OUTCOMES-

1. **Meaning of Salaries:**
    - Salaries include payments received by an employee from an employer in cash, kind, or as a facility.
    - It encompasses basic salary, allowances, bonuses, commissions, and any other monetary benefits.
2. **Allowances:**
    - Allowances are additional amounts paid to employees over and above the basic salary.Common allowances include house rent allowance (HRA), conveyance allowance, and special allowances.
3. **Prerequisites:**
    - Prerequisites refer to non-monetary benefits provided by the employer, such as a company car, accommodation, or stock options.
4. **Valuation of Prerequisites:**
    - The valuation of prerequisites involves determining the monetary value of non-cash benefits provided by the employer.
    - Different valuation methods may apply to different prerequisites.
5. **Provident Fund:**
    - Provident Fund (PF) contributions are a common part of salary structures, where both the employer and employee contribute to a fund that serves as a retirement savings mechanism.

1. **Meaning of House Property Income:**

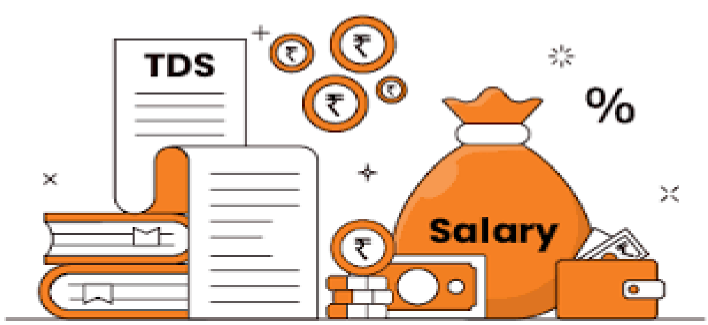
This income can arise from letting out the property or from its self-occupation.

2. **Components of House Property Income:**
    - Rental Income: If the property is let out
    - Annual Value: For self-occupied properties, the annual value is considered as nil for taxation. The actual rent received or the municipal valuation, whichever is higher.
3. **Deductions Allowed:**
    - Standard Deduction: A certain percentage of the annual value (usually 30%) is allowed as a standard deduction to cover repairs and maintenance.
    - Municipal Taxes: Taxes paid to the local municipality can be deducted from the annual value.
4. **Co-ownership and Deemed Ownership:**
    - If a property is co-owned, the share of each co-owner is considered separately for taxation.
    - There are provisions for deemed ownership, where even if a taxpayer is not the legal owner, they might be deemed as the owner for taxation purposes.

HEADS OF INCOME

Heads of Income" refers to the different categories under which taxpayers report their income for the purpose of taxation.

"Salaries" is one such head of income. Let's break down the various components within the "Salaries" head and discuss each in detail:



1.BASIS SALARY- This is a fixed component in your paycheck and forms the basis of other portions of your salary, hence the name. For instance, HRA is defined as a percentage (as per the company's discretion) of this basic salary. Your PF is deducted at 12% of your basic salary. It is usually a large portion of your total salary.

2.House Rent Allowance

Salaried individuals, who live in a rented house/apartment, can claim house rent allowance or HRA to lower tax outgo. This can be partially or completely exempt from taxes. The income tax laws have prescribed a method for computing the HRA that can be claimed as an exemption.

Also do note that, if you receive HRA and don't live on rent your HRA shall be fully taxable.

3.Leave Travel Allowance

Salaried employees can avail exemption for a trip within India under LTA. The exemption is only for the shortest distance on a trip. This allowance can only be claimed for a trip taken with your spouse, children, and parents, but not with other relatives. This particular exemption is up to the actual expenses, therefore unless you actually take the trip and incur these expenses, you cannot claim it. Submit the bills to your employer to claim this exemption.

4.BONUS

The bonus is usually paid once or twice a year. Bonus, performance incentive, whatever may be its name, is 100%

taxable. Performance bonus is usually linked to your appraisal ratings or your performance during a period and is based on the company policy.

5.Employee Contribution to Provident Fund (PF)

Provident Fund or PF is a social security initiative by the Government of India. Both employer and employee contribute a 12% equivalent of the employee's basic salary every month toward employee's pension and provident fund. An interest of about 8.55% from FY 2017-18 (earlier it was 8.65%) gets accrued on it. This is a retirement benefit that companies with over 20 employees must provide as per the EPF Act, 1952.

