Topic: Head of Income

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According to Income Tax Act 1961, Income is divided into the following five parts

A. Income from Salaries
B. Income from House and Property
C. Profits and Gains of Business or Profession
D. Capital Gains
E. Income from other Sources.

A. Income from Salaries

As per Section17 (1) salary means

Wages or Salary: 'Salary' is generally used in respect of payment for services of a higher class, whereas 'wages ‘is confined to the earnings of laborers. However, for income-tax purposes there is no difference between salary and wages. (ii) Annuity is annual grant made by the employer to the employee. (iii) Pension is a periodical payment for past services. (iv)Gratuity is a lump sum payment for past services. (v) Fees and commission: rt is a remuneration to encourage employees. (vi) Perquisites: These include all benefits and amenities provided by the employer to the employee, either in cash or kind. (vii) Profit in lieu of or in addition to salary or wages. (viii) Advance of Salary. (ix) Any payment received by an employee in respect of any period of leave not availed of by him. (x) Taxable portion of annual accretion: where the employee is a member of a Recognized provident Fund, the amount contributed by the employer in this fund in excess of 12 per cent of the salary of the employee and interest credited on the amount of the fund in excess of the prescribed rate of interest is to be included in the salarv income. (xi) Taxable portion or transferred balance: When an unrecognized provident fund is recognized for the first time, the balance in the unrecognized provident fund is known as "Transferred balance". The employer's share (contribution in unrecognized provident fund and interest on employer's share) is included in the salary income for income-tax purposes at the time of such transfer. (xii) The contribution made by the Central Government in the previous year, the account of any employee under a pension scheme referred to in Section 80CCD.

The following items relevant to salaries have been discussed under Incomes which do not form part of total income and are exempt from tax, subject to the limits applicable for each:

1. Leave Travel Allowance [Section 10(5)];
2. Remuneration of a person who is not a citizen of India [Section 10(6)j.
3. Allowances payable outside India [Section 10(7)];
4. Remuneration of an employee working under the Co-operative Technical Assistance Programme [Section 10(8)]:
5. Death-cum-retirement gratuity [Section 10(10)];
6. Amount received in commutation of Pension [Section 10(10A)];
7. Encashment of earned leave [Section 10(10AA)];
8. Retrenchment compensation [Section 10(10B)];
9. Payment received from Statutory Provident Fund [Section 10(11)];
10. Payment received from a recognised Provident Fund [Section 10(12)];
11. Payment received out of an approved Superannuation Fund [Section 10(13a;
12. House rent allowance [Section 10(13A)J;
13. Special allowances to meet the expenses of the duties [Section 10(14)];
14. Salary income of a member of Scheduled Tribe [Section 10(26)];
15. Salary income of a resident of Ladakh [Section 10(26A)];

Salaries payable by an employer are chargeable to tax in the hands of the employee and are subject to deduction of tax at source under Section 192 of the Income-tax Act. The obligation of the employer to deduct tax at source is mandatory and cannot be negotiated. But in cases where there is any failure on the part of the employer to deduct the tax at source, the employee cannot escape liability to tax; he would be chargeable to tax on his entire income from salaries. The fact that the employer could be proceeded against and be subjected to penalty or |Jrosecution, would not absolve the employee of his liability to pay tax on the income which should have been subjected to deduction of tax by the employer. In every case, the tax deducted by the employer show Id be added to the employee's income and the gross amount should be taken as the taxable income of the employee.

Performa of Computing Taxable Salary

Salary

Dearness allowance or

DearnessPay

Bonus

Commission

Pension

Employer's contribution in excess 12% to R.P.F.

Interest in excess of 9.5% on Recognised Provident Fund

Taxable Allowances

Taxable portion of partially exempted allowances Perquisites (after proper valuation)

Taxable part of gratuity

Taxable part of commutation of pension

Lump-sum received from Unrecognized Provident Fund to the extent of Employer's contribution and interest on Provident fund

Taxable part of Compensation received

Gross Salary
Less; (i) Entertainment Allowance
(ii) Employment Tax/Professional
Tax Taxable Salary

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