taxable value of interest.

Solution:

For the assesment year 2021-22, the taxable value of interest free loan shall be following:

- a) Nothing is taxable in the hands of Mr Amit as the amount of loan does not exceeds Rs 20,000.
- b) The SBI lending rate on April, 2020 for car loan is 9.25%, but only 2.90% interest is recovered from Mr Amit, i.e. Rs 3,175 @ interest 6.35% (9.25% - 2.90%) on Rs 50,000 for one year is taxable in the hands of Mr Amit.

2) The value of travelling, touring and any other expenses paid for or borne or reimbursed by the employer to the employee or any member of his household [Rule 3(7) (ii)].

Sometimes, the expenses incurred for holidays tour by the employee or his family member is reimbursed by the employer. The following points shall be kept in mind:

Table 6.3: Conditions and Taxable value for travelling and touring

Conditions	Taxable value
If all employees are provided similar type of facilities.	Expenses borne by the employer <i>minus</i> Sum recovered from the employee
If all employees are not provided similar type of facilities.	Value of facilities provided by other agencies <i>minus</i> Sum recovered from the employee.
If the employee is on official tour work and these expenses are paid for any member of his household who went with him.	Sum paid by the employer
If the employee is on official tour and this tour is extended in the form of holidays.	The expenses paid by the employer during the extended period.

Note:

- i) In all above conditions, if any amount is recovered from the employee, it will be deducted from taxable value of fringe benefit and the remaining amount will be treated as the value of that particular amenity.
 - ii) The remaining value shall be taxable only if it is positive.
- 3) Free food, non-alcoholic beverages or refreshment facilities. [Rule 3(7)(iii)]**

Following points shall be kept in mind:

Table 6.4: Conditions and taxable value for food and beverages

Conditions	Taxable value
If free tea and snacks is provided during office hours.	Nil
If free meal and non-alcoholic beverages are provided during office hours in remote area or offshore place.	Nil
If free meal and non-alcoholic beverages are provided during office hours at place of work.	i) If the rate of meal is upto Rs. 50 per meal, the taxable value shall be zero. ii) If the rate of meal exceeds Rs 50 per meal, this excess value shall be taxable.
If free meal is provided during office hours at place of work through non-transferable paid vouchers.	The taxable value shall be the sum exceeding Rs 50 per meal.
In any other case	Actual expenditure by the employer <i>minus</i> Sum recovered from the employee.

Note:

- i) Office hours include over time and work in holiday.
- ii) Free meals include meal, tea and snacks.
- iii) Lunch allowance and free meal are separate; the value of lunch allowance, dinner allowance, refreshment allowance shall be taxable.

Illustration 5

An employer provides tea/coffee to his employee Mr Rajiv during the office hours costing Rs 5,500 in a year which is borne by the employer. Besides this, he also provides free lunch to him during office hours. The cost of this lunch for 300 working days in a year is Rs 100 per diet. The employer recovers Rs 40 per diet from his employee. Find the taxable value of this facility.

Solution:

i) Taxable value of tea or coffee shall be nil as it is provided during the office hours.		Rs.
ii) Taxable value of lunch (300 × 100)		30,000
Less: i) Tax free amount (300 × 50)	15,000	
ii) Recovered from Mr Rajiv (300×40)	12,000	27,000
Taxable value of lunch		3,000

4) Any gift or voucher or token. [Rule 3 (7) (iv)]

Following points shall be kept in mind:

- i) Gift can be in cash or kind.
- ii) Gift can be given by the employer to his employee or any member of his family.
- iii) If the cost of gift (given on any ceremonial occasion) exceeds Rs 5,000, then, it shall be taxable.
- iv) Cash gift or any gift which can be converted into money (e.g. Cheque), is not exempt, but, its value shall be included in employee's salary even its value is less than Rs 5,000.
- v) Any gift given by the employer to the employee on the social and religious functions (e.g.- Deepawali, Christmas, New Year, Holi etc.), if it is given in kind, it is exempt, and not included in employee's salary provided its value is not more than Rs 5,000 per year. If the value of gift exceeds Rs. 5,000, this excess value shall be taxable and included in employee's salary.

5) Credit card facility [Rule 3 (7)(v)]

It's taxable value is calculated as follows:

Total expenses paid by the employer

- Less: i) Expenses in connection to office or duty
- ii) Sum recovered from the employee

Expenses on credit card for official use:

For deduction in these expenses, following conditions are to be fulfilled:

- i) The employer will keep complete details in connection with these expenses, e. g, date of expense, nature of expense etc.
- ii) The employer will give a certificate for this purpose that these expenses have been paid for official purpose.

Note:

- i) The employer shall give credit card to the employee or any member of his family or the expenses of credit card should be reimbursed by the employer.
- ii) Expenses on credit card will not include membership fee and other fee or expenses which have been paid by the employee or any member of his family through credit card in connection with household purpose.

6) Club expenditure [Rule 3 (7)(vi)]

Its taxable value is calculated as follows:

Expenses done on club facility or reimbursed by the employer

Less: i) Expenses on club facility if any paid or recovered by the employee

Important point: Where such expenses are incurred wholly or exclusively for official purpose, then value of benefit would be Nil, provided the conditions specified below are fulfilled.

Note:

- i) Health club and sports club facilities are provided by the employer in the company for all categories of the employees, these values shall be exempt for the employees.
- ii) If such club facilities are provided for official purpose, the expenses paid on it by the employer shall be tax free for the employees but for this exemption certain conditions are essential to be fulfilled. These conditions are the same which have been mentioned in earlier point no. 5 (Expenses on credit card).
- iii) Club membership fee: Initial one time deposit or fees for corporate membership, where benefit does not remain with a particular employee after employment are exempt.