6.Standard Deduction

Standard Deduction has been reintroduced in the 2018 budget. This deduction has replaced the conveyance allowance and medical allowance. The employee can now claim a flat Rs. 50,000 (Prior to Budget 2019, it was Rs. 40,000) deduction from the total income, thereby reducing the tax outgo.

7.Professional Tax

Professional tax or tax on employment is a tax levied by a state, just like income tax which is levied by the central government. The maximum amount of professional tax that can be levied by a state is Rs 2,500. It is usually deducted by the employer and deposited with the state government. In your income tax return, professional tax is allowed as a deduction from your salary income.

Broadly your CTC will include:

1. Salary received each month.
2. Retirement benefits such as PF and gratuity.
3. Non-monetary benefits such as an office cab service, medical insurance paid for by the company, or free meals at the office, a phone provided to you and bills reimbursed by your company.

Your take-home salary will include:

1. Gross salary received each month.
2. *Minus* allowable exemptions such as HRA, LTA, etc.
3. *Minus* income taxes payable (calculated after considering Section 80 deductions).

SECTION III: Retirement Benefits

1. **Exemption of Leave Encashment**

Check with your employer about their leave encashment policy. Some employers allow you to carry forward some amount of leave days and allow you to encash them while others prefer that you finish using them in the same year itself. The amount received as compensation for leave days accumulated is referred to as leave encashment and it is taxable as salary.

Exemption of leave encashment from tax:

It is fully exempt for Central and State government employees. For non-government employees, the least of the following three is exempt.

1. 10 months average salary preceding retirement or resignation (where average salary includes basic and DA and excludes perquisites and allowances)
2. Leave encashment actually received. (this is further subject to a limit of Rs 3,00,000 for retirements after 02.04.1998)
3. Amount equal to salary for the leave earned (where leave earned should not exceed 30 days for every year of service)

The amount chargeable to tax shall be the total leave encashment received minus exemption calculated as above. This is added to your income from salary.

2.**Relief Under Section 89(1)**

You are allowed tax relief under Section 89(1), when you have received a portion of your salary in arrears or in advance, or have received a family pension in arrears. **Calculate the Tax Relief Yourself**

1. Calculate the tax payable on the total income, including additional salary in the year it is received.
2. Calculate the tax payable on the total income, excluding additional salary in the year it is received
3. Calculate the difference between Step 1 and Step 2
4. Calculate the tax payable on the total income of the year to which the arrears relate, excluding arrears
5. Calculate the tax payable on the total income of the year to which the arrears relate, including arrears
6. Calculate the difference between Step 4 and Step 5
7. The excess amount at Step 3 over Step 6 is the tax relief that shall be allowed.

Note that if the amount at Step 6 is more than the amount at Step 3, no relief shall be allowed.

3. Exemption on Receipts at the Time of Voluntary Retirement

Any compensation received on voluntary retirement or separation is exempt from tax as per the Section 10(10C). However, the following conditions must be fulfilled

1. Compensation received is towards voluntary retirement or separation
2. Maximum compensation received does not exceed Rs 5,00,000.
3. The recipient is an employee of an authority established under the Central or State Act, local authority, university, IIT, state government or central government, notified institute of management, or notified institute of importance throughout India or any state, PSU, company or a cooperative society.
4. The receipts are in compliance with Rule 2BA.

No exemption can be claimed under this section for the same AY or any other if relief under Section 89 has been taken by an employee for compensation of voluntary retirement or separation or termination of services.
Note: Exemption can only be claimed in the assessment year the compensation is received.

4. Pension

Pension is taxable under the head salaries in the income tax return. Pension is paid out periodically on a monthly basis usually. You may also choose to take pension as a lump sum (also called commuted pension) instead of a periodical payment. At the time of retirement, you may choose to receive a certain percentage of your pension in advance.

Commuted and Uncommuted Pension Commuted pension or lump sum received may be exempt in certain cases. For a government employee, commuted pension is fully exempt. Uncommuted pension or any periodical payment of pension is fully taxable as salary.

