

[F.No.275/16/82-IT(B)]

GOVERNMENT OF INDIA
Ministry of Finance
(Department of Revenue)

CENTRAL BOARD OF DIRECT TAXES

North Block,
New Delhi, the 19th May, 1982/
29th Vaisakha, 1904 (Saka)

From

R.C. Handa,
Secretary, Central Board of Direct Taxes.

To

All State Governments (including Administrations of Union Territories).

Subject:- Deduction of tax at source-Income-tax deduction from salaries during the financial year 1982-83 under section 192 of the Income-tax Act, 1961.

Sir,

I am directed to invite a reference to this Ministry's Circular No. 298 [F.No.275/3/81-IT (B)] dated the 15th April, 1981 printed at (1981) 189 ITR (St.) 1] wherein the rate of income-tax deduction during the financial year 1981-82 from the payments of income chargeable under the head 'salaries' under section 192 of the Income-tax Act, 1961 were intimated.

2. Sub-section (1) of the said section provides that any person responsible for paying any income chargeable under the head "Salaries" shall at the time of making payment, deduct income-tax on the amount payable at the average rate of income-tax, computed on the basis of the rates in force for the financial year in which the payment is made, on the estimated income of the assessee for that financial year. The provisions of sub-section (3) are intended for making adjustments of excesses or shortfalls of inadvertent nature and/or due to unforeseen circumstances. Thus, the aggregate tax calculated on the estimated income divided by twelve and rounded to the nearest rupee is required to be deducted from the monthly salary.

3. In the Finance Bill, 1982, some modifications have been made. Art extract of sub-paragraph 1 of paragraph A of Part 111 of the First Schedule is at Annexure 1

4. The substance of the main provisions of law in so far as they relate to income chargeable under the head “Salaries”, on which tax is to be deducted at source during the financial year 1982-83, is given hereunder:-

- (i) No tax will be deductible at source in any case unless the estimated salary income for the financial year exceeds Rs. 15,000. Some typical examples of calculation are at Annexure II.
- (ii) The value of perquisites by way of free or concessional residential accommodation, or motor cars provided by employers to their employees, shall be determined under Rule 3 of the Income-tax Rules, 1962. Further, the value of other benefits or amenities provided free of cost or at concessional rates to the employees like supply of gas, electric energy, water for household consumption, educational facilities, etc., should also be taken into account, for the purpose of computing the estimated salary income of the employees during the current financial year. (Example II at Annexure II illustrates computation of some such perquisites)
- (iii) A new clause (10AA) is proposed to be inserted in section 10 of the Income-tax Act by the Finance Bill, 1982. This clause provides that the amount on account of the encashment of leave due to an employee on retirement would not form part of total income with effect from the 1st day of April, 1978. The proposed clause is reproduced below:-

“(10AA) (i) Any payment received by an employee of the Central Government or a State Government as the cash equivalent of the leave salary in respect of the period of earned leave at his credit at the time of his retirement on superannuation or otherwise;

- (ii) any payment of the nature referred to in sub-clause (i) received by an employee, other than an employee of the Central Government or a State Government, in respect of so much of the period of earned leave at his credit at the time of his retirement on superannuation or otherwise as does not exceed six months, calculated on the basis of the average salary drawn by the employee during the period of ten months immediately preceding his retirement on superannuation or otherwise, or thirty thousand rupees, whichever is less:

Provided that where any such payments are received by an employee from more than one employer in the same previous year, the aggregate amount exempt from income-tax under this sub-clause shall not exceed thirty thousand rupees:

Provided further that where any such payment or payments was or were received in any one or more earlier previous years also and the whole or any part of the amount of such payment or payments was or were not included in the total income of the assessee of such previous year or years, the amount exempt from income-tax under this sub-clause shall not exceed thirty thousand rupees, as reduced by the amount or, as the case may be, the aggregate amount not included in the total income of any such previous year or years:

Provided also that the Central Government may, having regard to the maximum amount which may for the time being be exempt under sub-clause (i), increase by notification in the Official Gazette, the limit of thirty thousand rupees, for all the three purposes for which it has been mentioned in the fore going provisions of this sub-clause, up to such maximum amount:

Provided also that in relation to an employee retiring on superannuation or otherwise before the 1st day of January, 1982, the proviso immediately preceding this proviso shall not apply and the remaining provisions of this sub-clause shall have effect as if for the words “thirty thousand rupees”, at the three places where they occur, the words “twenty-five thousand five hundred rupees” had been substituted.

