

# **CHAPTER 4 INCOME FROM SALARY**

## **1. What do you mean by salary?**

In general, the term salary refers to any remuneration received by an employee from his employer in consideration of his service.

## **2. What is advance salary? How is it treated?**

In case an assessee is received salary in advance in a previous year, which was actually not due in that year; it shall be taxable in the year of receipt. On the other hand, if any loan is taken against salary, it is not treated as advance salary.

## **3. What is perquisite?**

A perquisite means benefits given to employees in addition to salary or bonus. Any casual emoluments, fee or profit attached to an office or position in addition to salary or wages.

The taxable value of the perquisite shall be the total wages paid or payable by the employer, less any amount recovered from the employee for providing such services.

## **4. What is transferred balance?**

If URPF is recognized by the CIT for the first time, the balance standing to the credit of the employee in the URPF account will be transferred to his RPF A/c. the amount so transferred is known as transferred balance.

## **5. What are the various items that are included under the head salary? Sec 17(1)**

U/S 17 (1) of the IT Act, salary includes Basic pay/ wages, bonus, fees & commission, perquisites, profit in lieu of salary, advance of salary, employers contribution to RPF in excess of 12% of the employee's salary, interest on RPF in excess of 9.5%, transferred balance, allowances, Gratuity, Encashment of earned leave, contribution made by the central government or any other employer in the previous year to be account of an employee under pension scheme etc.

## **6. What is profit in lieu of salary?**

Profit in lieu of salary includes: compensation received for termination of employment, refund from URPF, any payment received under a key man insurance policy, compensation received for modification of terms and conditions of employment, cash gifts received from the employer in appreciation of employee's service.

## **7. Define the salary U/S 15 of the IT Act.**

- Any salary due to an employee in the P.Y from the present employer or former employer whether actually paid or not.
- Any advance salary paid to an employee in the P.Y by the present employer or former employer before it becomes due.
- Any arrears of the salary paid or allowed to an employee in the P.Y from the present employer or former employer, if not charged to income tax in any earlier P.Y.

## **8. What do you mean by an allowance?**

It is a fixed sum of money received by the employee's from the employer to meet their official or personal expenses.

## **9. Distinguish between allowances and perquisites.**

Allowance is a fixed sum of money received by the employee's from the employer to meet their official or personal expenses. Whereas, perquisite means any casual emoluments, fee or profit attached to an office or

position in addition to salary or wages. Further, allowances are always given in monetary terms, whereas, perquisites are normally given in kind. However, sometimes it may be given in cash also.

**10. Name any four allowances, which are fully taxable.**

Dearness allowance, city compensatory allowance, medical allowance, project allowance.

**11. Write four special allowances exempted up to a certain limit.**

- Tribal area allowance
- Children education allowance
- Border area allowance
- Hill compensatory allowance

**12. Give the meaning of dearness allowance.**

Dearness allowance shall be considered only when it is part of salary for computing all retirement benefits such as pension, leave encashment, gratuity, etc. if dearness allowance is part of salary for computing only some of the retirement benefits, then it is not taken into consideration for this purpose.

**13. What is Sec.16 of the IT Act?**

To calculate the taxable income under the head salaries, the following deductions are allowed U/s 16: Entertainment allowance to govt, employees U/s 16(ii), professional tax paid by the assessee or employer on behalf of the employee U/S 16(iii).

**14. Give the meaning of fringe benefits, write any four examples.**

Fringe benefits means any consideration for employment provided by way of any privilege, service, facility or amenity, directly or indirectly by an employer to his employees. For example: car facility, transport facility, travelling/touring, free lunch, gift, club/credit card facility, free holiday home facility.

**14. Types of provident funds (PF)**

- Statutory provident fund (SPF)
- Recognized provident fund (RPF)
- Unrecognized provident fund (URPF)
- Public provident fund (PPF)

**Statutory provident fund (SPF):**

Maintained by government offices or semi-government offices like local authorities, corporations, universities, recognized educational institutions and nationalized banks.

**Recognized provident fund (RPF):**

Provident fund which is recognized by the chief commissioner or commissioner of income tax with the approval of provident fund commissioner. This fund is maintained by factories, scheduled banks and several business houses.

**Unrecognized provident fund (URPF):**

Provident fund which is approved by the provident fund commissioner but not recognized by the chief commissioner or commissioner of income tax. This provident fund is maintained in private sector organization.

**Public provident fund (PPF):**

Every individual including a salaried employee can subscribe to this fund any amount being not less than Rs.500 and not more than Rs.1,00,000 in a year. An individual can open a PPF at a branch of state bank of India or at a branch of any 13 nationalized banks authorized for this purpose by central government.

### **15. Voluntary Retirement Compensation (VRS)/ Provisions of VRS?**

Voluntary retirement compensation received by the employee is exempt from tax upto Rs.5,00,000, if the following conditions are satisfied.

- The compensation must be received for voluntary retirement.
- The employee must have completed 10 year of service or 40 years of age.
- The scheme must be offered by the employer to all employees except directors of the company.
- The purpose of the scheme must be to reduce the overall strength of the workers in the organization.