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BBA | Semester 6 | UK6SECMGT301

Income Tax - Assessment and Filing

Course Code: UK6SECMGT301 • Module 2 Notes

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Chapter 1: Conceptual Framework and Basis of Charge under Section 15

The computation of taxable income under the head "Salaries" represents one of the most critical components of individual taxation under the Income Tax Act, 1961. Governed by Sections 15, 16, and 17, this head of income encompasses all remuneration received by an individual in exchange for personal services rendered under an express or implied contract of service. The foundation of chargeability under Section 15 rests upon the existence of an employer-employee relationship, commonly referred to as the contract of service, which distinguishes salary income from professional fees, business receipts, or casual earnings.

The existence of a master-servant or employer-employee nexus is the paramount test for classifying any receipt as salary. Under this relationship, the employee agrees to serve the employer, and the employer possesses the right to direct and control the manner in which the work is executed. Where an individual renders services independently without subservience or direct organizational control, the relationship is a contract for service, and remuneration received is assessable under Section 28 as Profits and Gains of Business or Profession (PGBP) or under Section 56 as Income from Other Sources.

For instance, sitting fees received by a company director who is not a full-time employee are taxable under Income from Other Sources, whereas remuneration paid to a managing director under an employment service agreement is assessed under Salaries. Similarly, remuneration received by a Member of Parliament or a Member of the Legislative Assembly is not taxable as salary because an elected representative is not an employee of the government; such income is assessed under Income from Other Sources. Salary received by a partner from a partnership firm is specifically treated under Section 28(v) as business profits, not as salary, because a partner cannot be his own employer.

Section 15 establishes the basis of charge for salary income on a dual test of "due" or "receipt", whichever occurs earlier. Specifically, the charging provision brings to tax:

1. Salary Due Basis: Any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not. Once salary falls due, it is taxable immediately, regardless of whether disbursement is delayed or deferred.

2. Advance Salary on Receipt Basis: Any salary paid or allowed to an employee in the previous year by or on behalf of an employer or former employer before it became due. Where an employee receives salary in advance, it is taxed in the year of receipt. However, advance against salary is a loan from the employer and is not taxable as salary income.

3. Arrears of Salary: Any arrears of salary paid or allowed to an employee in the previous year by an employer, if not charged to income tax for any earlier previous year. Arrears of salary arise from retrospective wage revisions or court awards and are taxed in the year of receipt unless already taxed on due basis.

To prevent double taxation, the explanation to Section 15 clarifies that where any salary has already been taxed on a due basis in an earlier assessment year, it cannot be taxed again when it is actually disbursed or received by the employee in a subsequent year.

Transaction Category	Point of Chargeability	Statutory Treatment under Section 15
Regular Monthly Salary	Due date or receipt date, whichever is earlier	Taxed as normal remuneration on accrual or receipt.
Advance Salary	Date of receipt	Taxed in year of receipt; not taxed again when due.
Advance Against Salary (Loan)	Not an income transaction	Treated as a loan; adjusted against future earnings.
Arrears of Salary	Date of receipt or credit	Taxed when received; relief available under Section 89(1).

Section 17 provides an inclusive definition of salary, incorporating basic wages, annuities, pensions, gratuities, fees, commissions, perquisites, profits in lieu of salary, advance salary, annual accretion to recognized

provident fund exceeding statutory thresholds, and transferred balances in recognized funds. Thus, gross salary comprises three functional pillars: cash allowances, non-cash perquisites, and terminal retirement benefits.

Chapter 2: Tax Treatment of Allowances

An allowance is a fixed periodic cash payment made by an employer to an employee to meet specific occupational or living requirements. Under the Income Tax Act, 1961, allowances are classified into three distinct categories: fully taxable allowances, fully exempt allowances, and partially exempt allowances governed by statutory formulas.

Section 1: Fully Taxable Allowances

Fully taxable allowances are added directly to gross salary in their entirety without any deduction or expenditure exemption:

1. Dearness Allowance (DA): Paid to insulate employees against inflation. Dearness allowance enters into retirement benefits if the terms of employment expressly state that it forms part of basic pay for retirement calculations.

