

## **Quadrant II - Notes**

**Paper Code: COC109**

**Module Name: Allowances, Perquisites and Deductions**

**Module No:13**

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### **Perquisites U/s 17 (2)**

**Perquisites are defined as including the following:**

1. Value of rent free accommodation; provided to the assessee by the employer
2. Value of any concession in the matter of rent in respect of rent on accommodation provided to the employees by the employer
3. Value of benefit granted or provided free of cost or at concessional rate in any of following cases:
  - i) By a company to an employee who is a director thereof;
  - ii) By a company to an employee, being a person who has substantial interest in the company,
  - iii) By any employer (excluding non monetary benefits), exceeds Rs.50,000
4. Any sum paid by the employer in respect of any obligation which otherwise such payment would have been payable by the assessee.
5. Any sum payable by employer, whether directly or through a fund other than a recognised fund to effect an assurance on life of the assessee or to effect a contract for an annuity;
6. 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.
7. Employer contribution to an approved superannuation fund by the employer in respect of the assessee to the extent it exceeds Rs.1,50,000; and
8. Value of any other fringe benefit or amenity as may be prescribed.

Following items can be listed as taxable perquisites in the hands for an employee:

1. Any residential accommodation given to the employee without charging any rent or charging rent at a concessional rate.
2. Free supply of gas, electricity or household consumption.
3. Wages paid by the employer for the domestic servant employed by the employee.
4. Value of free boarding and lodging expense.
5. Free education facilities to the children of the employee or reimbursement of tuition fees or children education allowance to the extent it is not exempted u/s 10 (14) of Income Tax Act.
6. Subscription and bills paid to the clubhouses by the employer.
7. Vacation at holiday homes or holiday trips at the cost of employer.
8. Income tax due on salary paid by the employer.
9. Use of motorcar with or without a driver, at the cost of the employer for personal use.
10. LTC Not taxable twice in block of 4 years

Certain perquisites are **not liable** to tax as per the instructions issued by the Central Board of Direct Taxes:

1. **Subsidized** lunch or dinner provided to an employee.
2. **Free refreshment** provided to the employees by the employer during the **office hours** and in the official premises.
3. Recreational facilities provided to the employees by the employer provided such facilities are for the **common benefit** of all the employees and not for the specific class of employees.
4. Amount **spent on training** of employees or fees paid for refreshment/management course.
5. Telephone provided at the residence of an employee.
6. **Provision of medical facilities.**
7. Goods sold by an employer to his employees at **concessional** rates.
8. **Perquisites allowed outside India by the Government to a citizen of India for rendering service outside India.**
9. Free holiday trip to **non specified** employees
10. **Rent free official residence provided to a Judge of a High court or of the Supreme Court.**
11. **Conveyance** facilities provided to an employee to cover the journey **between office and residence.**
12. Actual travelling expenses paid/reimbursed by an employer for journey undertaken by employer for business purposes.
13. **Computer or Laptop** provided whether to use at office or at home (provided ownership is **not transferred** to the employee)
14. **Gift in kind** up to ₹5000/- exempt

**Deduction under section 16 of Income Tax Act 1961:**

1. Standard deduction of ₹ 50,000/- or the amount of salary, which ever is lower for the assessment year 2020-21

**2. Entertainment allowance U/S 16 (ii):**

Entertainment allowance first included in salary income under the head ‘Salaries’ and thereafter a deduction is given on the basis of the following

- a. ₹ 5000;
- b. 20% of basic salary
- c. Amount of entertainment allowance granted during the previous year.

For the purpose “salary” excludes any allowance, benefit or other perquisites.

Amount actually expended towards entertainment

Non government employee **cannot avail** benefit of this deduction.

### **3.Deduction available for Professional Tax u/s 16 (iii):**

Profession tax or **tax on employment** by a State Government under article 276 of the constitution is allowed as deduction as under:

- a. Deduction is available only in the year in which professional tax is paid.
- b. If the professional tax is paid by the employer on behalf of employee, it is first included in the salary of the employee as a “perquisite” (since it is an obligation of the employee discharged by the employer, it is taxable whether the employee is a specified employee or not) and then the same amount is allowed as deduction on account of “professional tax” from gross salary.
- c.) There is no monetary ceiling under the Income-tax Act. Under article 276 of the Constitution, a State Government **cannot impose more than Rs. 2,500 per annum** as professional tax. Under the income-tax Act, whatever professional tax is paid during the previous year is deductible.

### **How to compute Salary Income?**

Particulars	Amount	Amount
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Basic pay		XXX
+ Dearness Allowance		XXX
+ Annuity		XXX
+ Bonus		XXX
+ Commission		XXX
+ Arrears of salary		XXX
+ House Rent Allowance u/s 10(13A)	XXX	
-Amount of HRA Exempted	(XXX)	XXX
Entertainment Allowance		XXX
Special Allowance u/s 10(14)	XXX	
-Amount of exmpt	(XXX)	XXX
Other allowance		XXX
VRS/Retrechment compensation	XXX	
-#Amount of exempted	(XXX)	XXX
+ Leave Travel Concession Concession	XXX	
- Amount exempted on Leave Travel	(XXX)	XXX
+Pension	XXX	
# Amount of exempted	(XXX)	XXX
Leave Encashment during service		XXX
+ Perquisites	XXX	
#(Amount of exempted)	(XXX)	XXX
+Employers contribution in excess of 12% salary of employee towards RPF)		XXX
+ Interest on on RPF in excess of 9.5%		XXX
<b>Gross Salary</b>		<b>XXXX</b>
<b>Deduction u/s 16</b>		
<b>Standard Deduction</b>		<b>(XXX)</b>
<b>Entertainment Allowance (Govt. employees)</b>		<b>(XXX)</b>
<b>Professional Tax paid</b>		<b>(XXX)</b>
<b>Taxable Salaries</b>		<b>XXXX</b>