7) Use of employer’s moveable assets by an employee or any member of his household. [Rule 3 (7) (vii)]

If an employee uses the movable asset of the employer, its taxable value is calculated as follows:

Table 6.5: Taxable value of Movable Assets

Movable asset	Taxable value of perquisite
i) Use of computer or laptop	Nil
ii) Any other movable assets other than (i) above a) If the employer is the owner. b) If the employer has hired the asset.	10% p.a of cost of asset Rent by employer every year.

Note:

Any amount received from employee in connection with movable asset shall be deducted from the above value.

8) Transfer of employer's moveable asset to an employee or any member of his household [Rule 3 (7)(viii)]

The taxable value of this perquisite shall be determined as follows:

Table 6.6: Taxable value of transfer employer's Moveable Assets

Assets		Taxable value of perquisite
i.	Computer and electronic items	Written down value (WDV) of asset used by the employer for each completed year -50% of the cost to the employer for each completed year during which such asset was put to use by the employer on the basis of reducing balance method.
ii.	Motor car	WDV of asset used by the employer for each completed year-20% of the cost to the employer for each completed year during which such asset was put to use by the employer on the basis of reducing balance method.
iii.	Any other movable asset except(i) and (ii) above	Cost of asset used by the employer for each completed year - 10% depreciation on the basis of straight line method.

Note:

- i) Electronic items or electric appliances includes data storages, computer, digital diaries and printers, this does not include domestic electrical appliances, viz., washing machine, microwave, oven, mixer.
- ii) Other assets include those assets which are additional from point no. (i), viz., fridge, video camera.
- iii) Any amount paid by employee or received from employee shall be deducted from the value of above perquisite determined on the basis of above rules.

9) Any other benefit, amenity, service, right or privilege provided by employer [Rule 3(7) (ix)]

If the employer provides any other benefits, right or special right to the employee, its value shall be determined on the basis of cost of employer, any payment made by the employee to attain these benefits, shall be deducted from this taxable value.

Illustration 6

The company has given Sachin a housing loan of Rs. 10, 00,000 on 01-10-2020 @ 6% interest p.a. The entire loan is outstanding till the end of the F.Y. Determine the taxable amount of interest for the assessment year 2021-22, assuming that the rate of interest on housing loan charged by the SBI is 10% p.a.

Solution:

Interest charged by SBI @ 10% p.a.

$$= 10,00,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs. } 50,000$$

$$\begin{aligned} \text{Interest charged by company} &= \text{Rs. } 10,00,000 \times \frac{6}{100} \times \frac{6}{12} \\ &= \text{Rs. } 30,000 \\ \text{Chargeable interest} &= \text{Rs. } 50,000 - \text{Rs. } 30,000 = \text{Rs. } 20,000 \end{aligned}$$

Illustration 7

Mr. Y is employed in a private college on a monthly salary of Rs. 15,000. He took a loan of Rs. 20,000 from the college for purchasing a second hand car. Valuate the perquisite.

Solution:

Valuation = ‘NIL’ as the amount of loan does not exceed Rs. 20,000

Illustration 8

Mr. X took a loan of Rs. 50,000 from his employer for his personal purpose. He used the loan for repaying his old debts. What is the value perquisite?

Solution:

Valuation – ‘NIL’ as the rate of interest is not given. It is presumed that the employee pays full interest. Hence, it is not a perquisite.

Check Your Progress A

- 1) Who is a specific employee?
.....
.....
.....
- 2) What does “Perquisite includes” as per Section 17(2) of the Income Tax Act, 1961?
.....
.....
.....
- 3) Fill in the blanks
 - 1) Arrears of salary is taxable under the head ‘.....’
 - 2) Tax free salary received by the employee means tax will be paid by the
 - 3) Facility of telephone for employees isperquisite.
 - 4) The taxable value of moveable assets, other than computer or laptop, is p.a of cost of asset, when the employer is the owner.
 - 5) When the accommodation is provided in a hotel for Days, its value shall not be taxable.

6.4 VALUATION OF PERQUISITES FOR SPECIFIED EMPLOYEES

Perquisites which are taxable in the hands of specified employees are termed as “Specific Perquisites”, rules regarding this are as follows:

6.4.1 Valuation of Facility of Motor-car [Rule 3(2)]

Motor-car or other mode of conveyance provided by the employer to his employee is a ‘Specific Perquisite’ and therefore, it is taxable in the hands of specific employee only. However, unauthorized use of company’s car by director for his personal purpose could not be taken as perquisite in his hands. The provisions of the rule are stated below:

D) When motor car is owned or hired by the employer:

When the employer has provided to his employee, a motor car owned or hired by him, its valuation will be made as follows:

A) When maintenance and running expenses are borne and reimbursed by employer:

- i) If the car is wholly used for official purposes, it is not supposed to be perquisite, so value shall be nil.
- ii) If the car is used wholly for the private or personal purpose of the employee, its value shall be actual amount spent by the employer.

Valuation = The actual amount spent by the employer on maintenance and running of the car + salary of chauffeur, if any + Normal wear and tear @ 10% of actual cost of the car or hire charges – Amount charged from employee.

- iii) If the car is used partly for official and partly for private purpose, its value shall be as follows:

Valuation = [If capacity of the engine of car is upto 1.6 liters] Rs. 1,800 p.m. plus Rs. 900 p.m. for chauffeur’s facility

= [If engine capacity of car is above 1.6 liters] Rs. 2,400 p.m. Rs. 900 p.m. for chauffeur’s facility

B) When maintenance and running expenses are borne by the employee.

