

# Salary Income and Tax Implications For AY 2021-22



Income Tax Department  
Central Board of Direct Taxes

## What is Salary?

**“Salary” is a fixed and regular remuneration made by an employer to an employee on a periodic basis.**

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 the absolutely essential for taxing a particular receipt under the head “salaries”. The term ‘salary’ includes both monetary payments (e.g. basic salary, DA, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest-free loans etc.).

Salaries also include:

- (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 unrecognised provident fund to recognised 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.

## Perquisite

As per Section 17(2) of the Income Tax Act, 1961, “Perquisite” refers to any casual emolument or benefit attached to an office or position in addition to salary or wages including:

- (a) Value of rent-free/ concessional rent accommodation provided by the employer
- (b) Any sum paid by an employer in respect of an obligation which was actually payable by the assessee
- (c) Value of any benefit/ amenity granted free, or at concessional rate to specified employees etc.
- (d) 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.
- (e) 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
- (f) The value of any other fringe benefit or amenity as may be prescribed.

## Deductions from Salary Income

- (a) Professional/ Employment tax levied by the State Government
- (b) Standard Deduction of Rs. 50,000
- (c) Entertainment Allowance: Deduction in respect of this is available to a government employee to the extent of Rs. 5,000; or 20% of his salary; or actual received, whichever is less.

## Valuation of Perquisite

As a general rule, the taxable value of perquisite in the hands of the employees is its cost to the employer. However, specific rules for valuation of certain perquisites have been laid down in the Rule 3 of the Income-tax Rules.

## Perquisites Exempt from Income Tax

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 a High Court or the Supreme Court, or an official of the Parliament, Union Minister or Leader of Opposition in the Parliament
- ▶ No perquisites shall arise of interest-free/concessional loans made available for medical treatment of specified diseases, or where the loan is petty and not exceeding in 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

## Allowances

Allowance is defined as fixed monetary benefit given regularly by an employee, 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:

- (a) House Rent Allowance (HRA):-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, and Delhi). Salary here means Basic + Dearness Allowance, if Dearness Allowance is provided by the terms of employment

(b) Leave Travel Allowance (LTA): 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 dependent upon the entitlement of an employee and the upper limit of LTA allocated by the employer for an employee, provided that the exemption shall be available only in respect of two journeys performed in a block of 4 calendar years.

Certain allowances given by the employer to the employee are exempt u/s 10(14). All these exempt allowances are detailed in Rule 2 BB of Income-tax Rules and reference may be made to the same for details.

Fully Taxable	Partly Taxable	Fully Exempt
i. Entertainment Allowance	i. House Rent Allowance [u/s 10(13A)]	i. Allowance granted to Government employees outside India.
ii. Dearness Allowance	ii. Special Allowances [u/s 10(14)]	ii. Allowance granted to High Court Judges
iii. Overtime Allowance		iii. Sumptuary allowance granted to High Court or Supreme Court Judges
iv. Fixed Medical Allowance		iv. Allowance paid by the United Nations Organization
v. City Compensatory Allowance (to meet increased cost of living in cities)		v. Compensatory Allowance received by a judge
vi. Interim Allowance		
vii. Servant Allowance		
viii. Project Allowance		
ix. Tiffin/Lunch/Dinner Allowance		
x. Any other cash allowance		
xi. Warden Allowance		
xii. Non-practicing Allowance		

### Relief u/s 89(1) of the Income Tax Act:

Where by reason of any portion of an assessee's salary being paid in arrears, or in advance, or by reason of his having received in

