

VALUATION OF PERQUISITES

A. NON MONETARY PERQUISITES :

Non-monetary benefits are those that are not provided by way of monetary payments to the employees.

a) Residential Accommodation provided by Employer:

i) Rent free unfurnished Accommodation:- Following are added to salary as perquisites:

Population of city as per 2001 census	Accommodation owned by the employer	Accommodation is taken on lease by the employer
Exceeding 25 lakh	15% of salary in respect of period during which the accommodation is occupied by the employee	Amount of lease rent paid or payable or 15% of salary, whichever is lower
Exceeding 10 lakh but not 25 lakh	10% of salary in respect of period during which the accommodation is occupied by the employee	Amount of lease rent paid or payable or 15% of salary, whichever is lower
Any other	7.5% of salary in respect of period during which the accommodation is occupied by the employee	Amount of lease rent paid or payable or 15% of salary, whichever is lower

Value of perquisite as derived above shall be reduced by the rent, if any actually paid by the employee.

- Meaning of 'Salary 'for the purpose of calculation of perquisite in respect of Residential Accommodation :
 - a. Basic Salary ;
 - b. Dearness Allowance, if terms of employment so provide ;
 - c. Bonus ;
 - d. Commission ;
 - e. Fees ;
 - f. All other taxable allowances (excluding the portion not taxable) ; and
 - g. Any monetary payment which is chargeable to tax (by whatever name called)

- Salary should be calculated on '*accrual*' basis. Advance salary shall not be taken into consideration for this purpose.
- Salary from all employers shall be taken into consideration in respect of the period during which an accommodation is provided.
- Where on account of the transfer of an employee from one place to another, he is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value for a period not exceeding 90 days and thereafter the value of perquisite shall be charged for both such accommodation.

ii) Rent free furnished Accommodation :

Step 1 : Find out the value of the perquisite on the assumption that the accommodation is unfurnished (as per working in 'i' above)

Step 2 : To the value so arrived at, add :

- i. 10% p.a. of the original cost of furniture, if furniture is owned by the employer.
- ii. Actual hire charges paid or payable, if furniture is hired by the employer.

iii) Furnished Accommodation in a Hotel :

The value of perquisite shall be determined on the basis of lower of the following two:

1. 24% of salary paid or payable in respect of period during which the accommodation is provided.
2. Actual charges paid or payable by the employer to such hotel.

However, nothing shall be taxable if following two conditions are satisfied :

1. The hotel accommodation is provided for total period not exceeding in aggregate 15 days in a previous year.
2. Such accommodation is provided on an employee's transfer from one place to another place.

NOTE: Perquisite in respect of Residential accommodation is not taxable if it is provided in a remote area.

b) Water charges & Electricity charges :

Value of perquisite shall be determined at the amount paid or payable by the employer as reduced by the amount recovered if any, from the employee.

It is taxable in the hands of all employees (whether specified or not) provided that the Water supply or electric connection is in the name of the employee and expenses are reimbursed by the employer.

If, however, the Water supply or electric connection is in the name of the employer and the expenses are borne by the employer, perquisite is taxable only in the hands of specified employees.

Meaning of 'Specified Employee' :

1. Director Employee.
2. An employee having substantial interest (Beneficial owner of equity shares carrying 20% or more voting power).
3. An employee whose income chargeable under the head 'Salaries' (exclusive of the value of all benefits or amenities not provided by way of monetary payments) exceeds Rs.50,000/-.

c) Interest free loan/Loan at concessional rate of interest :

If a loan is given to an employee (or any member of his household), interest thereon is a perquisite chargeable to tax.

It is taxable in hands of all employees (whether specified or not) on the following basis :

- 1) Find out the 'maximum outstanding monthly balance' (i.e. the aggregate outstanding balance of each loan as on the last day of each month)
- 2) Calculate interest on loans charged at the rate applicable to the similar loans as prescribed by State Bank of India as on the 1st day of April of the relevant previous year (e.g. 1st April 09 for A Y 2010-11) on the amount derived in step 1 XXX
- 3) Less: Interest on loans charged by Employer, if any XXX
- 4) Balance amount is the taxable non- monetary perquisite on concessional loans XXX

Note: Exemption is given to the above rule in case of following situations :

1. When the amount of the original loan in the aggregate does not exceed Rs. 20,000/-.

2. If a loan is taken for medical treatment in respect of diseases specified in Rule 3A.(the exemption is not available to the amount of the loan that has been reimbursed to the employee under any medical insurance scheme.)

d) Use of movable assets :

If a movable asset (except computer / laptops or car) is given for use to an employee (or any member of his household), it is a perquisite chargeable to tax. It is taxable in hands of all employees (whether specified or not) on the following basis :

1. 10% p.a. of actual cost if asset is owned by employer or rent paid or payable if taken on hire by the employer XXX
2. Less: Amount recovered from the employee XXX
3. Balance amount is the taxable non- monetary perquisite on use of movable assets XXX

e) Transfer of movable assets :