5. Gratuity

Gratuity is a retirement benefit that employers provide for their employees. The employee is entitled to receive gratuity when he completes five years of service at that company. It is, however, only paid on retirement or resignation. Gratuity received on retirement or death by a central, state or local government employee is fully exempt from tax for the employee or his family. The tax treatment of your gratuity is different, depending on whether your employer is covered by the Payment of Gratuity Act. Check with your company about its status, and then proceed to calculate.

1. Income Chargeable to Tax

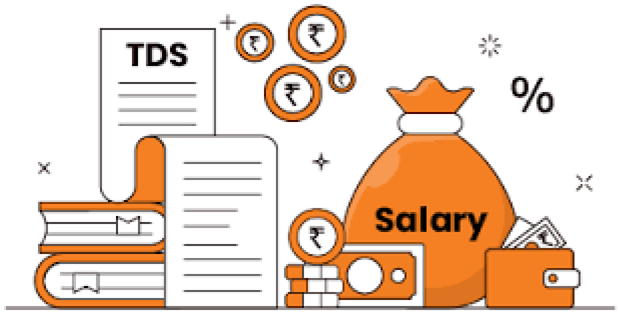
Your income is not equal to your salary. You could earn income from several other sources other than your salary income. Your total income, according to the Income Tax Department, could be from house property, profit or loss from selling stocks or from interest on a savings account or on fixed deposits. All these numbers get added up to become your gross income.

Income from Salary	All the money you receive while rendering your job as a result of an employment contract
Income from house property	Income from house property you own; property can be self-occupied or rented out.
Income from other sources	Income accrued from fixed deposits and savings account come under this head.
Income from capital gains	Income earned from the sale of a capital asset (mutual funds or house property).
Income from business and profession	Income/loss arising as a result of carrying on a business or profession. Freelancers income come under this head.

2. **Tax Rates**

Add up all your income from the heads listed above. This is your gross total income. From your gross total income, deductions under Section 80 are allowed to be claimed. The resulting number is the income on which you have to pay tax.

3. TDS on Salary



TDS is tax deducted at source. Your employer deducts a portion of your salary every month and pays it to the Income Tax Department on your behalf. Based on your total salary for the whole year and your investments in tax-saving products, your employer determines how much TDS has to be deducted from your salary each month.

For a salaried employee, TDS forms a major portion of an employee's income tax payment. Your employer will provide you with a TDS certificate called Form 16 typically around June or July showing you how much tax was deducted each month. Your bank may also deduct tax at source when you earn interest from a fixed deposit. The bank deducts TDS at 10% on FDs usually. A 20% TDS is deducted when the bank does not have your PAN information.

4. Form 16

Form 16 is a TDS certificate. Income Tax Department mandates all employers to deduct TDS on salary and deposit it with the government. The Form 16 certificate contains details about the salary you have earned during the year and the TDS amount deducted.

It has two parts: Part A with details about the employer and employee name, address, PAN and TAN details and TDS deductions.

Part B includes details of salary paid, other incomes, deductions allowed, tax payable.

5. **Form 26AS**

Form 26AS is a summary of taxes deducted on your behalf and taxes paid by you. This is provided by the Income Tax Department. It shows details of tax deducted on your behalf by deductors, details on tax deposited by taxpayers and tax refund received in the financial year. This form can be accessed from the IT Department's website.

6. **Deductions**

The lower your taxable income, the lower taxes you ought to pay. So be sure to claim all the tax deductions and benefits that apply to you. Section 80C of the Income Tax Act can reduce your gross income by Rs 1.5 lakhs. There are a bunch of other deductions under Section 80 such as 80D, 80E, 80GG, 80U etc. that reduce your tax liability.

Meaning of Salaries:

Salaries include any payments received by an employee from an employer in cash, kind, or any other form. This typically includes basic salary, allowances, bonuses, and perquisites.

-Any remuneration is due from the employer to any former employee (assessee) for the due course of his employment in the previous year, whether paid or not.

-Salary paid to an employee by the employer or former employer in the previous year even though it was not due to him.

-Salary paid to an employee by the employer or former employer in the previous year which was not charged under income tax in any other previous years.