- i) If the car is wholly used for official purposes, its value shall be Nil.
- ii) If the car is used wholly for private purposes, its value shall be as below:

Valuation = Expenditure incurred by the employer, hire charges or normal wear and tear of the car @ 10% of the actual cost of car + Salary of chauffeur, if any paid – Amount recovered by the employee.

- iii) If car is used partly official and partly private purpose.

Valuation = [If capacity of engine of car is upto 1.6 ltr] Rs. 600 p.m. plus Rs. 900 p.m. for chauffeur facility.

= [If capacity of engine of car is above 1.6 ltr] Rs. 900 p.m. plus Rs. 900 p.m. for chauffeur facility.

II) When car is owned by the employee:

- a) When maintenance and running expenses are borne by employer, it will not be treated as perquisite; its valuation shall be Nil.
- b) When maintenance and running expenses are borne by employer.
 - i) If car is used wholly for official purpose:
It shall not be regarded as perquisite, so value shall be Nil.
 - ii) If car is used wholly for private purpose:
Actual expenses spent by the employer shall be the value of perquisite. This is assumed to be general perquisite and taxable for all employees.
 - iii) If car is used partly for official purpose and partly for private purpose.

Valuation = Actual expenses incurred by the employee – Rs. 1,800 p.m. (if car is upto 1.6 ltr. capacity) or Rs. 2,400 p.m. (if car is above 1.6 ltr. capacity) and 900 p.m. for chauffeur (any amount recovered from employee).

III) Use of more than one motor car belonging to the employer.

When more than one car are owned or hired by the employer and employee uses them for both personal and official use, the value shall be as follows:

Valuation = Actual amount spent by the employer + salary of driver, if any + normal wear and tear i.e. 10% of actual cost of car.

Table 6.7: Valuation of Motor Car

When expenses are met by the employee		
For official purpose	Not taxable	
Personal purpose (Fully taxable)	All the expenses of car like petrol, diesel, driver salary and 10% depreciation on car fully taxable If more than 1 car given then, second car deemed to use for private purpose	
Partly official partly personal purpose (some amount taxable)	Upto 1.6 ltrs Rs 600 p.m. + Rs 900 p.m. , (if driver is also provided by employer)	More than 1.6 ltrs Rs 900 p.m. + Rs 900 p.m. (if driver is also provided by the employer)
When expenses are met by the employer		
For official purpose	Not taxable	
Personal purpose	Actual amount incurred on running and maintenance + chauffeur remuneration+ 10% p.a of cost of asset + amount charged from employee	
Partly official partly personal purpose (some amount taxable)	Upto 1.6 ltrs Rs 1,800 p.m. + Rs 900 p.m. , (if driver is also provided by employer)	More than 1.6 ltrs Rs 2,400 p.m. + Rs 900 p.m. (if driver is also provided by the employer)

Illustration 9

Mr. Sanjeev Kant is manager in Roadways. He gets salary @ 25,000 p.m., value the perquisites of car under the following different circumstances:

- The employer has provided him a car of 1.6 ltr capacity. Total expenses and drivers salary incurred by employer i.e. Rs. 18,000. Car is used for both private and official purpose.
- The employer has provided him a 1.4 ltr capacity of car with driver only for private use. Expenses of car are Rs. 18,000. The cost of car is Rs. 5,00,000.
- The employer has provided with a facility of bus (50 horse power) which carries him along with other employees from home to office and back from office to home.

Solution:

Rs.

Salary @ Rs. 25,000 p.m. × 12 months	3,00,000
a) Use of 1.6 ltr car @ 1800 p.m. × 12	21,600
Salary of driver @ 900 × 12	10,800
	32,400
b) Value of 1.4 ltr car use only for private purpose = Actual expenses + salary of driver + 10% of cost of car. Rs. 18,000 + 900 p.m. × 12 (Rs 10,800) + Rs 50,000	78,800
c) This is no perquisite	

6.4.2 Free Lodging and Boarding Facility to Hotel Employees

- Lodging facilities:** This is taxable for all employees, and calculated as rent-free house given to an employee of private sector.
- Food facilities:** The actual amount of food paid by employer and deducts the amount if recovered by employee.

6.4.3 Free Supply of Gas, Electricity and Water [Rule 3(4)]

If a facility of free gas, electricity and water is provided to the employee by the employer, the valuation of such perquisites is added in the salary of employee. Let us study its valuation under following situations:

Table 6.8: Valuation of free Gas, Electricity and Water

Situation	Value of Perquisite
a) If the employer is the manufacturer of gas, electricity and water, i.e. the employer supplies these facilities from his own resources and does not purchase from outside agencies.	Cost per unit borne by the employer shall be the taxable value of perquisite for the employee.
b) In any other situation.	Actual amount paid by the employer for these facilities to other agencies providing these facilities.

In the above situations, any amount paid by the employee or received from the employee shall be deducted from the taxable value determined as above.

Note:

- i) If the connection of the above perquisite is in the name of employer, the amount of perquisite will be taxable in case of specified employee only.
- ii) If the connection of the perquisite is in the name of employee, the amount of perquisite is taxable to all categories of employees (specific and non-specific).