Explanation.- For the purposes of sub-clause (ii),-

- (i) the entitlement to earned leave of an employee shall not exceed thirty days for every year of actual service rendered by him as an employee of the employer from whose service he has retired.
- (ii) “salary” shall have the meaning assigned to it in clause (h) of rule 2 of Part A of the Fourth Schedule.”
- (iv) The amount repaid to an employee from the Additional Dearness Allowance Deposit Account under the provisions of Additional Emoluments (Compulsory Deposit) Act, 1974, shall be liable to be included in his total income of the previous year in which it is repaid, as already explained in the Ministry’s Circular No. 182 (F. No. 275/12/75-ITJ), dated 28-10-1975 [printed at (1975) 101 ITR (St.) 130]. The amount repaid will include an element of interest also. While the repayment of principal sum will be regarded as salary paid during the relevant financial year and assessed to tax accordingly, the interest element will qualify for deduction in accordance with section 80L of the Income-tax Act, 1961.
- (v) The amount of deposit made by a tax-payer under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974 is not allowable as deduction in computing his taxable income. Accordingly, such deposit has to be ignored for the purpose of determining the amount of income-tax deductible at source.
- (vi) Under section 16 of the Income-tax Act, 1961 (hereinafter referred to as the Act) the taxable salary is to be computed after providing standard deduction. The standard deduction is to be allowed on an amount equal to 25 per cent of the salary subject to a maximum of Rs. 5,000. For this purpose, the term “salary” will include fees, commission, perquisites or

profits in lieu of or in addition to salary, but will not include any payments received by the employees which are specifically exempt from tax under clause (10), (10A), (10AA), (10B), (11), (12) and (13A) of section 10 of the Act. Thus house rent allowance to the extent exempt under section 10 (13A) of the Act, will not be taken into account for the purposes of computing the amount of the standard deduction. It is to be noted that standard deduction on the above basis is to be allowed irrespective of whether any expenditure incidental to employment is actually incurred by the employee or not. This deduction will be available also to persons drawing pension during the current financial year at the same rates and subject to the same ceiling as the employees in actual service. Further the standard deduction will be limited to Rs. 1,000 only in cases where the employee is provided with any motor car, motor cycle, scooter or other moped by his employer (for use otherwise than wholly and exclusively in the performance of his duties), or where he is allowed the use of any one or more motor cars (otherwise than wholly and exclusively in the performance of his duties) out of a pool of motor cars owned or hired by the employer at any time during the financial year. In this connection it may be noted that the use of a motor car by the employee for the purposes of going from his residence to the place where the duties of his employment are to be performed, or from such place back to his residence will not be regarded as use of the motor car in the performance of his duties.

- (vii) (a) Under Section 80C of the Act, while computing the taxable income, the disbursing officers, should allow a deduction of the whole of the first Rs. 6,000; 50 per cent of the next Rs. 6,000 and 40 per cent of the balance of the qualifying amount of payments towards life insurance premia, contributions to provident fund (including contribution to Public Provident Fund constituted under the Public Provident Fund Act, 1968), contributions for participation in the Unit-linked Insurance Plan, 1971, made under section 19(1) (cc) of the Unit Trust of India Act, 1968 and deposits in a 10 year account or 15 year account under the Post Office Savings Bank (Cumulative Time Deposit) Rules, 1959. The qualifying amount of payments of all these items will be limited to 30 per cent of the estimated "salary" [after allowance of standard deduction referred to in item (vi) above], or Rs. 40,000 whichever is less.
- (b) In respect of contributions to "recognized provident funds" there is another monetary ceiling limit laid down in clause (d) of sub-section (2) of section 80C of the Income-tax Act, 1961 in that the employee's own contribution to his individual account in that fund will not exceed $\frac{1}{5}$ th of his salary during the financial year or Rs. 10,000 whichever is less. "Salary" for this purpose would include dearness allowance, if the terms of employment so provide, but will exclude all other allowances or perquisites. The expression "recognized provident Fund" has been defined in section 2 (38) of the Act, to mean "a provident fund which has been and continues to be recognized by the

Commissioner in accordance with the rules contained in Part A of the Fourth Schedule to the Act, and includes a provident fund established under a scheme framed under the Employees' Provident Funds Act, 1952.”