2. City Compensatory Allowance (CCA): Granted to mitigate higher living expenses in tier-one metropolitan areas. It is fully taxable regardless of actual expenditure incurred.

3. Medical Allowance: A fixed periodic allowance provided for routine medical expenses. It is fully taxable; this is distinct from employer reimbursement of hospital bills.

4. Lunch, Tiffin, and Refreshment Allowance: Fixed cash allowances provided for daily meals are fully taxable.

5. Overtime, Servant, and Warden Allowance: Cash allowances for working beyond scheduled hours, maintaining domestic servants, or acting as hostel wardens are fully taxable.

Section 2: Fully Exempt Allowances

Certain allowances enjoy absolute exemption from taxation under diplomatic and constitutional protocols:

1. Foreign Allowance: Under Section 10(7), allowances paid or allowed outside India by the Government of India to an Indian citizen for rendering services abroad are entirely exempt.

2. Allowances to High Court and Supreme Court Judges: Governed by special statutory enactments.

3. Allowances from United Nations Organisation (UNO): Remuneration and allowances paid by the UNO to its officials are exempt under the UN Privileges and Immunities Act.

Section 3: Partially Exempt Allowances and Statutory Exemptions

Partially exempt allowances are taxable only to the extent they exceed the statutory exemption limit specified in Section 10(14) or Section 10(13A). These are further bifurcated into performance-linked occupational allowances and personal living allowances.

Under Section 10(14)(i), allowances granted exclusively for performing official duties are exempt to the extent of actual expenditure incurred for that purpose:

1. Travelling and Transfer Allowance: Granted to meet travel expenses on tour or transfer.

2. Conveyance Allowance: Granted to meet expenditure incurred on conveyance in discharging official duties.

3. Daily Allowance: Granted on tour to meet daily ordinary charges.

4. Helper and Research Allowance: Granted for engaging assistants or conducting academic and professional research.

Under Section 10(14)(ii), allowances granted to meet personal expenses are exempt up to prescribed monetary limits regardless of actual spending:

1. Children Education Allowance: Exempt up to Rs. 100 per month per child for a maximum of two children (maximum Rs. 2,400 per annum).

2. Hostel Expenditure Allowance: Exempt up to Rs. 300 per month per child for a maximum of two children (maximum Rs. 7,200 per annum).

3. Transport Allowance: Exempt up to Rs. 3,200 per month only for blind, deaf, dumb, or orthopedically handicapped employees. For ordinary employees, transport allowance is fully taxable.

Section 4: House Rent Allowance (HRA) under Section 10(13A)

House Rent Allowance is paid to assist employees in meeting rental housing accommodation. Exemption under Section 10(13A) read with Rule 2A is available only if the employee actually resides in a rented house and incurs rental expenditure. The exempt amount is strictly the lowest of the following three statutory limits:

1. Actual HRA Received: Total HRA disbursed by the employer during the relevant period.

2. Excess of Rent Paid over 10% of Salary: Rent actually paid minus 10% of salary for the period.

3. Accommodation Location Ceiling: 50% of salary where the accommodation is situated in Mumbai, Kolkata, Delhi, or Chennai, or 40% of salary for all other locations in India.

For HRA exemption, "Salary" is defined as:

Salary for HRA = Basic Pay + DA (forming part of retirement benefits) + Turnover Commission

Where turnover commission refers to commission received at a fixed percentage on turnover achieved by the employee, as held by the Supreme Court in Gestetner Duplicators. If an employee resides in their own house or does not pay rent, the entire HRA is fully taxable.

Chapter 3: Valuation of Perquisites under Section 17(2)

A perquisite is any casual emolument, fee, or personal advantage provided in addition to regular salary. Governed by Section 17(2) and detailed in Rule 3 of the Income Tax Rules, perquisites represent non-monetary benefits or amenities provided directly or indirectly by an employer to an employee. Perquisites are classified into taxable for all employees, taxable only for specified employees, and tax-free perquisites.

Section 1: Rent-Free Accommodation (RFA)

The valuation of Rent-Free Accommodation is categorized based on whether the employer is the Government or a private sector entity:

1. Government Employees: Valuation is determined strictly by the license fee fixed by the central or state government in accordance with service rules, minus any rent recovered from the employee.