If a movable asset is transferred directly or indirectly to an employee (or any member of his household), it is a perquisite chargeable to tax. It is taxable on the following basis :

1. Actual cost of the asset to the employer XXX
2. **Less:** Cost of normal wear and tear which shall be determined as under:

Sl.No.	Asset type	Rate	Method of Depreciation
1.	Motor Car	20%	Written Down Value Method
2.	Computer and Electronic gadage	50%	Written Down Value Method
3.	Other Assets	10%	Straight Line Method

3. **Less:** Amount recovered from the employee XXX
4. Balance amount is the taxable non- monetary perquisite on transfer of movable assets XXX

f) Membership fees and Annual Fees Credit Card :

Any membership fees and annual fees incurred by the employee (or any member of his household), which is charged to credit card (including any add-on-card) is taxable on the following basis :

1. Amount of expenditure incurred by the employer	XXX
2. Less : Expenditure on use for official purposes	XXX
3. Less : Amount, if any, recovered from the employee	XXX
4. Balance amount is the taxable non- monetary perquisite	<u>XXX</u>

g) Club Expenditure :

Any annual or periodical fees, on Club facility used by the employee (or any member of his household), which is paid or reimbursed by the employer is taxable on the following basis :

1. Amount of expenditure incurred by the employer	XXX
2. Less : Expenditure on use for official purposes	XXX
3. Less : Amount, if any, recovered from the employee	XXX
4. Balance amount is the taxable non- monetary perquisite	<u>XXX</u>

Note:

- 1) Health club, sport facilities etc. provided uniformly to all classes of employees by the employer at the employer's premises and expenditure incurred on them are exempt.
- 2) The initial one-time deposits or fees for corporate or institutional membership, where benefit does not remain with a particular employee after cessation of employment are exempt. Initial fees / deposits, in such case, is not included.

h) Value of Subsidized / Free Lunch provided by employer to an employee:

Value of taxable perquisite is calculated as under:

1. Expenditure incurred by the employer on the value of food / non-alcoholic including paid vouchers (Sudexo) which are not transferable and usable only at eating joints	XXX
2. Less: Fixed value of a sum of Rs. 50/- per meal	XXX
3. Less: Amount recovered from the employee	XXX

4. Balance amount is the taxable non- monetary perquisites on value of food provided to the employees XXX

Note : Exemption is given in following situations :

1. Tea / snacks provided in working hours.
2. Food & non alcoholic beverages provided in working hours in remote area or in an offshore installation.

i) **Holiday Facility maintained by employer**

If a Holiday facility is maintained by the employer and is available uniformly to all employees, the value of such benefit would be exempted.

B. MONETARY PERQUISITES :

Monetary benefits are those that are provided by way of monetary payments to the employees.

a) Vehicle maintenance Reimbursement :

- a) Use of any vehicle provided by the employer to an employee for journey by him from his residence to office or from office to his residence shall not be chargeable to tax.
- b) Where the car is owned by the employee or employer and maintenance & running expenses including driver salary, are met by the employer and if the car is used wholly for official purposes, no value shall be taken as perquisite provided :
 - i. The employer has maintained complete details of the journey undertaken for official purposes;
 - ii. The employer gives a certificate that the expenditure was incurred wholly for official duties.

Section 10(14) includes only those allowances which are not in the nature of perquisite within the meaning clause (2) of section 17. Vehicle maintenance reimbursement falls within the purview of sec. 17(2). Hence, this exemption is not available to the employees claiming vehicle reimbursement for official purposes. Conveyance allowance to the extent of Rs 800/- p.m. or Rs1600 p.m (for a blind person) is allowable to all employees other than those claiming Vehicle reimbursement to meet the expenditure for the purpose of commuting between place of residence and place of office.

b) House Cleaning reimbursement:

The value of benefit to the employee (or any member of the household), shall be the actual cost to the employer as reduced by the amount if any recovered from the employee.

If a domestic servant is engaged by the employee, the perquisite is taxable in the hands of all employees (Whether specified or not).

If a domestic servant is engaged by the employer, the perquisite is taxable in the hands of only specified employees.

If Domestic Servant allowance is given to the employee, it is chargeable to tax as perquisite even if the allowance is used for engaging a domestic servant.

c) Book Grant reimbursement :

If actual bills are provided it forms nature of reimbursement which is not taxable if it can be proved that acquisition of books is necessary for the purpose of the business

d) Medical Reimbursement :

Medical reimbursements shall be treated as monetary perquisite since it falls in the purview of sec.17(2) and any amount paid by the employer to the employee in excess of Rs15000/- p.a. is taxable as perquisite. Following is the extract of the proviso (v) to Section 17 (2)(vi).

As per the proviso (v) to sec.17(2)(vi), a sum upto Rs.15,000/- per annum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt.

