**Salary Income – Answers to Common Issues**

A **salary** is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with piece wages, where each job, hour or other unit is paid separately, rather than on a periodic basis. From the point of view of running a business, salary can also be viewed as the cost of acquiring and retaining human resources for running operations, and is then termed personnel expense or salary expense. In accounting, salaries are recorded in payroll accounts.

Salary is a fixed amount of money or compensation paid to an employee by an employer in return for work performed. Salary is commonly paid in fixed intervals, for example, monthly payments of one-twelfth of the annual salary.

**Here we have Considered Some of the Frequently asked Question on Taxability of Salary Income under the Income tax Act,1961**

**​What is considered as salary income?**

section 17(1)​ of the Income-tax Act defines the term ‘salary’. However, not going into the technical definition, generally whatever is received by an employee from an employer in cash, kind or as a facility [perquisite] is considered as salary.

**​What are allowances? Are all allowances taxable?**

​ Allowances are fixed periodic amounts, apart from salary, which are paid by an employer for the purpose of meeting some particular requirements of the employee.  E.g., Tiffin allowance, transport allowance, uniform allowance, etc.

There are generally three types of allowances for the purpose of Income-tax – taxable allowances, fully exempted allowances and partially exempted allowances.

**​My employer reimburses to me all my expenses on grocery and children’s education. Would these be considered as my income?**

​Yes, these are in the nature of perquisites and should be valued as per the rules prescribed in this behalf.​

**​ During the year I had worked with three different employers and none of them deducted any tax from salary paid to me. If all these amounts are clubbed together, my income will exceed the basic exemption limit. Do I have to pay taxes on my own?**

​Yes, you will have to pay self-assessment tax and file the return of income.​

**​Even if no taxes have been deducted from salary, is there any need for my employer to issue Form-16 to me?**

​Form-16 is a certificate of TDS. In your case it will not apply. However, your employer must issue a salary statement.​

**​Is pension income taxed as salary income?**

​Yes. However, pension received from the United Nations Organisation is exempt.​

**​Is Family pension taxed as salary income?**

​No, it is taxable as income from other sources.

**​If I receive my pension through a bank who will issue Form-16 or pension statement to me- the bank or my former employer?**

​The bank.​

**​Are retirement benefits like PF and Gratuity taxable?**

​ In the hands of a Government employee Gratuity and PF receipts on retirement are exempt from tax. In the hands of non-Government employee, gratuity is exempt subject to the limits prescribed in this regard and PF receipts are exempt from tax, if the same are received from a recognised PF after rendering continuous service of not less than 5 years.​

**​Are arrears of salary taxable?**

​ Yes. However, the benefit of spread over of income to the years to which it relates to can be availed for lower incidence of tax. This is called as relief u/s 89 of the Income-tax Act.​

**​Can my employer consider relief u/s 89 for the purposes of calculating the TDS from salary?**

​ Yes, if you are a Government employee or an employee of a PSU or company or co-operative society or local authority or university or institution or association or body. In such a case you need to furnish Form No. 10E to your employer. ​

**​ My income from let out house property is negative. Can I ask my employer to consider this loss against my salary income while computing the TDS on my salary?**

​Yes, however, losses other than house property loss cannot be considered while determining the TDS from salary.​

**​Is leave encashment taxable as salary?**

​ It is taxable if received while in service. Leave encashment received at the time of retirement is exempt in the hands of the Government employee. In the hands of non-Government employee leave encashment will be exempt subject to the limit prescribed in this behalf under the Income-tax Law.​

**​Are receipts from life insurance policies on maturity along with bonus taxable?​**

​​​As per section 10(10D), any amount received under a life insurance policy, including bonus is exempt from tax. Following points should be noted in this regard:

· Exemption is available only in respect of amount received from life insurance policy.

· Exemption under section 10(10D)​ is unconditionally available in respect of sum received for a policy which is issued on or before March 31, 2003. However, in respect of policies issued on or after April 1st, 2003, the exemption is available only if the amount of premium paid on such policy in any financial year does not exceed 20% (10% in respect of policy taken on or after 1st April, 2012) of the actual capital sum assured. Amount received on the death of the person will continue to be exempt without any condition.

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