6.4.4 Free or concessional education facilities to any member of employee's household [Rule 3(5)].

Table 6.9: Conditions and valuation of free or concessional education

Conditions	Valuation
a) Where the education Institution is itself maintained and owned by the employer.	The cost of education in a similar institution in or near the locality. However, if educational facilities are provided to the children of the employee (any other member of the household not covered here), the value of this perquisite shall be nil, if the cost of such education or the value of benefit per child does not exceed Rs. 1,000 p.m.
b) Where free education facilities for such members of employee's household are allowed in any other educational institution by reason of his being in employment of that employer.	– do-
c) Payment of fee by the employer directly to the educational institution or reimbursement of fee	Such payment or reimbursement is taxable to all types of employees (specified and non-specified both)
d) Educational facilities for family members other than employee's children	If educational facility is provided to any family member of specified employee, in the institution run by the employer, then the value of perquisite shall be the amount equivalent to fee of other institution of such level. If, it is provided in other institution, the value shall be actual expenditure spent by the employer. In case of family member of non-specified employee, the value of such perquisite shall be exempt.

However, in all the above cases, if any amount is paid or recovered from the employee on this account, the value of benefit computed above shall be reduced by the amount so paid or recovered.

6.4.5 Free Sweeper, Watchman, Gardener, or Personal Attendant etc. [Rule 3(3)]

The employer may provide the facility of household servants to the employee, which includes sweeper, chowkidar, gardener or other domestic servants like cook etc. They can be appointed either by the employer or by employee. The rules of their monetary valuation are as under:

1) Appointment of servant by employer and payment of remuneration by the employer:

Servants are provided with rent house, the' owner of house being or the employer has provided the house to the employee by taking it on rent or the house is owned by the employee and the remuneration of the servant is paid by the employer. The following amounts of these facilities are included in the salary of specified employees under section 17(2) (iii).

Sweeper, gardener, cook, watchman and other household servants: Sweeper is known as cleaning employee. In chowkidar, security man or guards are included. The taxable value of these perquisites to be included in the salary of employee will be the actual amount paid by employer to sweeper, gardener, cook, watchman and other household servants or total cost regarding these servants to the employer. But, the expenses incurred by the employer on maintaining garden, swimming pool and ground attached to the house shall not be taxable separately.

2) Appointment of servant by employee and payment of remuneration by employer or the payment of remuneration by employee and reimbursement by employer:

The whole amount for every type of employee will be taxable u/s 17(2) (iv). The house may be of employee or employer or on rent basis.

6.5 FULLY EXEMPTED PERQUISITES (TAX FREE PERQUISITES)

There are certain other perquisites which are exempt in the hands of all employees.

They are as follows:

1) Medical facility

A) Medical facility in a hospital etc. maintained by the employer

Medical facility which is given to employee and his/her family member in hospital, dispensary and nursing home which belongs to employer is fully tax free.

B) Medical treatment in India

The following expenditure incurred by employer shall not be a perquisite:

- a) Any sum paid by employer in respect of:
 - i) Actual expenditure incurred by employee on his or his family member's medical treatment in any hospital maintained by the

government or any local authority or in a hospital approved by the government for medical treatment for its employees.

- ii) Expenditure actually incurred by employee on his or his family member's medical treatment in respect of prescribed diseases or ailments as prescribed in Rule 3A of the income tax rules, in any hospital approved by the principal chief commissioner or chief commissioner of income tax, having regard to the prescribed guidelines. However, in this case, the employee has to attach along with his return of income, a certificate from the hospital specifying the disease or ailment for which medical treatment was required and the receipt for the amount paid to the hospital.
- b) Any amount of insurance paid by the employer for insurance of the health of the employees under a scheme approved by the central government or the insurance regulatory and development authority.
- c) Any reimbursement by the employer of any insurance premium paid by the employee, for an insurance for his health or the health of any member of his family a scheme approved by the central government or the Insurance Regulatory and Development Authority is also tax free perquisite.

C) Medical treatment outside India

The following expenditure incurred by employer on treatment of the employee or his family members outside India is also tax free perquisite:

- a) Expenses on medical treatment of the employee or any member of his family outside India. However, such expenses shall be tax free perquisite to the extent permitted by Reserve Bank of India.
- b) Expenses on stay abroad of the employee or any member of his family for medical treatment with one attendant who accompanies the patient in connection with such treatment. These expenses shall also be tax free perquisite to the extent permitted by Reserve Bank of India.
- c) Travel expenses of the patient (employee or his family member) and one attendant who accompany the patient in connection with such treatment. It shall be tax free in the case of those employees whose gross total income (before including therein such travel expenditure as perquisite) does not exceed Rs 2, 00,000. In other words, if the gross total income of the employee before including the taxable medical perquisite on account of travel expenditure exceeds Rs 2, 00,000, the expenses on travel of the patient as well as of the attendant shall become taxable.

Note:

- 1) 'Family' for the purpose of medical facility means:
 - i) The spouse and children of the employee. Children may be dependent or independent, married or unmarried.
 - ii) Parents, brothers and sisters of the employee, who are wholly or mainly dependent on such employee.
- 2) 'Hospital' includes a dispensary, a clinic, and a nursing home.