2. Non-Government Employees (Private Sector): Pursuant to amended Rule 3 guidelines, the valuation depends on whether the residential premises are owned by the employer or leased:

City Population (2011 Census)	Accommodation Owned by Employer	Accommodation Leased / Rented by Employer
Exceeding 40 Lakhs	10% of salary for the occupied period	Lower of actual lease rent paid or 10% of salary.
Between 15 Lakhs and 40 Lakhs	7.5% of salary for the occupied period	Lower of actual lease rent paid or 7.5% of salary.
Below 15 Lakhs	5% of salary for the occupied period	Lower of actual lease rent paid or 5% of salary.

Where the accommodation is furnished, the value of unfurnished accommodation is augmented by 10% per annum of the original cost of furniture owned by the employer, or the actual hire charges if furniture is leased. Any rent recovered from the employee is deducted from the gross valuation.

Section 2: Motor Car Perquisite Valuation

The taxable perquisite value of an employer-provided motor car depends on car ownership, running expense allocation, engine cubic capacity, and purpose of usage:

1. Exclusively Official Use: Where the employer maintains comprehensive journey logbooks, date-wise travel details, and certifying vouchers confirming exclusive official duty, the perquisite value is Nil.

2. Exclusively Personal Use: Valuation equals actual running and maintenance costs incurred by the employer, plus driver salary paid, plus 10% per annum depreciation on the original car cost (or actual hire charges), minus any amount recovered from the employee.

3. Mixed Official and Personal Use: Where the car is used partly for official duties and partly for private domestic purposes, Rule 3 specifies fixed monthly presumptive values:

Car Ownership	Running Expenses Met By	Engine Capacity ≤ 1.6 Litres	Engine Capacity > 1.6 Litres
Employer Owned / Hired	Employer	Rs. 1,800 per month	Rs. 2,400 per month
Employer Owned / Hired	Employee	Rs. 600 per month	Rs. 900 per month
Employee Owned	Employer	Actual expenditure less Rs. 1,800/mo	Actual expenditure less Rs. 2,400/mo

If the employer provides a chauffeur or driver, an additional Rs. 900 per month is added to the perquisite value across all mixed-use categories.

Section 3: Interest-Free or Concessional Loans

Where an employer provides a loan to an employee either interest-free or at a concessional rate, the taxable perquisite is calculated on the maximum monthly outstanding balance at the lending rate charged by the State Bank of India (SBI) on the first day of the relevant previous year, less interest actually recovered. However, no perquisite is charged if the aggregate principal loan amount does not exceed Rs. 20,000, or if the loan is granted for medical treatment of diseases specified in Rule 3A.

Section 4: Tax-Free Perquisites across All Employees

Certain benefits are completely exempt from taxation under Section 17(2):

1. Medical Treatment: Provision of medical treatment in a hospital maintained by the employer, government, local authority, or approved under Section 17(2)(v).

2. Group Health and Accident Insurance: Premium paid by the employer for employee health insurance under GIC schemes.

3. Telephone and Mobile Bills: Provision of mobile phone or broadband internet facilities at the employee's residence.

4. Free Education Facilities: Free education or training provided to employees, or education provided to children in an institution owned by the employer up to Rs. 1,000 per month per child.

5. Free Refreshments during Working Hours: Non-alcoholic beverages and snacks provided during office hours, and meal vouchers up to Rs. 50 per meal.

Chapter 4: Retirement and Terminal Benefits

Terminal benefits paid upon superannuation, retirement, resignation, or termination receive specialized tax exemptions under Section 10 to protect accumulated employee retirement capital.

Section 1: Gratuity under Section 10(10)

Gratuity is a lump-sum statutory gratuity paid to an employee in recognition of long-standing continuous service. The tax treatment depends on the employee's sector and whether they are covered by the Payment of Gratuity Act, 1972:

1. Government Employees: Any death-cum-retirement gratuity received by central or state government employees or local authority employees is wholly exempt from tax under Section 10(10)(i).

