Class - B.Com II
Subject - Income Tax
Topic - Income tax provisions regarding Allowances granted to a Salaried person

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Reference Books - Income tax Law & Accounts - Dr. B.K. Agarwal - Nirupam Sahitya Sadan
- Income tax Dr. H.C. Mehrotra - Sahitya Bhawan Pub.

Allowances

Allowances are the monetary payments which are paid regularly to the employees by the employer in addition to the salary of the employee. These may be pre-determined as per the terms of employment. The allowances may be classified in 3 parts for income tax purpose.

A. Allowances fully taxable

1. Dearness allowance | Dearness Pay
   If the dearness allowances is as per terms of employment, it is treated as a part of basic salary for tax purpose.
2. Fixed medical allowance
3. Cost of living allowance
4. City Compensatory allowance
5. Overtime allowance
6. Proctor's allowance
7. Warden's allowance
8. Non-practicing allowance
9. Servant's allowance
10. Tiffin allowance

11. Night allowance
12. Rural allowance
13. Deputation allowance
14. Transport allowance - from house to working place and from working place to house. This is taxable from A.Y. 2019-20.
15. Shift allowance
16. Cloth allowance
17. Others - like pet animal allowance, family allowance, field allowance, marriage allowance etc.

B. <u>Partly Taxable Allowances</u> - These allowances are neither fully exempt nor fully taxable. Taxable part will be -
= Actual amount of allowance received - exempted allowance

1. House rent allowance u/s Sec 10 (13-A)
Least of the following is exempt
(i) Actual HRA received
(ii) Rent paid by employee - 10% of salary
(iii)(a) If accomodation is situated at Delhi, Mumbai, Kolkata or Chennai then, 50% of salary
(b) At any other place
40% of salary

Taxable Amt of HRA = Actual HRA received - Exempt HRA

Note → salary for the purpose means - Basic salary + DA (if it is under terms of employment + Commission (If it is paid at fixed percentage of turnover made by employee)

→ Salary will be taken for the relevant period during which the rental accomodation is occupied

→ For central Government employees who are receiving HRA at flat rates and are not residing in their own house or parental house, flat rate allowance will be exempt.

2. Entertainment Allowance –

The amount of entertainment allowance is first added to the Gross Salary of employee and later on as deduction u/s 16 (ii), it is deducted from Gross Salary. Deduction is as follows –

For Central | State Government Employees

Least of the following will be deducted

(i) 20 % of Basic Salary

(ii) ₹ 5,000

(iii) Actual amount of Entertainment allowance granted

→ Salary means only the basic salary

For Non-Government Employees (including employees of statutory corporation or local authority)

No deduction is allowed

3. Travel Allowance | Travel Concession

This allowance may be provided to the employee if he and his family members goes to any place in India during leave (like LTC) or the employee and his family members goes to any place in India after Retirement from Service. The following amount will be exempt –

Journey by air – air economy class fare of the national carrier by the shortest route or Actual amount spent, which is less

Journey by rail – Air Conditioned first class rail fare for the shortest route or the Actual amount spent, which is less

Journey by any other mode – Air Conditioned first class rail fare for the shortest route or the Actual amount spent, which is less

– First class | deluxe class fare for the shortest route or Actual amount spent, which is less (in case of Journey by public Transport)

Note – Such exemption shall be available only for two journeys performing in a block of 4 ~~years~~ Calendar years starting from 1986

→ Family means – spouse, children (not more than two), parents, brothers, sisters (dependant on the employee) child includes step child or adopted child.

4. Special Allowances

A – Allowances to employees for ~~perfor~~ performing the duties

(i) Allowances for travel on tour or transfer
exemption can not exceed the Actual expense

(ii) Daily Allowance
exemption can not exceed the Actual expense

(iii) Conveyance Allowance
exemption can not exceed the Actual expense.
If transport facility (free) is provided, 100% allowance will be taxable

(iv) Helper Allowance
exemption is limited to the Actual expense

(v) Academic Allowance
exemption is limited to the Actual expense

(vi) Uniform Allowance (If uniform is compulsory during duty hours)
exemption is limited to the Actual expense

B – Allowances to employees for their personal expenses

(i) Children Education Allowance
Rs 100 per month per child for maximum 2 children is exempt

(ii) Hostel Allowance
Rs. 300 per month per child for maximum 2 children is exempt

(iii) Allowances to employees working in a transport company
These allowances are given to meet out personal expenses during journey
70% of Allowance received or Rs. 10000 per month (which is less)

(IV) Special Compensatory (Hill area) Allowance | High altitude allowance

(a) Places in Manipur (Mollan), Arunachal Pradesh, Sikkim, Uttar Pradesh/Uttaranchal, Himachal Pradesh, J.&K. located at a height of 9000 ft or above	upto Rs. 800 per month is exempt
(b) Siachen area of J&K	upto Rs. 7000 p.m.
(c) other places located at a height of 1000 metres or more above the sea level	upto Rs. 300 p.m.

(V) High Altitude (uncongenial climate) Allowances to armed forces operating in high altitude area

height of 9000 to 15000 ft.	upto Rs. 1060 per month
height above 15000 ft	upto Rs. 1600 per month

(vi) Special Compensatory high Active field area allowance to armed forces.	upto Rs. 4200 per month
(vii) Island duty allowance to armed forces in Andaman & Nicobar and Lakshadweep group of Island	upto Rs. 3250 per month
(viii) Border area Allowance / Remote area Allowance / difficult area allowance / disturb area Allowance	category I Rs. 1300 p.m II Rs 1100 p.m. III Rs. 1050 p.m. IV Rs 750 p.m V Rs 300 p.m VI Rs 200 p.m
(IX) Tribal / Scheduled / agency area Allowance	upto Rs. 200 p.m.
(X) underground allowance	upto Rs. 800 p.m.
(XI) Compensatory field area Allowance	upto Rs. 2600 p.m.

(xii) Modified field area Allowance — upto Rs. 1000 p.m.

(xiii) Counter-insurgency Allowance — upto Rs. 3900 p.m.

(xiv) Transport allowance between the place of residence and the place of duty granted to employee who is blind or orthopaedically handicapped — upto Rs. 3200 p.m.

C. Fully Exempt Allowances

(i) Foreign Allowance granted to Indian citizen who is government employee employed in foreign
(ii) Allowances to high court judges
(iii) Allowances paid by United Nations organisations to its employees
(iv) Sumptuary allowance paid to the judges of high court and Supreme court
(v) Allowances received by a teacher / Professor from SAARC member states
(vi) Allowance to other foreign citizens
(vii) Allowance to chairman or members of UPSC
(viii) Allowance to retired chairman or member of UPSC
 (a) upto Rs. 14000 p.m. for expenses on orderly and secretarial assistance.
 (b) upto Rs 1500 p.m. for telephone