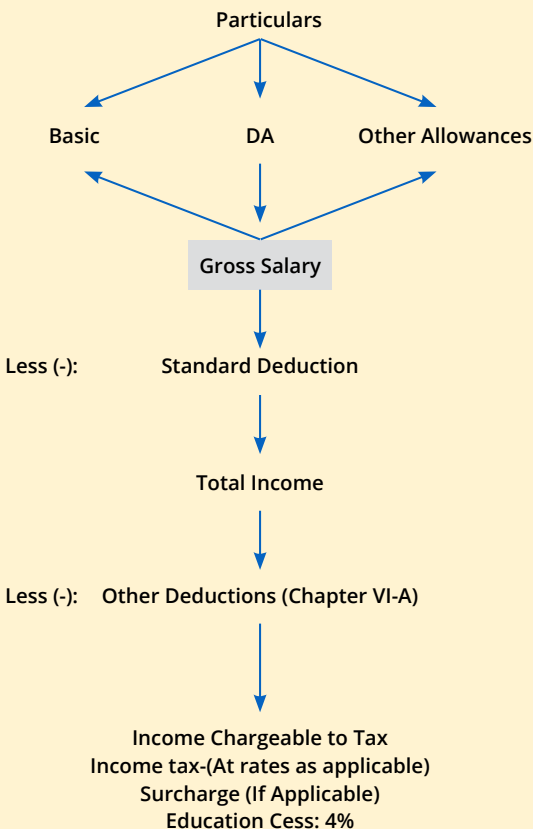
any one financial year, salary for more than twelve months, or a payment of profit in lieu of salary u/s 17(3), his income is assessed at a rate higher than that at which it would otherwise have been assessed, the Assessing Officer shall, on an application made to him in this behalf, grant such relief as prescribed. The procedure for computing the relief is given in Rule 21A.

## Computation of gross Total Income/ Total Income

Gross total income of an individual is determined after considering income from all the heads, such as Salaries, Income from House Property, Capital Gains, Income from Other Sources etc. from the sum total of which certain deductions may be allowed.

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

Some popular deductions of the Income-tax Act available against salary income are listed below. The net figure of income so arrived is called 'Total Income' and is subjected to taxation as per the rates in force.



## Some Popular Deductions from Salary (and Pension) Income

Section	Nature of Expenses	Amount (in Rs.)
80C	LIC/ PPF/ KVP/ EPF/ SSY/ NSC/ HOME LOAN PRINCIPAL/ SCHOOL FEES/ ELSS/ STAMP DUTY	1,50,000
80CCD (1B)	NPS	50,000
80DD	Expenses of disabled dependent (40%/ 80% disability)	75,000/ 1,25,000
80U	Own physical disability (40%/ 80% disability)	75,000/ 1,25,000
80TTA	Interest on Savings Account. Only available to Persons other than Senior Citizen/ Very Senior Citizen	10,000
80TTB	Interest on Savings Account and Interest on deposits with Post Offices, Banks, Co-operative bank. Only available to Senior Citizen & Very Senior Citizen	50,000
80G	Donation/ Contributions made to certain relief funds and charitable institutions. Contributions made to certain relief funds and charitable institutions (Only if paid by Cheque/ Bank Mode)	50% of Donation or 10% of Total Income, whichever is higher.
80GG	Deduction for the rent paid (available to all Individuals except to those who gets HRA from Employment). Eligibility will be least amount of the following: 1) Rent paid minus 10% of the adjusted total income. 2) Rs. 5,000 per month 3) 25% of the adjusted total income	
80D	Health Insurance policy contribution for self, spouse and dependent children (only if paid by cheque/ bank Mode).	25,000/ 50,000 (for senior citizen)
80E	Interest on loan taken for higher education of Spouse, Children or Student for whom the individual is the legal guardian	
80EE	Interest for Home Loan 1. Sale Deed value of Rs. 50 lakhs or less 2. Loan sanction in FY 2016–017 3. The individual should not own any house before 4. Loan < Rs. 35 lakhs 5. Maximum Rs. 50,000 over Section 24 - i.e. Rs. 2,00,000	50,000
80DDB	Medical treatment of Specified Ailments for Dependents	40,000/ 1,00,000 (for senior citizen)
80CCD(1)*	Employee's contribution to NPS	10% of salary or 20% of Gross Total Income

80CCD(2)	Employer's contribution to an employee's NPS account Contribution made by employer	Maximum contribution of employee's salary (14% in case of Central Government employee is allowed in a financial year)
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\*The maximum deduction available for aggregate contributions u/s 80C, 80CCC and 80CCD(1) is Rs. 1.5 lakh.