- (c) The additional monetary ceiling of 1/5th of salary or Rs.10,000 whichever is less, will not be applicable to the contributions to the provident funds referred to in sub-clauses (iii) and (iv) of clause (a) of sub-section (2) of section 80C. Such provident funds are:
- A. Government Provident Fund and Railway Provident Fund;
 - B. Provident Funds established by such local authorities and institutions as are mentioned in the schedule to the Provident Fund Act, 1925 and those notified by the Government from time to time under section 8(3) of that Act; and
 - C. Any Provident fund set up by the Central Government and notified by it in the Official Gazette-Public Provident Fund set up under the Public Provident Fund Act, 1968 is an example of such a fund
- (viii) Under section 10 (13A) of the Income-tax Act, 1961 any special allowance specifically granted to an assessee by his employer to meet expenditure actually incurred on payment of rent (by whichever name called), in respect of residential accommodation occupied by the assessee, is exempt from income-tax to the extent (not exceeding Rs. 400 p.m.) as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations. Rule 2A of the Income-tax Rules, 1962 prescribes the limits in respect of the amount which is not to be included in the total income of the assessee for the purpose of section 10 (13A) of the Act. It has to be noted that only the expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee, subject to the limits laid down in Rule 2A, qualifies for exemption from income-tax. Thus, House Rent Allowance granted to an employee who is residing in a house/flat owned by him is not exempt from income-tax. The disbursing authorities should satisfy themselves in this regard by insisting on production of evidence of actual payment of rent before excluding the House Rent Allowance from the taxable income of the employee.

However, the Hon'ble Punjab and Haryana High Court has held in the case of Commissioner of Income-tax v. Justice S.C.Mittal (1980) 121 ITR 503 that even in the case of an assessee occupying his own house, the house rent allowance received from the employer is not liable to tax subject to the limitations imposed under section 10 (13A) of the Act and Rule 2A. That judgment had not been accepted by the Department and an appeal had been filed after Special Leave was granted by the Hon'ble Supreme Court. The disbursing authorities may, however, allow exemption in respect of house rent allowance granted to every employee assessable/assessed to income-tax under the jurisdiction of the Hon'ble Punjab & Haryana high Court and residing in the house/flat owned by him subject to the limits laid down in Rule 2A in deference to the said

judgment. The actual rent paid for the purpose of the said rule would be deemed to be the actual letting value of the house/flat for which production of evidence in the form of a document showing the annual letting value fixed by the Municipal Authority etc., may be insisted upon before granting the exemption. In the annual salary return asterisk (*) against the name of each such employee may be given together with the following remarks at the end of the return.

- (ix) No deduction should be made from the salary income in respect of any donations for charitable purpose. The tax relief on such donations, as admissible under section 80G of the Act, will have to be claimed by the tax-payer separately at the time of the finalization of the assessment. However, in cases where contributions to the National Defense Fund, Jawaharlal Nehru Memorial Fund, the Prime Minister's Drought Relief fund, or the Prime Minister's National Relief Fund or the National Children's Fund are made, 50 per cent of such contributions may be deducted in computing the taxable income of the employee. Deduction will not be admissible where the aggregate of all contributions for the year is less than Rs. 250.
- (x) Under section 80GG of the Act, an assessee is entitled to a deduction in respect of house rent paid by him for own residence at the palces specified under Rule 11B of the Income-tax Rules, 1962. Such deduction is permissible subject to the following conditions:-

- (a) the assessee has not been in receipt of any house rent allowance specifically granted to him which qualifies for exemption under section 10 (13A) of the Act;

*Admissible exemption of HRA allowed in view of judgment in Justice S.C. Mittal's case.

- (b) he will be entitled to a deduction in respect of house rent paid by him in excess of 10 per cent of his total income, subject to a ceiling of 15 per cent thereof, or Rs.400 per month, whichever is less. The total income for working out these percentages will be computed before making any deduction under section 80GG;

- (C) the assessee does not own any house property himself anywhere, nor does his spouse, minor child, or the Hindu Undivided Family of which he is member, own any house property anywhere; and

- (d) the accommodation occupied by him for the purpose of his own residence is situated in any of the following places, namely:

- (i) Agra, Ahmedabad, Allahabad, Amritsar, Bangalore, Bhopal, Calcutta, Coimbatore, Delhi, Faridabad, Gwalior (Lashkar), Hyderabad, Indore, Jabalpur, Jaipur, Kanpur, Lucknow, Ludhiana City, Madurai, Nagpur, Patna, Pune (Poona), Srinagar, Surat, Vadodara (Baroda) or Varanasi (Banaras) or the urban agglomeration of each of such places; and
- (ii) Bombay, Calicut, Cochin, Ghaziabad, Hubli-Dharwar, Madras, Sholapur, Trivandrum or Vishakapatnam.