2. Non-Government Employees Covered by Payment of Gratuity Act, 1972: Under Section 10(10)(ii), exemption is the least of three figures:

$$\text{Exemption} = \min \left\{ \begin{matrix} \text{Actual Gratuity Received} \\ 2615 \\ \times \text{ Last Drawn Salary} \times \text{Completed Years of Service} \\ \text{Statutory Maximum of Rs. 20,00,000} \end{matrix} \right.$$

Where completed years of service includes any fraction exceeding six months (e.g., 20 years and 7 months is taken as 21 years). Last drawn salary includes basic pay and dearness allowance. A 26-day divisor is applied reflecting working days per month.

3. Non-Government Employees Not Covered by Payment of Gratuity Act: Under Section 10(10)(iii), exemption is the least of:

$$\text{Exemption} = \min \left\{ \begin{matrix} \text{Actual Gratuity Received} \\ 21 \\ \times \text{ Average Monthly Salary of Last 10 Months} \times \text{Completed Years of Service} \\ \text{Statutory Maximum of Rs. 20,00,000} \end{matrix} \right.$$

Here, fraction of a year is strictly ignored (e.g., 20 years and 11 months is taken as 20 years). Salary is the 10-month average basic pay, DA forming part of retirement benefits, and turnover commission.

Section 2: Pension under Section 10(10A)

Pension represents periodic payments made post-retirement:

1. Uncommuted (Monthly) Pension: Periodic monthly pension received by any employee, whether government or private, is 100% fully taxable as salary under Section 15.

2. Commuted (Lump-sum) Pension: Exchange of future recurring pension for an immediate lump-sum settlement:

• *Government Employees:* Wholly exempt under Section 10(10A)(i).

• *Non-Government Employees Receiving Gratuity:* Exemption is one-third (1/3) of the full commuted value of total pension.

• *Non-Government Employees Not Receiving Gratuity:* Exemption is one-half (1/2) of the full commuted value of total pension.

Section 3: Leave Encashment under Section 10(10AA)

Encashment of accumulated unavailed earned leave during service is fully taxable. Encashment at the time of retirement or separation is treated as follows:

1. Government Employees: Fully exempt under Section 10(10AA)(i).

2. Non-Government Employees: Exemption under Section 10(10AA)(ii) is the lowest of:

• Actual amount received as leave encashment.

• 10 months average salary (based on last 10 months preceding retirement).

• Cash equivalent of unavailed earned leave based on statutory entitlement (maximum 30 days leave per completed year of service, fractions ignored).

• Statutory ceiling limit of Rs. 25,00,000 (enhanced from Rs. 3,00,000 by CBDT notification).

Chapter 5: Deductions from Gross Salary under Section 16

Gross salary represents the total aggregate of basic salary, taxable allowances, taxable perquisites, and taxable terminal benefits. Under Section 16, an assessee is entitled to specific statutory deductions to arrive at Net Taxable Income from Salaries.

Section 1: Standard Deduction under Section 16(ia)

Introduced to provide parity between salaried employees and business assessees who claim operational business expenses, Section 16(ia) grants a flat standard deduction from gross salary. The deduction is available without producing any expense receipts, investment proofs, or vouchers. The deductible amount is the lower of actual gross salary or Rs. 50,000. Under the Finance Act, this deduction is equally available under both the Old Tax Regime and the New Concessional Tax Regime under Section 115BAC.

Section 2: Entertainment Allowance under Section 16(ii)

Entertainment allowance received is first included in gross salary. Deduction under Section 16(ii) is strictly restricted to government employees (central or state government). Non-government employees receive zero deduction for entertainment allowance. For government employees, the deduction is the lowest of:

1. Statutory Limit: Rs. 5,000.

2. Twenty Percent of Basic Salary: 20% of basic salary exclusive of all allowances and benefits.

3. Actual Entertainment Allowance Received: The actual sum disbursed during the year.

Section 3: Professional Tax (Tax on Employment) under Section 16(iii)

Professional tax levied by state governments under Article 276(2) of the Constitution of India (subject to an annual maximum ceiling of Rs. 2,500) is deductible from gross salary. Deduction is allowed strictly on an actual payment basis in the previous year. If the employer pays professional tax on behalf of the employee, it is first added to gross salary as a perquisite under Section 17(2) and subsequently deducted in full under Section 16(iii).