**Tax deduction under Chapter VIA will not be available to a taxpayer opting for the New Tax Regime u/s 115BAC, except for deduction u/s 80CCD(2).**

**Rebate u/s 87A:** The rebate is available to a resident individual if his total income does not exceed Rs. 5,00,000. The amount of rebate shall be 100% of income-tax or Rs. 12,500 whichever is less.

## The Rates for Charging Income Tax for Financial Year 2020–21 i.e. AY 2021–22

Other than Senior Citizen and Super Senior Citizen		Senior Citizen (60 years or more but below the age of 80 years)		Super Senior Citizen (80 years and above)	
Income Slabs (Rs.)	Tax Rate	Income Slabs (Rs.)	Tax Rate	Income Slabs (Rs.)	Tax Rate
Upto 2,50,000	Nil	Upto 3,00,000	Nil	Upto 5,00,000	Nil
2,50,001 to 5,00,000	5%	3,00,001 to 5,00,000	5%	5,00,001 to 10,00,000	20%
5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%	Above 10,00,000	30%
Above 10,00,000	30%	Above 10,00,000	30%		

## New Personal Income Tax Regime

Income Slab	Income Tax
Upto 3,00,000	Nil
Rs. 3,00,001 to Rs. 5,00,000	5%
Rs. 5,00,001 to Rs. 7,50,000	Rs.12,500 + 10% of amount above Rs. 5 lakhs
Rs. 7,50,001 to Rs. 10,00,000	Rs.37,500 + 15% of amount above Rs. 7.5 lakhs
Rs. 10,00,001 to Rs. 12,50,000	Rs.75,000 + 20% of amount above Rs. 10 lakhs
Rs. 12,50,001 to Rs. 15,00,000	Rs.1,25,000 + 25% above Rs. 12,50,000
Above Rs. 15,00,000	Rs.1,87,500 + 30% above Rs. 15,00,000
Surcharge (subject to Marginal Relief)	If taxable income is more than Rs. 50 lakhs (then percentage vary from 10% to 37%)
Health & Education Cess	4% of (Income Tax + Surcharge).

**Surcharge:** The amount of Income-Tax computed as above, shall be increased by:

- Surcharge @ 10% of such Income-Tax if total income > Rs. 50 lakhs < Rs. 1 Crore.
- Surcharge @ 15% of such Income-Tax if total income > Rs.1 Crore < Rs. 2 Crore.
- Surcharge @ 25% of such Income-Tax if total income > Rs. 2 Crore < Rs. 5 Crore
- Surcharge @ 37% of such Income-Tax if total income > Rs. 5 Crores

**Cess:** "Health and Education Cess" is payable @ 4% on the amount of tax computed, inclusive of surcharge (wherever applicable), in all cases. No marginal relief shall be available in respect of such cess.

**The due date for filing of Income Tax Return for Financial Year 2020-21 or Assessment Year 2021-22 was 31<sup>st</sup> July, 2021 which is extended to December 31, 2021.**

**The date for linking Aadhar Card Number with PAN has been extended to March 31, 2022.**

## Forms for Filing Income Tax Return

An individual may have other sources of income other than Salary/Pension. Other heads of income like 'Income from House Property', 'Income from Capital Gains', 'Income from Business or Profession' and 'Income from Other Sources' are all taken together for computation of 'Total Income'. These sources of income together determine the type of Income Tax Return Form (ITR) to be filled up.

**ITR-1:** An individual whose total income is less than Rs. 50 lakh and the sources of income are from salaries, one house property, other sources like interest from bank deposit and agricultural income upto Rs. 5000. If there are any capital gains, then the individual cannot file ITR-1.

**ITR-2:** Individuals having income from capital gains and not having business income and not eligible for ITR-1(Sahaj).

**ITR-3:** Individuals having business income apart from other heads of income but not eligible for ITR-1, 2 or 4(Sugam).

**ITR-4:** Individuals having income upto Rs. 50 lakh and includes business income under presumptive taxation scheme. However, not applicable for an Individual who is either a director of a company or has invested in unlisted shares of a company.

### Verification from Form 26AS

Form 26AS is an annual consolidated tax credit statement that taxpayers can access, view or download from the Income Tax Department's e-filing website. It is one of the most important documents taxpayers should verify before filing their ITR.



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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

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