Explanation: "Urban agglomeration", in relation to a place means the area for the time being included in the urban agglomeration of such place for the purpose of grant of house rent allowance by the Central Government to its employees under the orders issued by it from time to time in this regard.

The disbursing authorities should satisfy themselves that all the conditions mentioned above are satisfied before such deduction is allowed by them to the assessee. They should also satisfy themselves in this regard by insisting on production of evidence of actual payment of rent.

- (xi) Section 10 (14) of the Act provides for exemption from income-tax of any special allowance or benefit not being in the nature of an entertainment allowance or other perquisite within the meaning of clause (2) of section 17, specially granted to the employee to meet the expenses actually incurred wholly, necessarily and exclusively in the performance of the duties of an office or employment of profit. In view of this provision, disbursing authorities have been authorised vide Board's Circular No. 196 (F.No.275/29/76-ITJ) dated 31st March, 1976 [printed at (1976) 103 ITR (St.) 38-39] not to deduct tax at source from conveyance allowance granted to an employee to the extent it is exempt under the said section. It has been stated therein that the employee in receipt of conveyance allowance would have to furnish the necessary certificate before the disbursing authority in support of the fact that the conveyance allowance is only a reimbursement of expenses laid out wholly, necessarily and exclusively in the performance of duties of an office or employment of profit. The satisfaction of the disbursing authorities would still be liable for scrutiny by the Income-tax Officer during regular assessment proceedings before him. The disbursing authority is also required to endorse a certificate in terms of section 10 (14), on the tax deduction certificate issued under section 203 of the Act. In this connection, attention is invited to the Explanation to clause (14) of section 10 which clarifies that any allowance granted to the assessee to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides, shall not be regarded for purposes of that clause, as a special allowance granted to meet expenses wholly, necessarily and exclusively incurred in the performance of such duties. This may be kept in view while deciding whether any expenditure from the special allowance has been actually incurred, and if so, the extent to which it has been incurred to meet the expenses wholly necessarily and exclusively in the performance of duties of an office or employment of profit.
- (xii) Section 80RRA provides that where the gross total income of an individual, who is a citizen of India, includes any remuneration received by him in foreign currency from any employer (ie., a foreign employer of an Indian concern) for any services rendered by him outside India, 50 per cent of such remuneration will be deducted in computing the taxable

income. It also provides that where the assessee renders continuous service abroad for more than 36 months, the remuneration received by him for any period of service after the expiry of the said 36 months will not qualify for any deduction. In the case of employees of Central Government or any State Government, or a person who was, immediately before taking up the service outside India, in the employment of Central Government or any State Government, the deduction will be allowed only if the service of the employee is sponsored by the Central Government. In the case of any other individual the deduction will be allowed only if he is a technician and the terms and conditions of his service outside India are approved for the purposes of the said section by the Central Government or the prescribed authority. It is pertinent to note that the deduction is to be allowed with reference to the remuneration received by the individual in foreign currency for services rendered outside India. Thus, if the remuneration is paid to the Indian technician Etc., partly in Indian currency and partly in foreign currency, the amount paid in Indian currency will not be taken into account for purposes of the deduction u/s 80RRA. Like wise, if a part of the remuneration although paid in foreign currency, relates to services rendered in India, then such part of the remuneration will also not qualify for deduction under section 80RRA.

The expression “foreign employer” has been defined in Explanation (b) to section 80RRA to mean (i) the Government of a foreign State; or (ii) a foreign enterprise; or (iii) any association or body established outside India. While allowing the deduction under this section, documentary evidence should be obtained on the following points:-

(i) in the case of an individual who is in the employment of the Central Government or any State Government, the fact of his service having been sponsored by the Central Government.

(ii) in the case of any other individual being a technician, the fact of the terms and conditions of his service outside India having been approved in this behalf by the Central Government (Ministry of Finance, Department of Revenue, Foreign Tax Division, New Delhi). [It should also be ensured that the deduction is allowed only with reference to the remuneration received in foreign currency in respect of the period of service outside India. The fact that the deduction is admissible only in relation to the first 36 months of continuous service outside India should also be kept in view].