-The key element of this head is that it mandates a relationship between employer and employee. If an employer-employee relationship is not there, the income will not be accessible under the head of salaries.

Section 17 of the Act has mentioned the term 'salary', which included-

1.Wages;

2.Any annuity or pension;

3.Any gratuity;

4.Any charges, commissions, perquisites or benefits in lieu of or notwithstanding any compensation or wages;

5.any advance of salary;

6.Any payment received by a worker in regard to any time of leave not benefited by him;

7.The yearly accumulation to the balance at the employee partaking in a perceived Provident Fund, to the degree to which it is chargeable to assess under Rule 6 of Part A of the fourth schedule;

8.The total of all wholes that are included in the transferred parity as alluded to in sub-rule 2 of Rule 11 of PartA of the Fourth schedule of an employee partaking in a perceived Provident Fund, to the degree to which it is chargeable to assess under sub-rule 4 thereof; and

9.The contribution made by the Central Government or any other employer in the previous year, to the account of an employee under a pension scheme, referred to in Section 80CCD

Allowances:

Allowances are additional payments made by the employer to the employee for specific purposes. Common allowances include House Rent Allowance (HRA), Dearness Allowance (DA), Travel Allowance, etc. While some **allowances are fully taxable, others may be partially or fully exempt.**

The employer pays allowances to his employees in order to fulfill his personal expenses. Allowances can be fully taxable or partly taxable. Partly taxable allowances include house rent allowance and special allowances under section 10(14) (i)&(ii).

Fully taxable allowances are:

1.Dearness Allowance

2.Overtime allowance

3.Fixed Medical Allowance

4.Tiffin Allowance

5.Servant Allowance

6.Non-practicing Allowance

7.Hill Allowance

8.Warden and Proctor Allowance

9.Deputation Allowance

Prerequisites:

Prerequisites are benefits or amenities provided by the employer to the employee. These can be in the form of rent-free accommodation, concessional loans, free or concessional education for employee's children, etc.

Taxable perquisites include

1.Rent free accommodation

2.Interest free loans

3.Movable assets

4.Educational expenses

5.Insurance premium paid on behalf of employees

6.Exempted perquisites include:

7.Medical benefits

8.Leave travel concession

9.Health Insurance Premium

10.Car, laptop etc. for personal use.

11.Staff Welfare Scheme

Profits in Lieu of Salary

Section 17(3) gives a comprehensive meaning of profits in lieu of salary. Any payment due or accrued to be paid to the employee by the employer. Payment to be valid under section 17(3), there are two essential features-

1.There must be compensation received by an assessee from his employer or former employer;

2.It is received at or in connection with the termination of his employment or adjustment of terms and conditions.

'Profit in lieu of Salary' is taxable on 'due' or 'receipt' basis. Payment from unrecognized provident or superannuation fund is taxable as "profit in lieu of salary" if that balance consists employer's contribution or interest on an employer's contribution.

Exceptions to section 17(3) (exempted under section 10)

1.Death cum retirement gratuity;

2.House rent allowances;

3.Commuted value of pension;

4.Retrenchment pay received by an employee;

5.Payment received from a statutory provident fund or recognized provident fund;

6.Any payment from an approved superannuation fund;

7.Payment from the recognized provident fund.

Computation of income tax on salary

An individual, let's say, Mr. A, receives the following pay –

Basic salary – Rs. 2,50,000 per annum;

Dearness Allowance – Rs. 10,000 per annum;

Entertainment Allowance – Rs. 3,000 per annum;

Professional Tax – Rs. 1,500 per annum; then how much amount will be taxable from his salary?

Ans. Find out total gross salary = basic salary + Dearness Allowance + Entertainment Allowance, i.e., 2,50,000 + 10,000 + 3,000 = 2,63,000.

As per deduction under section 16(iii) = 2,63,000 – 1500 = Rs. 2,61,500

Income tax rate on income Rs. 2,61,500 is 5%, which will be equal to Rs. 13,075 and this much amount will be taxable.

Valuation of Prerequisites:

The valuation of prerequisites involves determining the monetary value of the benefits provided by the employer. Different prerequisites have different valuation methods, and the taxable amount is added to the employee's income.

