

HOW TO COMPUTE YOUR SALARY INCOME



SALARY

Wages

Annuity/
Pension

Gratuity

Commis-
sion

Advance
of Salary

Provident
fund

Leave
Encash-
ment

Fees

Compen-
sation



Income Tax Department

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HEADS OF INCOME

For computation of total income, all income shall be classified under the following heads of income:

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

The total income from all the above heads of income is calculated in accordance with the provisions of the Act as they stand on the first day of April of any assessment year.

WHAT IS SALARY INCOME

“Salary” is the remuneration received by or accruing to an individual, periodically, for service rendered as a result of an express or implied contract. The actual receipt of salary in the previous year is not material as far as its taxability is concerned. The existence of employer-employee relationship is necessary for taxing a particular receipt under the head “salaries.” Salaries also includes (i) Wages (ii) Annuity or pension (iii) Gratuity (iv) Fees, Commission, perquisites or profits in lieu of salary (v) Advance of Salary (vi) Amount transferred from unrecognized provident fund to recognized provident fund (vii) Contribution of employer to a Recognised Provident Fund in excess of the prescribed limit (viii) Leave Encashment (ix) Compensation as a result of variation in Service contract etc. (x) Contribution made by the Central Government to the account of an employee under a notified pension scheme etc.

Salary is taxed on "due basis" or "accrual basis", whichever is earlier. This means that salary which is not actually received, but already due to be received, is also taxable. Arrear of salary paid by the employer (including former employer) to the taxpayer during the previous year, if not charged to tax in any earlier year is also taxable. Income from salary is also taxable in the India if:

- (i) services are rendered in India even if it is paid outside India;

- (ii) It is paid by foreign government to its employees serving in India;
- (iii) Leave salary is paid abroad in respect of leave earned in India.

WHAT IS A PERQUISITE?

“Perquisite” refers to any casual emolument or benefit attached to an office or position in addition to salary or wages including:

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

HOW TO VALUE A PERQUISITE

As a general rule, the taxable value of perquisites in the hands of the employees is its cost to the employer. For details, reference may be made to TPI Series booklet “*Valuation of Perquisites*”. The specific rules for valuation of certain perquisites have been laid down in the Rule 3 of the Income Tax Rules 1962.

Some instances of perquisites exempt from tax are given below:

- ◆ Provision of medical facilities: Value of medical treatment in any hospital maintained by the Government or any local authority or approved by the Chief Commissioner of Income-tax. Besides, any sum paid by the employer towards medical reimbursement other than as discussed above is exempt upto Rs. 15,000/-.

- ◆ Perquisites allowed outside India by the Government to a citizen of India for rendering services outside India.
- ◆ Rent free official residence provided to a Judge of High Court or Supreme Court or an Official of Parliament, Union Minister or Leader of Opposition in Parliament.
- ◆ No perquisites shall arise of interest free/concessional loans made available for medical treatment of specified diseases or where the loan is petty not exceeding in the aggregate Rs. 20,000/-.
- ◆ No perquisite shall arise in relation to expenses on telephones including a mobile phone incurred on behalf of the employee by the employer.

WHAT IS AN ALLOWANCE

Allowance is defined as a fixed quantity of money or other substance given regularly in addition to salary for meeting specific requirements of the employees. As a general rule, all allowances are to be included in the total income unless specifically exempted. Exemption in respect of following allowances is allowable to the extent mentioned against each:-

- House Rent Allowance:-Provided that expenditure on rent is actually incurred, exemption available shall be the least of the following:
 - (i) HRA received.
 - (ii) Rent paid minus 10% of salary.
 - (iii) 40% of Salary (50% in case of Mumbai, Chennai, Kolkata, Delhi)
Salary here means Basic + Dearness Allowance, if dearness allowance is provided by the terms of employment.
- Leave Travel Allowance: The amount actually incurred on performance of travel on leave to any place in India by the shortest route to that place is exempt. This is subject to a maximum of the air economy fare or AC 1st Class rail fare (If journey is performed by mode other than air) by such route. If journey is made by

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from such person's salary.