(xiii) Under section 80U in the case of every resident individual who is blind or suffers from permanent physical disability, which substantially reduces his capacity to be engaged in gainful employment, a deduction of Rs. 10,000 from the total income is allowable by the employer subject to the production of a certificate from the I.T.O., in favour of the employer as laid down in this Ministry’s Circular No. 272 dated 27-5-1980 [Printed at

(1980)124-ITR(St.)3]. The certificate once issued will continue to be in force till it is withdrawn by the I.T.O.

(xiv) The total income computed in accordance with the provisions of the Act should be rounded off to the nearest multiple of ten rupees by ignoring the fraction which is less than five rupees and increasing the fraction which amounts to five rupees or more, to ten rupees. The net amount of tax deductible should be similarly rounded off to the nearest rupee.

(xv) Section 201 provides-

(1) If any such person and in the cases referred to in section 194, the principal officer and the company of which he is the principal officer does not deduct or after deducting fails to pay the tax as required by or under this Act, he or it shall without prejudice to any other consequences which he or it may incur, be deemed to be an assessee in default in respect of the tax:

Provided that no penalty shall be charged under section 221 from such person, principal officer or company unless the Income-tax officer is satisfied that such person or principal officer or company, as the case may be, has without good and sufficient reason failed to deduct and pay the tax.

(1A) Without prejudice to the provisions of sub-section (1), if any such person, principal officer or company as is referred to in that sub-section does not deduct or after deducting fails to pay the tax as required by or under this Act, he or it shall be liable to pay simple interest at twelve per cent per annum on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

(2) Where the tax has not been paid as aforesaid after it is deducted the amount of the tax together with the amount of simple interest thereon referred to in sub-section (1A) shall be a charge upon all the assets of the person, or the company, as the case may be, referred to in sub-section (1).

Attention is also invited to section 276B, where it is provided that if a person without reasonable cause or excuse fails to deduct, or after deducting fails to pay the tax as required under the provisions of Chapter XVIIIB of the Income-tax Act, 1961, he shall be punishable:

(i) in a case where the amount of tax which he has failed to deduct or pay exceeds one hundred thousand rupees, with rigorous imprisonment for a term which shall not be less than six months but which may extend to seven years and with fine; and

(ii) in any other case, with rigorous imprisonment for a term which shall not be less than three months but which may extend to three years and with fine.

5. While making the payment of tax deducted at source to the credit of the Central Government, it may kindly be ensured that the correct amount of Income-tax and surcharge is recorded in the relevant chalan. It may also be insured that the right type of chalan is used. New colour band chalans have been introduced with separate numbers. The relevant chalan for making payment of tax deducted at source from salaries is No. 9 with "Blue Colour Band". Along with this colour band chalan, old chalan forms will also continue to be used. The old chalan form number is I.T.N.S. No. 39. Wherever the amount of tax deducted at source is credited to the Central Government through book adjustment, care should be taken to ensure that the correct amount of income-tax and surcharge is reflected therein.

6. For the information of employees, the rates of compulsory deposit to be made during the financial year 1982-83 under the Compulsory Deposit (Income-tax Payers) Act, 1974 are given at Annexure III. The deposit has to be made by a person whose current income during the financial year exceeds Rs. 15,000. The last date for making the deposit in the case of a person who is not required to pay advance tax under the Income-tax Act, 1961 is the 31st March of the financial year in which the deposit is to be made and the deposit can be made in one or more instalments of his choice at any time during the financial year. A person who is required to pay advance tax, is liable to make the deposit (in one sum or in instalments of his choice) on or before the date on which the last instalment of advance tax is payable by him.

7. These instructions are not exhaustive and are issued only with a view to helping the employers to understand the various relevant provisions. Wherever, there is a difference of opinion a reference should always be made to the provisions of the Income-tax Act, 1961 and the relevant Finance Act through which the changes in the tax structure are made.

8. These instructions may please be brought to the notice of all disbursing officers and State Undertakings under the control of the State Government.

9. In case any assistance is required the I.T.O. concerned and/or the Public Relation Officer may be approached for the same, who will, if necessary, obtain the orders of higher authorities in the matter.

10. Copies of this Circular are available with the Director of Inspection (Research, Statistics & Public Relations), 6th Floor, Mayur Bhawan, Connaught Circus, New Delhi-110001.