Section 16 Statutory Deduction	Eligibility Criteria	Maximum Deductible Limit
Standard Deduction [Sec 16(ia)]	All salaried employees (Govt and Non-Govt)	Rs. 50,000 (or actual gross salary, whichever is less).
Entertainment Allowance [Sec 16(ii)]	Strictly Government Employees only	Least of Rs. 5,000, 20% of basic salary, or actual received.
Professional Tax [Sec 16(iii)]	All employees who have paid state employment tax	Actual amount paid during the financial year (up to Rs. 2,500).

Chapter 6: Practical Step-by-Step Salary Computation Framework

The calculation of net taxable income from salaries follows a structured sequential architecture that ensures complete statutory compliance across all provisions of Sections 15, 16, and 17:

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COMPUTATION OF TAXABLE INCOME FROM SALARIES
Gross Basic Salary ..................................................... [A]
+ Dearness Allowance (DA) ............................................... [B]
+ Bonus, Commission, and Fees ........................................... [C]
+ Taxable Portion of Allowances (HRA, CCA, Education Allowance) ........ [D]
+ Taxable Value of Perquisites (RFA, Motor Car, Concessional Loans) .... [E]
+ Taxable Value of Retirement Benefits (Gratuity, Leave Encashment) .... [F]
= GROSS SALARY [Total A through F] ..................................... [G]
Less: Deductions under Section 16:
- Standard Deduction under Section 16(ia) [Max Rs. 50,000] ............. [H1]
- Entertainment Allowance under Section 16(ii) [Govt employees only] ... [H2]
- Professional Tax Paid under Section 16(iii) ........................... [H3]
= NET TAXABLE INCOME FROM SALARIES [G - (H1 + H2 + H3)] ................ [NET]
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Chapter 7: Worked Numerical Practical Applications

Worked Problem 1: Comprehensive Salary and Allowance Computation

Mr. Rajesh Raman (age 42) is employed as a Senior Operations Manager with a private enterprise in Kochi, Kerala. During the previous year, he furnished the following particulars of his remuneration:

• Basic Salary: Rs. 65,000 per month.

• Dearness Allowance: Rs. 20,000 per month (40% of which forms part of retirement benefits).

• House Rent Allowance (HRA): Rs. 18,000 per month. Mr. Raman pays actual rent of Rs. 22,000 per month for a residential flat in Kochi.

• Children Education Allowance: Rs. 500 per month for his two children (Rs. 250 per month each).

• Motor Car Facility: Provided with a 1,500 cc company-owned car with driver for both official and private purposes. All running and maintenance expenses of Rs. 85,000 per annum are borne by the employer.

• Professional Tax: Rs. 2,400 per annum deducted from his salary and remitted to the Kerala State Government.

Compute Mr. Raman's Net Taxable Income from Salaries for the relevant assessment year under the regular (Old) tax regime.

Solution and Step-by-Step Resolution:

Step 1: Computation of Basic Pay and Dearness Allowance:

• Basic Salary = Rs. 65,000 × 12 = Rs. 7,80,000.

• Dearness Allowance = Rs. 20,000 × 12 = Rs. 2,40,000 (total received). Portioned entering retirement benefits = 40% of Rs. 2,40,000 = Rs. 96,000.

Step 2: Determination of HRA Exemption under Section 10(13A):

• Salary for HRA purposes = Basic Pay + DA (retirement benefits) = Rs. 7,80,000 + Rs. 96,000 = Rs. 8,76,000.

• Actual HRA received = Rs. 18,000 × 12 = Rs. 2,16,000.

• Rent paid in excess of 10% of salary = Actual Rent Paid − (10% of Rs. 8,76,000) = (Rs. 22,000 × 12) − Rs. 87,600 = Rs. 2,64,000 − Rs. 87,600 = Rs. 1,76,400.

• 40% of salary (Kochi is a non-metro city) = 40% of Rs. 8,76,000 = Rs. 3,50,400.

• Minimum of the three figures: Rs. 1,76,400.

• Taxable HRA = Actual HRA received − Exempt HRA = Rs. 2,16,000 − Rs. 1,76,400 = Rs. 39,600.