Table 6.10 : Medical facility

<p>A) Medical facility in a hospital etc. maintained by the employer</p>	<p>Medical facility which is given to employee and his/her family member in hospital, dispensary and nursing home which belongs to employer is fully tax free.</p>
<p>B) Medical treatment in India</p>	<p>The following expenditure incurred by employer shall not be a perquisite: Any sum paid by employer in respect of:</p> <ul style="list-style-type: none"> i) Actual expenditure incurred by employee on his or his family member's medical treatment in any hospital maintained by the government or any local authority or in a hospital approved by the government for medical treatment for its employees. ii) Expenditure actually incurred by employee on his or his family member's medical treatment in respect of prescribed diseases or ailments as prescribed in rule 3A of the income tax rules, in any hospital approved by the principal chief commissioner or chief commissioner of income tax, having regard to the prescribed guidelines. iii) Any amount of insurance paid by the employer for insurance of the health of the employees under a scheme approved by the central government or the insurance regulatory and development authority. iv) Any reimbursement by the employer of any insurance premium paid by the employee, for an insurance for his health or the health of any member of his family a scheme approved by the central government or the Insurance Regulatory and Development Authority is also tax free perquisite.
<p>C) Medical treatment outside India</p>	<p>The following expenditure incurred by employer on treatment of the employee or his family members outside India is also tax free perquisite:</p> <ul style="list-style-type: none"> i) Expenses on medical treatment of the employee or any member of his family outside India to the extent permitted by Reserve Bank of India. ii) Expenses on stay abroad of the employee or any member of his family for medical treatment with one attendant who accompanies the patient in connection with such treatment to the extent permitted by Reserve bank of India. iii) Travel expenses of the patient (employee or his family member) and one attendant who accompany the patient in connection with such treatment. It shall be tax free in the case

	<p>of those employees whose gross total income (before including therein such travel expenditure as perquisite) does not exceed Rs 2,00,000, if the gross total income of the employee before including the taxable medical perquisite on account of travel expenditure exceeds Rs 2,00,000, the expenses on travel of the patient as well as of the attendant shall become taxable.</p>
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2) Facility of refreshment

This exemption is provided only when refreshment is given during office hours and at place of duties.

3) Transport facility or conveyance facility

This shall be tax free to all types of employees, if an employer provides any vehicle or other transport or conveyance facility to the employee for the purpose of carrying him from the place of residence to the place of his duty and back to his residence. The conveyance facility to employee shall be tax free provided the enterprise is engaged in business of transport, e.g., facility of free pass to railway employees.

4) Employer's contribution

Employer's contribution in schemes like group insurance scheme, deferred annuity or pension shall be tax free.

5) Use of laptop or computer of employer

The use of laptops or computers (belongs to employer or hired by employer) by the employee or his family member, its value shall be exempted.

6) Facility of entertainment

This facility should be provided to employees collectively, to avail its exemption; else it shall not be tax free.

7) Accommodation in remote area

If the employer provides accommodation facility to such employees in remote area or offshore locality, its value shall be exempt. Such facility shall also be exempted for the employees who are employed at mining sites or oil exploration site.

8) Perquisites provided outside India

Such exemption is provided to Indian citizen and Government employees who are employed in foreign countries.

9) Facility of telephone

The payment of telephone (including mobile phones) bills installed at employee's residence by the employer is tax free. The telephone can be used for any purpose.

10) Facility of refresher course or training

Such perquisite is tax free provided the employees do the work with much skills, it includes lodging and boarding expenses for this purpose.

11) Payment of accidental insurance premium

Any payment made by the employer for insurance premium on policy taken by employer against any loss of employee, shall not be taxable.

12) Educational facility for children of the employee

The educational institutions is run by the employer or the employer has provided free educational facilities to the children of employees in another educational institution, the value of these facilities shall be exempt provided that such value should not be more than Rs 1,000 per child per month.

13) Tax paid by the employer on non-monetary perquisites

If an employer provides non-monetary perquisite and pays any tax on these, it shall be tax free and shall not be included in computing income under the head 'salaries'. It should be noted that no deduction shall be allowed to the employer while computing income under the head 'profits or gains of business and profession'.

14) Leave Travel Concession (LTC)

An employer (present or former employer) may grant the facility of LTC to his employees with members of his family in connection with the journey to home town or any other place in India.

Leave Travel Concession shall be allowed for maximum two children since 1.10.1998. This rule shall not be applicable to those children whose birth before 1.10.1998 and also in case of multiple birth after one child.

The employee is entitled to exemption under section 10(5) in respect of the value of travel concession or assistance received by or due to him from his employer or former employer for himself and his family, in connection with his proceeding:

- a) On leave to any place in India.
- b) To any place in India after retirement from service or after termination of his service.

The exemption shall be allowed subject to the following:

- i) Where journey is performed by air, maximum exemption shall be an amount not exceeding the air economy fare of the national carrier by the shortest route to the place of destination;
- ii) Where place of origin of journey and destination are connected by rail and the journey is performed by any mode of transport other than by air- maximum exemption shall be an amount not exceeding the air-conditioned first class rail fare by the shortest route to the place of destination; and
- 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 recognized public transport system exist, an amount not exceeding the 1st class or deluxe class fare , as the case may be, on such transport by the shortest route to the place of destination; and
- b) Where no recognized public transport system exists, an amount equivalent to the air-conditioned first class rail fares, for the distance of the journey by the shortest route, as if the journey had been performed by rail.

An employee or assessee can avail exemption for any two journeys in a block of 4 years. For this purpose, the first block of 4 years was 1986-89 calendar years, the second block 1990-93 calendar year, the third block 1994-97 calendar years, the fourth block 1998-2001 calendar years and fifth block 2002-05, sixth block 2006-2009, seventh block 2010-2013, eighth block 2014-2017, ninth block 2018-2021 and so on. If the assessee has not taken the benefit of this exemption of LTC in any block, whether for both journeys and one journey, he may avail the exemption of one journey in the calendar year immediately succeeding the end of the block of 4 years, mean in the fifth calendar year. In other words, maximum one journey can be carried forward.