Yours faithfully,
(Sd.)
R.C.HANDA,
Secretary,
Central board of Direct Taxes.

ANNEX-1
Extract from the Finance Bill, 1982
PART III OF THE FIRST SCHEDULE

Paragraph A

Sub-Paragraph 1

In the case of every individual or Hindu undivided family or unregistered firm or other association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act, not being a case to which sub-paragraph 11 of this paragraph or any other paragraph of this part applies.

Rates of Income-tax

- | | |
|--|---|
| (1) Where the total income does not exceed Rs. 15,000 | Nil |
| (2) Where the total income exceeds Rs. 15,000 but does not exceeds Rs. 25,000 | 30 per cent of the amount by which the total income exceeds Rs. 15,000; |
| (3) Where the total income exceeds Rs. 25,000 but does not exceeds Rs.30,000 | Rs. 3,000 plus 34 per cent of the amount by which the total income exceeds Rs. 25,000; |
| (4) Where the total income exceeds Rs. 30,000 but does not exceed Rs. 50,000 | Rs. 4,700 plus 40 per cent of the amount by which the total income exceeds Rs, 30,000; |
| (5) Where the total income exceeds Rs. 50,000 but does not exceed Rs. 60,000 | Rs. 12,700 plus 50 per cent of the amount by which the total income exceeds Rs. 50,000; |
| (6) Where the total income exceeds Rs. 60,000 but does not exceed Rs. 70,000 | Rs. 17,700 plus 52.5 per cent of the amount by which the total income exceeds Rs. 60,000; |
| (7) Where the total income exceeds Rs. 70,000 but does not exceed Rs. 85,000 | Rs. 22,950 plus 55 per cent of the amount by which the total income exceeds Rs. 70,000; |
| (8) Where the total income exceeds Rs. 85,000 but does not exceed Rs. 1,00,000 | Rs. 31,200 plus 57.5 per cent of the amount by which the total income exceeds Rs. 85,000; |
| (9) Where the total income exceeds Rs. 1,00,000 | Rs. 39,825 plus 60 per cent of the amount by which the total income exceeds Rs. 1,00,000. |

SURCHARGE ON INCOME-TAX

The amount of income-tax computed in accordance with the preceding provisions of this sub-paragraph shall be increased by a surcharge for purpose of the Union calculated at the rate of ten per cent of such income-tax.

ANNEX-11

TYPICAL EXAMPLES OF INCOME-TAX CALCULATION

Example 1

	Rs.	Rs.
1. Total salary income		25,000
2. Contribution to Government Provident Fund	4,200	
3. Payments towards life insurance premia	1,000	
4. Contribution for participation in Unit linked Insurance Plan 1971, made under section 19 (1) (cc) of the Unit Trust of India Act, 1963	300	6,000
5. Deposits in a 10 year account or 15 Year account under the Post Office Savings Bank (Cumulative Time Deposits) Rules, 1959	500	
<hr/>		
6. Total salary income		25,000
7. Deduct: Amount of standard deduction under Section 16 (i) of the Income-tax Act, 1961 @ 25% of the amount subject to maximum of Rs. 5,000		<u>5,000</u>
8. Gross total income (6-7)		20,000
9. Deduct: amount on account of contribution towards G.P.F., Life Insurance premia, Unit linked Insurance Plan and Deposits in 10-year account or 15 year account under Post Office		

Savings Bank (Cumulative-Time Deposits)	
Rules, 1959 Total amount paid Rs. 6,000	<u>6,000</u>
10. Taxable income	14,000
11. Total tax payable	Nil

Example 11

(Illustrating calculation of limits under section 80C and valuation of some perquisites in case of an employee of a Private Company posted at Bombay)

	Rs.
1. Salary including dearness allowance	48,000
2. Bonus	9,600
3. Contribution to Recognised Provident Fund	11,000
4. L.I.P.	10,000
5. Free gas, electricity, water, etc. (actual bills paid By the company)	2,400
6. Furniture at cost (including television set, radio set, Refrigerator, other household appliances and an air Conditioner) belonging to the company	40,000
7. (i) Furnished flat provided to the employee for which actual rent paid by the company (actual rent assumed to be equal to the 'Fair rental value').	24,000
(ii) Rent recovered from the employee	12,000