Step 3: Children Education Allowance Exemption under Section 10(14)(ii):

• Total allowance received = Rs. 500 × 12 = Rs. 6,000.

• Exempt amount = Rs. 100 per month × 2 children × 12 months = Rs. 2,400.

• Taxable Children Education Allowance = Rs. 6,000 − Rs. 2,400 = Rs. 3,600.

Step 4: Valuation of Motor Car Perquisite under Rule 3:

• Car owned by employer, running expenses met by employer, cubic capacity ≤ 1.6 litres (1,500 cc), used for mixed purposes.

• Presumptive value for car = Rs. 1,800 per month × 12 = Rs. 21,600.

• Presumptive value for driver = Rs. 900 per month × 12 = Rs. 10,800.

• Total taxable perquisite value = Rs. 21,600 + Rs. 10,800 = Rs. 32,400.

Step 5: Statement of Taxable Income from Salaries:

Particulars of Salary Income	Amount (Rs.)	Amount (Rs.)
Basic Salary	7,80,000	
Dearness Allowance	2,40,000	
Taxable House Rent Allowance (Rs. 2,16,000 − Rs. 1,76,400)	39,600	
Taxable Children Education Allowance (Rs. 6,000 − Rs. 2,400)	3,600	
Motor Car Perquisite (Car Rs. 21,600 + Driver Rs. 10,800)	32,400	
GROSS SALARY		**10,95,600**
Less: Deductions under Section 16:		
Standard Deduction under Section 16(ia)	50,000	
Entertainment Allowance [Sec 16(ii)] (Private employee)	Nil	
Professional Tax under Section 16(iii)	2,400	52,400
NET TAXABLE INCOME FROM SALARIES		**10,43,200**

Worked Problem 2: Retirement Benefits & Commutation Resolution

Mrs. Lakshmi Nair retired on 31st December after serving 26 years and 8 months in a private commercial establishment covered by the Payment of Gratuity Act, 1972. Her particulars are:

• Last drawn basic salary: Rs. 52,000 per month.

• Last drawn dearness allowance: Rs. 16,000 per month.

• Gratuity received on retirement: Rs. 12,50,000.

• Commuted pension received on 1st February: Rs. 6,00,000 representing 60% commutation of her total pension entitlement.

• Monthly uncommuted pension received for January: Rs. 15,000 (100% pension), and for February and March: Rs. 6,000 per month (40% remaining uncommuted pension).

Calculate the taxable gratuity, taxable pension, and gross salary for Mrs. Nair for the relevant assessment year.

Solution and Step-by-Step Resolution:

Step 1: Gratuity Exemption under Section 10(10)(ii) (Covered under Gratuity Act):

• Completed years of service = 26 years and 8 months = 27 completed years (fraction exceeding 6 months rounded up).

• Last drawn salary = Basic Pay + DA = Rs. 52,000 + Rs. 16,000 = Rs. 68,000.

• Statutory formula limit = (15 / 26) × Rs. 68,000 × 27 = Rs. 10,59,231.

• Statutory ceiling limit = Rs. 20,00,000.

• Actual gratuity received = Rs. 12,50,000.

• Least of the three figures is Rs. 10,59,231.

• Taxable Gratuity = Rs. 12,50,000 − Rs. 10,59,231 = Rs. 1,90,769.

Step 2: Commuted Pension Exemption under Section 10(10A)(ii):

• Commuted sum received = Rs. 6,00,000 for 60% of pension.

• Full capitalised value of pension = Rs. 6,00,000 / 0.60 = Rs. 10,00,000.

• Since Mrs. Nair also received gratuity, exemption is 1/3 of full commuted value = (1 / 3) × Rs. 10,00,000 = Rs. 3,33,333.

• Taxable Commuted Pension = Rs. 6,00,000 − Rs. 3,33,333 = Rs. 2,66,667.

Step 3: Uncommuted (Monthly) Pension:

• January (full monthly pension): Rs. 15,000.

• February and March (40% remaining): Rs. 6,000 × 2 = Rs. 12,00,0? No, Rs. 12,000.

• Total uncommuted pension taxable = Rs. 15,000 + Rs. 12,000 = Rs. 27,000.

