

Computation of Income under the Head “Salaries”

Income under Salaries is taxable when:

- ✓ Employer-employee relationship exists
 - ✓ Salary is due or received (whichever earlier)
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◆ Meaning of Salary Includes:

- Basic Salary
 - Dearness Allowance (DA)
 - Commission
 - Bonus
 - Pension
 - Gratuity
 - Leave Salary
 - Perquisites
 - Allowances
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◆ Allowances

1 Fully Taxable Allowances

- DA
 - Overtime
 - City Compensatory Allowance
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2 Partly Exempt Allowances

- HRA
 - Entertainment Allowance
 - Children Education Allowance
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◆ Perquisites (Section 17)

Perquisites are benefits given by employer in addition to salary.

Examples:

- Rent-free accommodation

- Car facility
 - Free medical facility
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◆ **Deductions from Salary (Section 16)**

1. Standard Deduction = ₹50,000
 2. Professional Tax
 3. Entertainment Allowance (Government employees only)
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PROBLEM 1 – Salary + HRA

Mr. A (working in Mumbai) provides the following details for PY 2024–25:

- Basic Salary = ₹6,00,000
- DA (forming part of salary) = ₹1,20,000
- HRA received = ₹2,40,000
- Rent paid = ₹25,000 per month
- Bonus = ₹50,000

✦ **Solution**

Step 1: Calculate Salary for HRA

$$\begin{aligned}\text{Salary for HRA} &= \text{Basic} + \text{DA} \\ &= 6,00,000 + 1,20,000 \\ &= ₹7,20,000\end{aligned}$$

Step 2: HRA Exemption (Metro – 50%)

Least of:

1. Actual HRA received = 2,40,000
2. Rent paid – 10% salary
Rent = $25,000 \times 12 = 3,00,000$
10% of salary = 72,000
 $= 3,00,000 - 72,000 = 2,28,000$
3. 50% of salary = 3,60,000

Least = ₹2,28,000 (Exempt)

$$\begin{aligned}\text{Taxable HRA} &= 2,40,000 - 2,28,000 \\ &= ₹12,000\end{aligned}$$

Step 3: Gross Salary

Basic = 6,00,000

DA = 1,20,000

Bonus = 50,000

Taxable HRA = 12,000

Gross Salary = ₹7,82,000

Step 4: Standard Deduction

7,82,000 – 50,000

Income from Salary = ₹7,32,000

✓ PROBLEM 2 – Salary + Perquisite

Mr. B is provided rent-free accommodation by employer.

- Basic Salary = ₹8,00,000
- DA = ₹2,00,000
- Bonus = ₹1,00,000
- Employer provides unfurnished accommodation in Delhi (population > 25 lakh)

✚ Solution

Perquisite value = 15% of Salary

(Salary for accommodation = Basic + DA)

Salary = 8,00,000 + 2,00,000

= ₹10,00,000

15% of 10,00,000 = ₹1,50,000

Gross Salary

8,00,000

- 2,00,000
- 1,00,000
- 1,50,000

= ₹12,50,000

Less: Standard Deduction 50,000

Income from Salary = ₹12,00,000