Computation of total Income

1. Salary	48,000
2. Bonus	<u>9,600</u>
	57,600
3. Valuation of perquisites:	Rs.
(a) Furnished flat at concessional rent u/s 17(2) read with clauses (a) and (b) of rule 3 of the Income-tax Rules, 1962 Fair Rental Value (FRV) (assumed to be equal to actual rent) Rs. 24,000	

10% of salary including bonus	5,760	
Add excess of FRV over 30% of salary, including Bonus, of Rs. 57,600 (i.e. Rs. 24,000-Rs. 17,280)	6,720	
Add perquisite of the furniture (10% of cost i.e. Rs.40,000)	<u>4,000</u>	
	16,480	
Less rent paid by the employee	12,000	
		<u>4,480</u>
		62,080
4. Free gas, electricity, etc.		<u>2,400</u>
5. Less standard deduction u/s 16(i) @ 25% Subject to maximum of Rs.5,000		64,480 <u>5,000</u>
6. Gross total income		59,480
7. less deduction u/s 80C P.F. paid Rs. 11,000 but restricted to 1/5 th salary of Rs. 48,000 (excluding bonus) or Rs. 10,000 whichever is less L.I.P. contribution	9,600 <u>10,000</u>	
	19,600	
Total of P.P. and L.I.P. of Rs. 19,600 is to be Further restricted to 30% of the 'gross total income' (i.e.30% of Rs. 59,480) or Rs. 40,000 whichever is less i.e. to Rs. 17,844		
Deduction admissible on Rs. 17,844:		
First Rs. 6,000 (100%)	6,000	
Next Rs. 6,000 (50%)	3,000	
On balance Rs. 5,844 (40%)	<u>2,338</u>	<u>11,338</u>
8. Taxable income		48,142
(Rounded off u/s 288A)		48,140

9. Tax payable thereon (Rs. 4,700+40% of Excess over Rs. 30,000)	11,956.00
10. Surcharge @ 10% of income-tax payable	1,195.60
11. Total tax payable	13,151.00
(Rounded off u/s 288B)	13,152.00

(Rate at which monthly deduction from salary is required to be made works out to Rs. 1,096).

Notes:- (i) In the case of a Government servant the value of perquisite of unfurnished accommodation provided free is determined in accordance with the rules framed by the Government for allotment of residence to its employees. For determining the perquisite value of free furniture, it is taken, as in other cases, at 10% per annum of the original cost of the furniture, or if it is hired from a third party, the actual hire charges payable.

(ii) Where unfurnished accommodation is provided to its employees by the Reserve Bank of India or any other public sector body specified in sub-clause (2) of clause (a) of Rule 3 of the Income Tax Rules, say, a nationalized bank, State Trading Corporation, etc. it is taken as 10% of the salary due to the employees and where the accommodation is furnished, as in other case, an additional 10% of the original cost of furniture, or if it is hired from a third party, the actual hire charges payable therefore.

(iii) In the example given above, the actual rent has been assumed to be equal to the 'fair rental value'. 'Fair rental value' can, however be different from the actual rent. It is defined in explanation 2 below clause (a) of Rule 3 to mean, in the case of an accommodation which is unfurnished, "the rent which a similar accommodation would realize in the same locality or the municipal valuation in respect of the accommodation; whichever is higher".

(iv) In case the accommodation is situated in Bombay, Calcutta, Delhi and Madras the excess of 30% of salary over fair rental value, as against 20% in other cases, is required to be added in determining the value of perquisite in view of Board's Circular No. 130 dated 16-3-1974 printed at (1974) 94 ITR 17 (St.)

Example III

(Illustrating limits of deduction under section 80C)

	Rs.	Rs.
1. Total salary income (including Rs.2,400 as conveyance allowance @ Rs. 200 p.m. received from the employer)		30,000
2. Contribution to Recognised Provident Fund	9,500	
3. Payment towards life insurance premia	1,000	
4. Contribution for participation in Unit-linked Insurance Plan, 1971 made under section 19(1) (cc) of the Unit Trust of India Act, 1963	1,500	13,000
5. Deposit in a 10-year account or 15-year account under the Post Office Savings Bank (Cumulative Time Deposits) Rules, 1959	1,000	
6. Total salary income		30,000
7. Deduct: amount of standard deduction under section 16 (i) of the Income-tax Act, 1961 @ 25% of the amount subject to a maximum of Rs.5,000		<u>5,000</u>
8. Gross total income (6-7)		25,000
9. Deduction u/s 80C		
Contribution of Rs. 9,500 to P.P. under section 80C (2) (d) restricted to 1/5 th of salary of Rs. 30,000 or Rs. 10,000 which ever is less i.e.	6,000	
Life Insurance premia	1,000	