1. Taxable Income and /or tax deducted thereon.
2. Loss under the head Income from House property [refer section 192(2B)]

Income Tax Rates for A.Y. 2019-20:-

For Individuals less than 60 years of age

Taxable income	Tax Rate
Up to Rs. 2,50,000	Nil
Rs. 2,50,000 to Rs. 5,00,000	5 %
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Individuals of age 60 years or more but less than 80 years

Taxable income	Tax Rate
Up to Rs. 3,00,000	Nil
Rs. 3,00,000 to Rs. 5,00,000	5%
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Individuals of 80 years and above

Taxable income	Tax Rate
Up to Rs. 5,00,000	Nil
Rs. 5,00,000 – Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

In addition to the Income Tax amount calculated, based on the above-mentioned tax slabs, individuals are required to pay Surcharge and Cess.

- **Surcharge:** 10% of income tax, where total income exceeds Rs.50 lakh up to Rs.1 crore.
- **Surcharge:** 15% of income tax, where the total income exceeds Rs.1 crore.
- **Health & Education Cess:** 4% of Income Tax & Surcharge.

CALCULATION OF INTEREST

The Income Tax Act provides for charging of interest for non-payment/short payment/deferment in payment of advance tax which is calculated as below:

(i) INTEREST U/S 234A:

For late or non furnishing of return, simple interest @ 1% for every month or part thereof from the due date of filing of return to the date of furnishing of return, on the determined tax as reduced by TDS/ advance tax paid or tax reliefs, if any.

(ii) INTEREST U/S 234B:

For short fall in payment of advance tax by more than 10%, simple interest @1% per month or part thereof is chargeable from 1st April of the assessment year to the date of processing u/s 143(1) or to the date of completion of regular assessment, on the determined tax less advance tax paid/TDS or tax reliefs, if any.

(iii) INTEREST U/S 234C:

For deferment of advance tax. If advance tax paid by 15th September is less than 30% of advance tax payable, simple interest @ 1% is payable for three months on tax determined on the returned income, as reduced by TDS/TCS/Amount of advance tax already paid or tax relief, if any. Similarly, if amount of tax paid on or before 15th

December is less than 60% of tax due on returned income, interest @ 1% per month is to be charged for 3 months on the amount stated as above. Again, if the advance tax paid by 15th March is less than tax due on returned income, interest @ 1% per month on the shortfall is to be charged for one month.

(iv) INTEREST U/S 234D

Interest @ 0.5% is levied when any refund is granted to the assessee u/s 143(1) and on regular assessment it is found that either no refund is due or the amount already refunded exceeds the refund determined on regular assessment. The said interest is levied @ 0.5% on the whole or excess amount so refunded for every month or part thereof from the date of grant of refund to the date of such regular assessment.

DUE DATES FOR PAYMENT OF ADVANCE TAX

Liability for payment of advance tax arises where the amount of tax payable by the assessee for the year in excess of the TDS/TCS deducted or collected plus other tax reliefs is Rs. 10,000/- or

more. The due dates for various installments of advance tax are given below:

DUE DATE	AMOUNT PAYABLE
(i) On or before 15th June	Not less than 15% of advance tax payable.
(ii) On or before 15th September .	Not less than 45% of advance tax payable.
(iii) On or before 15th December .	Not less than 75% of advance tax payable.
(iv) On or before 15th March.	Entire balance amount of such advance tax payable.

Also, any amount paid by way of advance tax on or before 31st March is treated as advance tax paid during the financial year.

DUE DATES FOR FILING RETURNS

The due date of filing of return of income in case of salaried employees is 31st of July. If the return of income has not been filed within the due date, a belated return may still be furnished before the expiry of one year from the end of the assessment year or completion of assessment, whichever is earlier. Individual (other than an individual of the age of 80 years or more at anytime during the previous year) having a refund claim in the return or having total income of more than Rs. 5,00,000 is required to furnish the return of income electronically.

Fee for Belated ITR

A fee of Rs.5,000/-, in case ITR is filed after due date but on/before 31st December of the Assessment Year and Rs. 10,000/- in case ITR is filed after 31st December of Assessment Year, is payable by the taxpayer. This amount of late fee is required to be paid before filing the Income Tax Return.

However, if the total income of the person doesn't exceed Rs.5 lakhs, the maximum late fee payable is Rs.1,000/-.

DIRECTORATE OF INCOME TAX
(Public Relations, Publications & Publicity)
6th Floor, Mayur Bhawan, New Delhi

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This brochure should not be construed as an exhaustive statement of the law. For details - reference should always be made to the relevant provisions in the Acts and the Rules.