Step 4: Summary of Taxable Retirement Receipts:

• Taxable Gratuity: Rs. 1,90,769.

• Taxable Commuted Pension: Rs. 2,66,667.

• Taxable Uncommuted Pension: Rs. 27,000.

• Aggregate Taxable Retirement Remuneration = Rs. 4,84,436.

Chapter 8: Strategic Comparison of Old vs New Tax Regime for Salaried Assessees

The introduction of the Concessional Tax Regime under Section 115BAC has fundamentally restructured salary tax planning in India. Under the New Regime, assessees are offered significantly lower slab rates but must forgo major traditional exemptions and deductions.

1. Forgone Deductions and Exemptions under Section 115BAC:

• House Rent Allowance (HRA) under Section 10(13A).

• Children Education Allowance and other personal allowances under Section 10(14).

• Professional Tax under Section 16(iii).

• Entertainment Allowance under Section 16(ii).

• Chapter VI-A deductions including Section 80C, 80D, 80E, etc. (Except employer contribution to NPS under Section 80CCD(2)).

2. Retained Deductions under Section 115BAC:

• Standard Deduction of Rs. 50,000 under Section 16(ia) is now fully available under the New Tax Regime.

• Employer contribution to National Pension System (NPS) under Section 80CCD(2) up to 10% (or 14% for government employees) of salary.

• Terminal retirement exemptions under Section 10(10) (Gratuity), Section 10(10A) (Commuted Pension), and Section 10(10AA) (Leave Encashment) remain fully intact under both regimes.

Salary Component / Provision	Old Tax Regime Treatment	New Tax Regime [Sec 115BAC] Treatment
Standard Deduction [Sec 16(ia)]	Allowed up to Rs. 50,000	Allowed up to Rs. 50,000.
House Rent Allowance [Sec 10(13A)]	Exemption allowed based on Rule 2A	Fully taxable; zero exemption allowed.
Professional Tax [Sec 16(iii)]	Deductible on actual payment	Disallowed; zero deduction.
Gratuity & Commuted Pension	Exempt up to statutory limits	Exempt up to statutory limits.
Chapter VI-A (80C, 80D, 80E)	Available up to statutory limits	Disallowed (except Sec 80CCD(2)).

Consequently, the decision between the Old and New Regime hinges on the quantum of eligible personal deductions. Where an employee incurs substantial rental outlays (qualifying for HRA), maximizes Section 80C instruments (PPF, ELSS, life insurance), maintains extensive family health insurance (Section 80D), and services home loan interest (Section 24(b)), the Old Regime frequently yields lower effective tax liability. Conversely, for younger professionals with modest deductions and zero housing debt, the lower tax slabs and enhanced Section 87A rebate of the New Regime present significant cash flow advantages.

Chapter 9: Tax Deducted at Source (TDS) on Salaries under Section 192 and Form 16 Architecture

A vital operational bridge between employment earnings and individual tax compliance is the statutory mechanism of Tax Deducted at Source (TDS) governed by Section 192 of the Income Tax Act, 1961. Every employer responsible for paying any income chargeable under the head 'Salaries' is under a mandatory legal obligation to deduct income tax at source at the time of actual disbursement of salary.

The operational mechanics of Section 192 differ fundamentally from other TDS sections. Unlike commercial payments subject to fixed flat withholding rates (e.g., 10% under Section 194J or 2% under Section 194C), TDS on salary is computed on an estimated average rate of income tax. At the commencement of each financial year, the employer estimates the total income of the employee under the head Salaries (and any other declared incomes like house property loss), factors in eligible deductions and regime choice, and calculates the total annual tax liability. This annual tax liability is then divided equally into 12 monthly installments and deducted from the employee's monthly pay check.

Section 192(2) permits an employee who is simultaneously employed under more than one employer, or who changes employment during the previous year, to furnish details of salary received and tax deducted from former employers to the current employer using Form 12B. This statutory consolidation enables the current

employer to aggregate total earnings, apply correct slab brackets, prevent duplicate basic exemption thresholds, and withhold the appropriate aggregate tax.