Clarification:

- i) The exemption regarding LTC can be availed for the journey undertaken while on leave during the tenure of service or even after retirement from service.
- ii) If the journey is not performed after taking LTC, the entire amount received by employee shall be taken from him.
- iii) The family of the employee includes i. the spouse and children of the employee, parents, brother, sister of the employee who is wholly dependent upon him.
- iv) In any case, no exemption shall be allowed exceeding the actual amount spent on travel by the employee.
- v) If the travel is performed after retirement from service or being on leave during the service, the benefit of exemption may be availed.
- vi) The exemption is allowed only in respect of fare. Expenses incurred on portorage, conveyance from residence to the railway station/airport/ bus stand and back, boarding and lodging' or expenses during the journey will not be qualified for exemption.
- vii) Exemption is available in respect of shortest route, where journey is performed from the place of origin to different places in a circular form or in any other manner, the exemption for that journey will be limited to what is admissible for the journey from the place of origin to the farthest point reach, by the shortest route.

15) Accommodation to judge

Rent free official residence provided to High Court or Supreme Court judges is tax free perquisite.

16) Free accommodation to ministers, etc

Rent free furnished residence, including maintenance, thereof, provided to a Union Minister, an officer of Parliament or to an Opposition Leader in Parliament is regarded as tax free.

17) Scholarship to employee's children

Scholarship given by the employer to the children of an employee is a tax free perquisite.

18) Use of health club, sports or similar facility provided uniformly to all employee by employer.**19) Conference**

Any expenditure incurred by the employer for an employee in connection with a conference, such as conveyance, tour and travel, hotel expenditure or boarding and lodging expenses etc. are not be included in the employee's income as perquisite. This perquisite is tax free in the hands of an employee.

20) Travelling expenses paid or reimbursed

Actual travelling expenses paid or reimbursed by the employer for journeys undertaken by employees' business purpose are exempt.

21) Interest free loan

Any loan provided by the employer to an employee either free of interest or at concessional rate of interest, is tax free perquisite, if the amount of loan does not exceed Rs. 20,000.

6.6 DEDUCTIONS FROM 'SALARIES'

The income chargeable under the head 'Salaries' is subject to certain deductions allowable under section 16. They are:

- i) Standard Deduction – Section 16(i)
- ii) Entertainment Allowance – Section 16(ii)
- iii) Tax on Employment – Section 16(iii)

Let us now discuss these deductions.

6.6.1 Standard Deduction [Section 16(i)]

This deduction is now again allowed W.e.f. assessment year 2019-20. The least of the following two amounts shall be deducted from gross salary of the employee:

- a) Rs 50,000
- b) Actual amount of gross salary

6.6.2 Entertainment Allowance [Section 16(ii)]

Entertainment allowance is normally given to Senior Officer. An employer gives allowances to his employee to spend it on the reception of the customers.

An entertainment allowance is part of salary. Hence, it is first to be included in the salary income. Thereafter, a deduction on Entertainment allowance which is given to both types of employee, government and non-government employee as explained below, will be allowed.

- i) Government employee:** The least of the following will be allowed as a deduction:
 - a) Rs. 5,000, or
 - b) 1/5th or 20% of the employee's salary, or
 - c) Amount of entertainment allowance granted during the year.

Meaning of Salary: For the purpose of entertainment allowance, only basic salary shall be considered. Any other allowance even dearness allowance (In spite of being under terms of employment), fixed percentage of commission on turnover and dearness pay shall not be included in the salary for the purpose of deduction of entertainment allowance.

- ii) Non-government employee (including semi-Government employee, employees of statutory corporation and local authority):** From the assessment year 2002-03, the deduction of entertainment allowance to non-government employees has been abolished.

6.6.3 Tax on Employment [Section 16 (iii)]

This tax is also known as professional tax and it shall be deducted in the year in which it is actually paid. If any tax is realized on salary of the employee by the state government, this amount shall be deducted from the gross salary of the employee. As per the constitution of India, professional tax more than Rs 2,500 p.a cannot be levied upon the employee. If the professional tax is paid by the employer, it is first included in the salary income of the employee and after it is deducted from gross salary of the assessee, it is treated as general perquisite u/s 17(iv).

Illustration 10

Mr. Sanjay is employed in Reserve Bank of India as Manager. He gives the following details for the P.Y. 2020-21. Compute gross and taxable salary income for the A.Y. 2021-22.

- i) Basic pay Rs. 48,000 p.m.
- ii) Dearness allowances Rs. 18,000 p.m. (20% is used for benefits of retirement)
- iii) House Rent Allowance (HRA) Rs. 15,000 p.m. He pays 18,000 p.m. as rent for his accommodation in Chennai

Solution:

Computation of Gross Salary of Mr Sanjay for AY 2020-21		Rs.
Basic salary (Rs. 48,000 × 12)		5, 76,000
D.A. (Rs. 18,000 × 12)		2, 16,000
H.R.A		25,920
Gross Salary		8, 17,920
Less: Standard deduction		50,000
Taxable Salary		7, 67,920
Calculation of H.R.A		
Least of the following amount will be exempt.		
i) Actual H.R.A. received (15,000×12)		1,80,000
ii) (Rent paid – 10% of salary) (2, 16,000– 61,920)		1, 54,080
Salary = (5, 76,000 + 43,200)		6, 19,200
iii) 50% of salary		3,09,600
Exempted amount		1, 54,080
Taxable amount = Rs. (1, 80,000 – 1, 54,080)		25,920
Note:		
1) Salary = 48,000 × 12= Rs 5,76,000		
2) DA= 2,16,000 × 20%= Rs 43,200		

Illustration 11

Mr. Rajeev an employee in a firm gets Rs 5,000 p.m. as salary, Rs. 800 p.m. as dearness allowance and Rs. 300 as city compensatory allowance. He is getting entertainment allowance of Rs. 800 p.m. He paid professional tax of Rs. 2,500. He is also getting a bonus equal to three month's salary. He resides in Agra (having population more than 25 lakhs) in a house owned by the firm. Fair rent of house is 1,500 p.m.