Provident Fund:

Provident Fund (PF) is a mandatory savings scheme in which both the employer and the employee contribute a certain percentage of the employee's salary. The employer's contribution is exempt, but the **employee's** contribution may be taxable under certain circumstances.

Now, let's go through a simple numerical example to illustrate the taxation of salaries and its components:

Numerical

1.Suppose an employee's salary details are as follows:

Basic Salary: $50,000 per month

HRA: $10,000 per month

Other Allowances: $5,000 per month

Rent-free accommodation provided by the employer: $15,000 per month

Calculation:

Gross Salary:

Gross Salary = Basic Salary + HRA + Other Allowances

Gross Salary = \$50,000 + \$10,000 + \$5,000 = \$65,000 per month

Valuation of Prerequisites:

Taxable value of rent-free accommodation = Fair Rent - Rent Recovered from Employee

Taxable value = \$15,000 - \$2,000 (if any rent recovered from the employee) = \$13,000 per month

Total Income:

Total Income = Gross Salary + Valuation of Prerequisites

Total Income = \$65,000 + \$13,000 = \$78,000 per month.

NUMERICAL-2

Suppose Mr. X, an employee, has the following salary details for the financial year:

Basic Salary: \$60,000 per month

House Rent Allowance (HRA): \$15,000 per month

Special Allowance: $10,000 per month

Provident Fund Contribution (Employee's share): $5,000 per month

Company-provided Car (Valuation): $20,000 per month

Calculation:

1. **Gross Salary:** $GrossSalary = BasicSalary+HRA+SpecialAllowance$
   Gross Salary = $60,000 + $15,000 + $10,000 = $85,000 per month
2. **Valuation of Company Car:** Assuming a standard valuation method, taxable value of the company car could be a percentage of its original cost. Let's say it's 10%.$=10 TaxableValueofCar=10$
3. **Total Income:** $TotalIncome=GrossSalary+ValuationofPrerequisites-ProvidentFundContribution(Employee's share)$ Total Income = $85,000 + $2,000 - $5,000 = $82,000 per month

INCOME FROM HOUSE PROPERTY

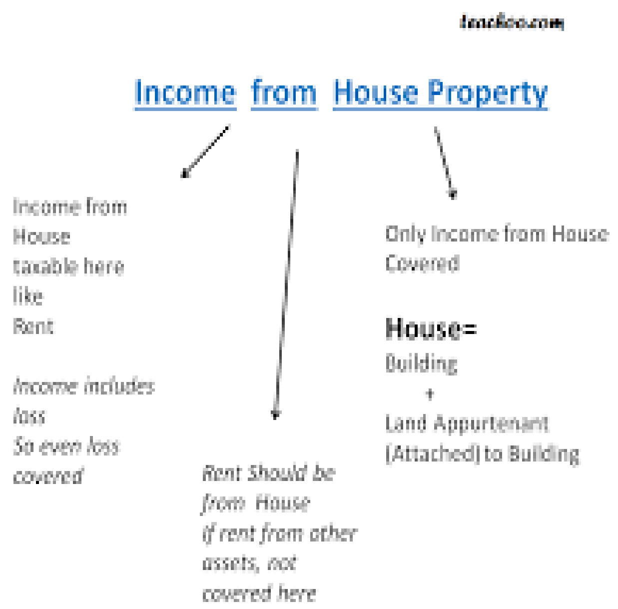
The total net assessable estimation of property, comprising of any buildings/lands/flats belonging to the assessee, when assessee is the owner apart from the property which is under the use for any business or profession undertaken by him, the proceeds of which are taxable under the income tax act, falls under the ambit of income from house property. (section 22)

The income from house property includes lease-hold and deemed ownership.

The income from house property is taxable after considering the deductions under Section 24 of the act. In the case of repairing and maintenance of the property, thirty percent of the Net Annual Value is deductible. This deduction is not allowed on a self-occupied property.

For the purpose of computation of income from house property, house properties are divided into three categories. House property which :

1. Were let out during the whole previous year
2. Were partly vacant but partly let out.
3. Let out for some time and then used for personal residence.