Statutory Form / Document	Issuing Authority / Filer	Statutory Purpose & Deadline
Form 16 (Part A)	TRACES Portal via Employer	Quarter-wise summary of tax deducted and deposited into Central Government treasury against employee PAN. Due by 15th June.
Form 16 (Part B)	Employer directly to Employee	Detailed computational break-up of gross salary, exempt allowances under Section 10, perquisites under Section 17, deductions under Chapter VI-A, and net tax.
Form 12BB	Employee to Employer	Statutory statement of claims and investment proofs (HRA rent receipts, housing loan interest certificates, 80C premium receipts) submitted for TDS calculations.
Form 24Q	Employer to Income Tax Dept	Quarterly TDS return for salaries. Annexure II submitted in Q4 contains employee-wise salary break-up and total tax computed.

Chapter 10: Worked Numerical Problem 3: Multi-Allowance and Perquisite Restructuring

Ms. Ananya Varma is employed as a Lead Systems Architect with a software multinational in Thiruvananthapuram. For the financial year, her remuneration package comprises the following:

• Basic Pay: Rs. 80,000 per month.

• Dearness Allowance: Rs. 25,000 per month (does not form part of retirement benefits).

• Special Allowance: Rs. 15,000 per month.

• Employer provided a furnished apartment in Thiruvananthapuram (population exceeds 15 Lakhs but under 40 Lakhs). The flat is owned by the employer. Original cost of furniture provided is Rs. 1,50,000. Rent recovered from Ms. Varma is Rs. 3,000 per month.

• The company provided an interest-free personal loan of Rs. 1,80,000 on 1st May, which remained entirely outstanding throughout the financial year. The State Bank of India lending rate for similar personal loans on 1st April was 11.5% per annum.

• Professional tax paid by Ms. Varma: Rs. 2,500.

Compute the Net Taxable Income from Salaries for Ms. Ananya Varma under the Old Tax Regime.

Detailed Step-by-Step Resolution:

Step 1: Computation of Salary for Rent-Free Accommodation (RFA):

• Basic Salary = Rs. 80,000 × 12 = Rs. 9,60,000.

• Dearness Allowance = Not entering retirement benefits, hence excluded from RFA salary.

• Special Allowance = Rs. 15,000 × 12 = Rs. 1,80,000 (all taxable cash allowances are included).

• Total Salary for RFA = Basic Pay + Special Allowance = Rs. 9,60,000 + Rs. 1,80,000 = Rs. 11,40,000.

Step 2: Valuation of Furnished Rent-Free Accommodation under Rule 3:

• Since population is between 15 Lakhs and 40 Lakhs, unfurnished RFA value = 7.5% of Rs. 11,40,000 = Rs. 85,500.

• Add: 10% per annum of original cost of employer-owned furniture = 10% of Rs. 1,50,000 = Rs. 15,000.

• Gross perquisite value of furnished accommodation = Rs. 85,500 + Rs. 15,000 = Rs. 1,00,500.

• Less: Rent recovered from employee = Rs. 3,00,0? No, Rs. 3,000 × 12 = Rs. 36,000.

• Net taxable perquisite value of accommodation = Rs. 1,00,500 − Rs. 36,000 = Rs. 64,500.

Step 3: Valuation of Interest-Free Loan Perquisite under Rule 3(7)(i):

• Principal outstanding throughout 11 months (from 1st May to 31st March) = Rs. 1,80,000.

• SBI rate as of 1st April = 11.5% per annum.

• Taxable perquisite value = Rs. 1,80,000 × 11.5% × (11 / 12) = Rs. 18,975.

Step 4: Statement of Net Taxable Income from Salaries:

• Basic Salary: Rs. 9,60,000.

• Dearness Allowance: Rs. 25,000 × 12 = Rs. 3,00,000.

• Special Allowance: Rs. 1,80,000.

• Furnished Accommodation Perquisite: Rs. 64,500.

• Interest-Free Loan Perquisite: Rs. 18,975.

• **Gross Salary: Rs. 15,23,475.**

• Less: Standard Deduction under Section 16(ia): Rs. 50,000.

• Less: Professional Tax under Section 16(iii): Rs. 2,500.

• **Net Taxable Income from Salaries: Rs. 14,70,975.**