Compute his income under the head 'Salaries' for A.Y. 2021-22.

Solution:

Computation of Taxable Salaries of Mr Rajeev for AY 2021-22		Rs.
Salary @ Rs. 5,000 p.m		60,000
D.A. @ 800 p.m		9,600
C.C.A. @ 300 p.m		3,600
Entertainment allowance @ 800 p.m		9,600
Bonus equal to three month's salary		15,000

Perquisite:

Rent-free house @ 15% of salary 15% of 88,200 [60,000 (B.S) + 3,600 (C.C.A.) +9,600 (E.A.) + 15,000 (B)]	Rs. 13,230
Gross salary	1,11,030
Les: (i) Standard deduction	50,000
	61,030
Less: (ii) Professional tax	2,500
Taxable salary	58,530

Note:

- i) D.A. is not included in salary for calculation of rent-free accommodation because it is not under the terms of employment.
- ii) No deduction is allowed in respect of Entertainment allowance, as Mr. Rajeev is not a government employee.

Illustration 12

Mr. Radhey Shyam is employed in a company. He gets the following from the company:

- i) Salary @ 20,000 p.m.
- ii) Dearness allowance @ Rs. 2,000 p.m.
- iii) Medical allowance @ Rs. 5,000 p.m.
- iv) Bonus equal to 2 month's salary
- v) Commission @ Rs. 20,000 p.a.

The following perquisites are provided by the employer:

- i) A sweeper and a cook getting salary of Rs. 1,500 p.m. each.
- ii) A car of 1400 cc for his personal use for which the employer pays.
- iii) Rent-free unfurnished house in Etawah (Population less than 10 lakhs) owned by employer, annual rental value of which is Rs. 1,00,000
- iv) A gardener whose salary is Rs. 2,000 p.m.
- v) Free gas, electricity and water facility for private use, employer actually paid for this facility Rs. 20,000 for previous year.

Compute taxable salary of Mr. Radhey Shyam for the A.Y. 2021-22.

Solution:

Taxable salary of Mr. Radhey Shyam for the A.Y. 2021-22	Rs.
Salary @ Rs. 20,000 p.m	2, 40,000
D.A. @ Rs. 2,000 p.m	24,000
Medical allowance @ Rs. 5,000 p.m	60,000
Bonus equal to 2 months' salary	40,000
Commission	20,000
Rent free house (7.5% of salary)	26,250

Sweeper and Cook	Nil	
Car	Nil	
Free gas, electricity and water	Nil	
Gross salary		4, 10,250
Less: Standard deduction	50,000	
Taxable Salary		3, 60,250

Note:

- 1) Valuation of rent-free house 7.5% of 3,50,000 = Rs, 26,250 [Salary = Rs. 2,40,000 (B.S) + Rs. 50,000 (Medical Allowance.) + Rs. 40,000 (Bonus) + Rs. 20,000 (Commission) = 3,50,000]
- 2) Mr. Radhey Shyam is not a specific employee, so perquisite of sweeper, cook, gas, electricity, water and car is not taxable.
- 3) Facility of gardener is not regarded as perquisite because it is provided with a house owned by the employer.
- 4) Standard deduction can be allowed maximum up to gross salary.

Check Your Progress B

- 1) State whether following statements are True or False:
 - i) In respect of Government employees, ten percent 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) Facility of telephone provided to a specified employee is taxable perquisite.
 - iv) If the house is not owned by the employer, salary of gardener and maintenance expenses of the garden should not be added.
 - v) Free gas, supplied by Indian Oil Corporation to its employees is a taxable perquisite.
 - vi) Value of subsidized lunches is exempt while the value of free lunches is taxable perquisite.
 - vii) When car is owned by employer and all the expenses are borne by employee if car is used only for official use, the values of perquisite will be Nil.
 - viii) Any gift or token received from employer shall be exempted upto Rs. 10,000.
 - ix) Mr. Sahil went to Shimla. He stayed there in guest house of the company and saved Rs. 5,000 on account of accommodation. It is taxable.
 - x) Advance salary is not taxable under the head 'Salaries'.

2) What are the provisions relating to Leave Travel Concession as per Income Tax Act, 1961?

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3) What do you understand by Deductions? Explain.

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6.7 LET US SUM UP

Apart from cash payment, an employee also receives certain benefits in kind which can be convert into cash. These are called Perquisites. There are three types of Perquisite; it 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. 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.

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.

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

Perquisite: Casual emolument, 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 then to fatal accidents or whose existence is for the company’s prosperity. The premiums are invariably paid by the employer.

Specified Employee: The term denote those employees who are directors, employees substantially interested in a company or when monetary income under the head ‘salaries’ exceeds Rs. 50,000.