Contribution to participation in Unit-linked Insurance Plan 1971 made under section 19(1) (cc) of the Unit Trust of India Act, 1963	1,500	
Deposit in a 10-year account or 15-year account Under the Post Office Savings Bank (Cumulative Time Deposits) Rules, 1959	<u>1,000</u>	
	9,500	
Restricted to 30% of the 'gross total income' or Rs. 30,000 whichever is less (i.e.30% of Rs. 25,000)	7,500	
Deduction admissible on Rs. 7,500 on the first Rs. 6000(100%)	6,000	
On the next Rs. 1,500 @ 50%	<u>750</u>	<u>6,750</u>
10. Taxable income (8-9)		18,250
11. Income-tax payable at Rs. 18,250		975.00
12. Surcharge on income-tax @ 10%		<u>97.50</u>
13. Total tax payable (11+12)		<u>1072.50</u>
14. (Rounded off under section 288B)		1073.00

(Rate at which monthly deduction is required to be made works out to Rs. 89)

Example IV

(Illustrating calculation of house rent allowance u/s 10(13A) in respect of residential accommodation situated at Delhi.)

	Rs.
1. Salary (exclusive of allowance & perquisites)	36,000
2. House rent allowance received	8,400
3. Actual rent paid	11,400
4. Contribution to Recognised Provident Fund	6,000
5. L.I.P.	3,000
6. Deposits in a 10-year account under the P.O. Savings Bank (Cumulative Time Deposits)	

 Computation of total income

1. Salary		36,000
2. House rent allowance received		<u>8,400</u>
3. Less allowance u/s 10(13A):		44,400
	Rs.	
Actual rent paid	11,400	
Less: 10% of salary	<u>3,600</u>	
	7,800	
20% of salary (accommodation being Situated at Delhi)	7,200	
Maximum allowance @ Rs. 400 p.m.	<u>4,800</u>	<u>4,800</u>
		39,600
4. Less standard deduction u/s 16(i) @ 25% subject to the maximum of Rs. 5,000		<u>5,000</u>
5. Gross total income		34,600
6. Less deduction u/s 80C		
Total P.F., L.I.P. and O.T.D.	10,000	
These contributions being within the Prescribed admissible limits, the Deduction admissible on Rs. 10,000		
First Rs. 6,000 (100%)	6,000	
Of balance Rs. 4,000 (50%)	<u>2,000</u>	
		<u>8,000</u>
7. Taxable income		26,600
8. Tax payable thereon (30% of excess over Rs. 15,000 i.e. 11,600)		3,480
9. Surcharge @ 10% of income-tax payable		348
10. Total tax payable (Rate at which monthly deduction from salary is required to be made works out to Rs. 319)		3,828

ANNEX III
RATES OF COMPULSORY DEPOSIT

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|-----|--|--|
| (1) | Where the current income exceeds
Rs. 15,000 but does not exceed
Rs. 25,000 | 4.5% of the current income; |
| (2) | Where the current income exceeds
Rs. 25,000 but does not Rs.35,000 | Rs. 1,125 plus 11% of the amount
by which the current income exceeds
Rs. 25,000; |
| (3) | Where the current income exceeds
Rs. 35,000 but does not exceeds
Rs.50,000 | Rs. 2,225 plus 12.5% of the amount
by which the current income exceeds
Rs. 35,000; |
| (4) | Where the current income exceeds
Rs. 50,000 but does not exceed
Rs. 70,000 | Rs. 4,100 plus 15% of the amount by
which current income exceeds
Rs. 50,000; |
| (5) | Where the current income exceeds
Rs. 70,000 | Rs. 7,100 plus 18% of the amount by
which the current income exceeds
Rs. 70,000: |

Provided that-

- (a) Where the current income exceeds Rs. 15,000 but does not exceed Rs. 15,710, the compulsory deposit shall in no case exceed the amount by which the current income exceeds Rs. 15,000;
 - (b) Where the amount of compulsory deposit calculated in accordance with the foregoing provisions is less than Rs. 100 it shall not be necessary for the tax payer concerned to make such deposit.
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