Deemed ownership-

Section 27 provides that certain persons are not legal owners of a property but are still considered to be deemed owners under certain conditions.

Condition 1 – Transfer of property to a child or spouse, without consideration.

Condition 2 – Holder of an impartible estate is deemed to be the owner of the entire estate.

Condition 3 – Members of a co-operative society or company or association of person

Condition 4 – Person in possession of a property on lease for more than 12 years as per Section 269UA(f).

Co-owners of a property – Section 26

If there are two or more owners of a property and if the share of co-owners is determinate, the income generated from such property is calculated as income from one property and it is divided amongst co-owners. They are entitled to relief under section 23.

Unrealized rent (rent not paid by the tenant for some reason)

The unrealized rent is not included while calculation of net annual value. If the rent is received in the subsequent years, then the amount will be added to the income from house property of that particular year.

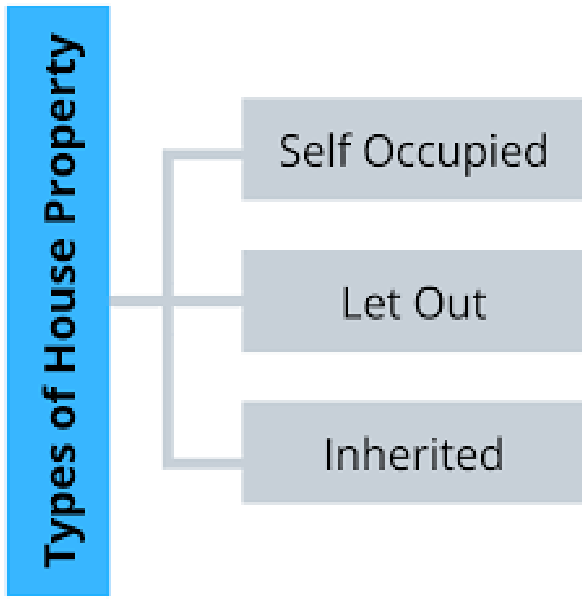
Set-off and carry forward of losses

Under Section 70 of the Income Tax Act, if a person has incurred losses from house property, he is allowed to set them off from the income of any other house property.

Section 71 of the Act lays down the provision of setting off the losses from house property from any other heads of Incomes but not casual income (income which might not arise again)

The unadjusted losses are allowed to be carried forward for a maximum period of 8 years starting from the year succeeding to the year in which loss has occurred. In the subsequent years, the set-off is allowed only from the head 'Income from House Property'.

The amount of losses that can be set-off on the house property from other income heads is restricted to Rs 2 lakh either house is a self-occupied or let out property.



Computation of Income from House Property

Step 1 – deduct the municipal taxes paid during the year from the Gross Annual Value, which will be Net Annual Value.

Step 2 – deduct the amount under section 24(a) and under section 24(b) for which deduction is provided.

Example –

An individual, let's say Mr. X owned three properties and give it on rent. What will the Gross Annual Value of all the Properties? Details of the properties provided below-

Particulars	Property 1	Property 2	Property 3
Municipal Rent	7,50,000	7,50,000	2,00,000
Fair Rent	2,00,000	2,00,000	7,50,000

Standard Rent	–	80,000	9,00,000
Amount at Step 1	8,00,000	50,000	8,50,000
Unrealised Rent	1,00,000	NIL	50,000

Ans : Step 1: reasonable expected rent, higher values of municipal rent or fair rent.

Particulars	Property 1	Property 2	Property 3
Municipal Rent	7,50,000	7,50,000	2,00,000
Fair Rent	2,00,000	2,00,000	7,50,000
Standard Rent	•	80,000	9,00,000
Amount at Step 1	7,50,000	80,000	7,50,000

Step 2: deduct unrealised rent (e.g. 8,00,000-1,00,000)

Particulars	Property 1	Property 2	Property 3
Amount at step 2	7,00,000	50,000	8,00,000

Step 3: higher values computed from step 1 and step 2 will be Gross Annual Income.

Particulars	Property 1	Property 2	Property 3
Amount at step 1	7,50,000	80,000	7,50,000

Amount at step 2	7,00,000	50,000	8,00,000
Amount at step 3	7,50,000	80,000	8,00,000