Heads of Income: Income from Salary
An exhaustive guide to computing taxable salary

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Basis of Charge (Sec. 15)

- Income from Salary is taxable on a due or receipt basis, whichever is earlier.
- It is taxable only if there is an employer-employee relationship.
- Definition of Salary (Sec. 17):
  - Wages
  - Annuity or Pension
  - Gratuity
  - Fees, commission, perquisites, or profits in lieu of salary
  - Advance salary
  - Leave encashment
  - Employer's contribution to RPF (excess of 12% of salary)

Components of Salary

- Basic Salary: Fully taxable.
- Allowances:
  - Fully Taxable: DA, CCA, Overtime
  - Partially Taxable: HRA, Transport, Education Allowance
  - Fully Exempt: Sumptuary allowance, Govt. abroad allowances
- Perquisites:
  - Fully Taxable: Rent-free accommodation, motor car, loans > ₹ 20,000
  - Special Valuation: Furnished/unfurnished accommodation, utilities
  - Tax-free: Medical facility, RPF up to limit

House Rent Allowance (HRA) Exemption (Sec. 10(13A))

- Least of the following is exempt:
  - Actual HRA received
  - Rent paid - 10% of salary
  - 50% salary (Metro) or 40% salary (Non-Metro)
- Salary for HRA = Basic + DA (retirement) + Commission (turnover %)
- Example: Mr. A (Raipur):
  - HRA: ₹ 1,80,000
  - Rent - 10% salary: ₹ 1,56,000
  - 40% salary: ₹ 2,40,000
  - Exemption: ₹ 1,56,000 → Taxable HRA: ₹ 24,000

Professional Tax & Standard Deduction

- Standard Deduction (Sec. 16(ia)): Flat ₹ 50,000 deduction.
- Professional Tax (Sec. 16(iii)): Deductible in year of payment.

Computation of Taxable Salary

- Calculation Format:
- Basic Salary XXX
- DA XXX
- HRA XXX
- Less: Exempt HRA .... (XXX)
- Taxable HRA XXX
- Other Allowances XXX
- Perquisites XXX
- Gross Salary XXX
- Less: Deductions u/s 16:
  - Standard Deduction: (50,000)
  - Entertainment Allowance: (XXX)
  - Professional Tax: (XXX)
- Total Taxable Salary XXX

Visualizing Salary Components

- Sample Salary Structure
- Gross Salary = ₹ 12,00,000 per annum

Example of Salary Calculation

- Mr. C (Manager, PY 2024-25):
- Basic: ₹ 7,20,000
- DA: ₹ 1,20,000 (retirement benefits)
- HRA: ₹ 1,80,000
- Gross: ₹ 10,20,000
- HRA Exemption:
  - Actual: ₹ 1,80,000
  - Rent - 10% salary: ₹ 1,32,000
  - 50% salary (Kolkata): ₹ 4,20,000
  - Least: ₹ 1,32,000
- Taxable Salary:
  - Gross: ₹ 10,20,000
  - Less: HRA Exempt: (₹ 1,32,000)
  - Less: Std Deduction: (₹ 50,000)
  - Less: Prof. Tax: (₹ 2,400)
  - Net: ₹ 8,35,600

Summary of Key Concepts

- Salary income requires employer-employee relation.
- Components: Basic, Allowances, Perquisites.
- Allowances: Fully, Partially, or Fully Exempt.
- Perquisites: Valued & taxed, some exemptions.
- Deductions: Standard Deduction (₹ 50,000), Professional Tax.