

## 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**

Salary for HRA = Basic + DA  
= 6,00,000 + 1,20,000  
= ₹7,20,000

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**Step 2: HRA Exemption (Metro – 50%)**

Least of:

1. Actual HRA received = 2,40,000
2. Rent paid – 10% salary  
Rent = 25,000 × 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)

Taxable HRA = 2,40,000 – 2,28,000  
= ₹12,000

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### Step 3: Gross Salary

Basic = 6,00,000

DA = 1,20,000

Bonus = 50,000

Taxable HRA = 12,000

Gross Salary = ₹7,82,000

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### Step 4: Standard Deduction

7,82,000 – 50,000

**Income from Salary = ₹7,32,000**

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### ✓ 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

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### 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**