6.9 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress A

- 1) Salaries
- 2) Employer
- 3) Tax free
- 4) 10%
- 5) 15

Check Your Progress B

- i) False, ii) False, iii) False, iv) True, v) False, vi) False, vii) True, viii) False, ix) True x) False

6.10 TERMINAL QUESTIONS / EXERCISES

- 1) What is not included in 'Salary' for calculating the value of rent-free accommodation for a public employee?
- 2) What are the provisions of section 16 (ii) regarding entertainment allowance for non-government employees?
- 3) Compute the monetary income of 'A' from the following particular for A.Y. 2021-22 to ascertain whether he is a specified employee or not. Rs.

a) Basic salary	18,000 p.m.
b) D.A. (not forming part of salary for calculating retirement benefits)	5,000 p.m.
c) Education allowance	2,000 p.m.
d) Income tax paid by the employer on behalf of A.	1,000 p.m.

[Answer: A is a specified employee as his monetary income is more than Rs. 50,000 i.e. Rs. 38,000]

- 4) Mr. Sanjay is a private sector employee. He received the following emoluments. Rs.

a) Basic pay	8,000 p.m.
b) D.A. (not included for computing retirement benefits)	800 p.m.
c) Bonus (for the year)	15,000
d) H.R.A. received	9,000 p.a.
e) Exempted H.R.A.	5,000
f) Education allowance (He has two children)	500 p.m.

Compute 'salary' for the purpose of arriving at the perquisite value for rent-free accommodation.

[Answer: Rs. 1, 18,600]

- 5) Mr. Rakesh is employed in MNC. He received the following from the company.

Rs.

a) Salary	20,000 p.m.
b) D.A.	2,000 p.m.
c) Medical allowance	5,000 p.m.
d) Bonus equal to 2 months basic salary.	
e) Commission	20,000 p.a

The following perquisites are also provided by the employer.

- i) Rent-free unfurnished accommodation at Agra owned by employer.
- ii) Sweeper and a Cook getting salary of Rs. 1,500 p.m. each.
- iii) A Gardner getting salary of Rs. 2,000 p.m.
- iv) Free gas, electricity and water facility for personal use for which the employer pays Rs. 20,000 during the P.Y.

Compute taxable salary of Mr Rakesh for the A.Y. 2021-22

[Answer: 4,68,000]

- 6) Mr. Sahay joined Surya Private Ltd. His basic salary is Rs. 40,000 p.m. D.A. Rs. 2,000 p.m, education allowance Rs. 500 for one child and Rs. 1,500 p.m. as entertainment allowance during the P.Y. 2020-21. He paid Rs. 10,000 as professional tax. Determine his taxable salary for the A.Y. 2021-22.

[Answer: 4,66,800]

- 7) Mr. Rashid is employed in Khadi Gramodyog in Kanpur on a monthly salary of Rs. 12,000 p.m. He is getting bonus as two months' salary, entertainment allowance Rs. 5,000 p.a. The employer provides following perquisites.
- a) Car of 1800 c.c. for both private and official use. All the expenses are borne by the employer.
 - b) He has been given a personal loan of Rs. 50,000 at 5% interest on 1st Jan., 2020.
 - c) The employer spent Rs. 10,000 on the education of his son who is abroad.
 - d) The employee paid Rs. 4,000 as professional tax for the P.Y. 2020-21

Compute taxable income from salary of Mr. Rashid for A.Y. 2021-22

(Note: Assume rate of interest for personal loan is 11.9% as given by State Bank of India)

[Answer: 1,58,663]

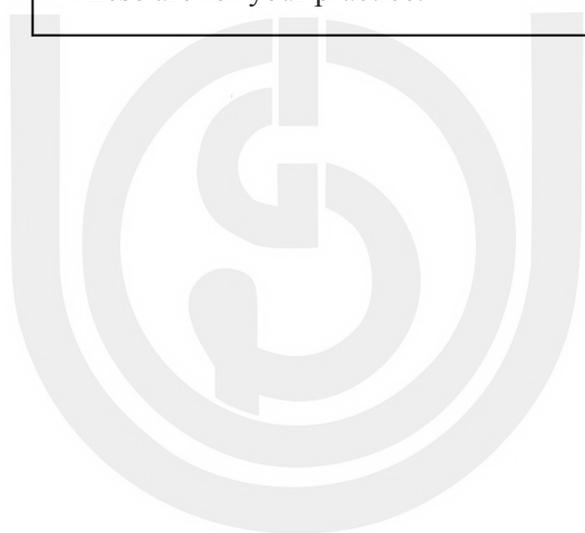
- 8) Mr Riyaz is reader in a college, run by a society, on a monthly salary of Rs 50,000. Besides salary he also gets 45% of salary as dearness allowance, Rs 1000 p.m., entertainment allowance and Rs 1000 p.m. as proctor's allowance. During the year, he gets Rs 500 p.m. as additional DA. Arrears of salary received Rs 30,000.

He contributes 10% of his salary to provident fund. The college contributes an equal amount interest credited to his provident fund @12% amounted to Rs 40,000. Three children of Mr Riyaz are studying in an institution run by the society, which runs the college for which to Rs 1,500 p.m. for one student. Mr Riyaz is provided with a rent free accommodation in a city (population 13 lakhs) which is owned by the college. Its fair rental value is Rs 2,500 p.m. A Gardner for the upkeep of the garden on the back side of the house is also provided. The salary of Gardner amounting to Rs 300 p.m. is also paid by the college. During the year Mr Riyaz proceeded on two months leave with full pay to his home at Jaipur. The college paid Rs 6,500 being the air fare to and from Jaipur for him and his wife for this purpose.

Compute the taxable salaries income of Mr Riyaz for the year ending on 31st march, 2021, for the assessment year 2021-22.

[Answer: Taxable salary = Rs. 9,68,733]

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



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