‘Family’ for this purpose, means :-

- a. the spouse & children of the individual; and
- b. the parents, brothers and sisters of the individual or any of them wholly or mainly dependent on the individual.

e) Staff Furnishing Scheme :

It is a business expenditure if it can be proved that incurring such expense is necessary for the purpose of the business

f) Brief Case reimbursement :

It is a business expenditure if it can be proved that incurring such expense is necessary for the purpose of the business

g) Entertainment allowance :

Any entertainment allowances paid to non-government employees are taxable.

h) Gifts / Awards :

- If made in cash or convertible into money (like gift cheques), they are taxable as perquisites
- If made in kind up to Rs. 5,000 in aggregate per annum would be exempt, beyond which it would be taxable

i) Transfer Grant Allowance :

In this connection it is to be noted that as per sec.10(14) read with rule 2BB any allowance granted to meet the cost of travel on tour or on transfer includes any sum paid in connection with transfer, packing and transportation of personal effects on such transfer shall be exempt. Also any allowance, whether, granted for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty shall be exempt.

j) Holiday Expenditure reimbursement :

It is not taxable. It is an allowable expenditure u/s 37 provided the holiday (picnic) is organized by the employer.

However, any Expenditure paid or reimbursed by the employer for any holiday (one day picnic) availed of by the employee or any member of his household is to be considered as taxable perquisite.

k) Leave Fare Concession (LFC):

The following are the important points, to be taken into consideration, for claiming exemption u/s 10 (5) of the Income Tax Act, 1961 read with Rule 2B of the Income Tax Rules, 1962:

1. **Definition** - Value of LFC received by or due to an individual from his present or previous employer, as the case may be, **for himself and his family** in connection with **his proceeding on leave to any place in India.**

The exemption shall be available either if the employee is traveling alone or accompanying his family in connection with his proceeding on leave to any place in India. But, exemption shall not be available if the family members are traveling separately without the employee who is not on leave.

2. **Number of Trips** – The exemption shall be available in respect of 2 journeys performed in the block of **4 calendar years**. E.g: 1986-1989, 1990-1993... 2006-2009. Some important points to be considered are as under:
 1. It is uniform for all employees
 2. Where an employee does not avail LFC, either one or on both the occasions, during the block of 4 calendar years, the value of LFC first availed during the first calendar year of the immediately succeeding block shall be eligible for exemption in lieu of exemption not availed during the preceding block Only one trip can be carried forward to be availed in the immediately succeeding block.
3. **Quantum of Exemption** – The basic rule is that quantum of exemption will be limited to the actual expense incurred on the journey. They are explained as under:

- **On declaration basis** - Without performing any journey and incurring expenses thereon, no exemption can be claimed.
- **On Non-declaration basis** – The quantum of exemption will be subject to the following maximum limits for journeys performed on or after 01.10.1997:

Journey Performed by	Exemption Limit
1. Air T h	Air Economy fare of the national carrier (Air India) by the shortest route to the place of destination
2. Places connected by rail and journey performed by any mode other than by air	First Class Air conditioned rail fare by the shortest route to the place of destination
3. Place of origin and destination or part thereof not connected by rail	a) Where public transport system exists, first class or deluxe class fare on such transport by the shortest route to the place of destination. b) Where no public transport system exists, first class A/C rail fare, for the distance of the journey by the shortest route, as if the journey has been performed by rail.

is limited to the **actual expenses incurred** on the journey which in turn is **strictly limited to expenses on air fare, rail fare and bus fare only**. No other expenses like local conveyance, sight seeing expense etc., shall qualify for exemption.

- Where the journey is performed in a **circuitous route**, the exemption is limited to what is admissible by the shortest route. Likewise, where the journey is performed in a circular form touching different places, the exemption is limited to what is admissible for the journey from the place of origin to the **farthest point reached in India**, by the shortest route.
4. **Restriction on children** – The exemption will not be available to more than 2 surviving children of an individual born after 01.10.1998. This restriction shall not apply in respect of children born before 01.10.1998 and also in case of multiple births after one child. It may be noted that section 2 (15B) of the Act defines a child as includes a step child and an adopted child of the individual.
 5. **Definition of Family** – As per the provisions of Income Tax Rules, family means:
 - Spouse and children of the individual.
 - Parents, brothers and sisters who are wholly or mainly dependent on the individual.
 6. **Foreign Travel** – As per the provisions of Income Tax Rules, exemption is not allowable in case of travel abroad.
 7. **Obligation of the employer** – As per a previously decided case law – **C.E.S.C. Ltd. Vs ITO (TDS) 2003 Tax LR 401 (Cal.)**, the employer has to satisfy the obligation that

leave travel (fare) concession is not taxable in view of section 10 (5), the employer is not only required to be satisfied about the ingredients of the said clause but also to keep and preserve evidence in support thereof.