

INCOME
FROM
SALARIES

- Income from salary is the income or remuneration received by an individual for services he is rendering or a contract undertaken by him. This clause essentially assimilates the remuneration received by a person for the services provided by him under the contract of employment.
- This amount of remuneration will be considered as income for the purposes of Income Tax Act only if there is an Employer and employee relationship between the person who is making the payment and the person who is receiving the payment.

- **Employer and Employee Relationship**

Any payment that is received by a person will be treated as Income under Income Tax Act if there exist an Employer and employee relationship between the payer and payee. For the purpose of qualifying income as income from salary, their relationship should be that of a master and servant. Where a master is a person who directs his employee that what is to be done and how it is to be done and servant is the person who is liable to conduct that work in the manner told by his employer.

Definition of Word '**Salary**' or
Income by way of Salary [Section
17(1)]

According to Section 17(1) salary includes the following amounts received by an employee from his employer, during the previous year :

- Wages;
- any annuity or pension; (Family pension received by heirs of an employee is taxable under income from other sources);
- any gratuity;
- any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages;
- any advance of salary;

- any payment received by an employee in respect of any period of leave not availed of by him; (Leave encashment or salary in lieu of leave);
- the annual accretion to the balance at the credit of an employee participating in a recognized provident fund, to the extent to which it is chargeable to tax under Rule 6 of part A of the Fourth Schedule; and
- the aggregate of all sums that are comprised in the transferred balance as referred to in sub-rule (2) of Rule 1] of Part A of the Fourth Schedule, of an employee participating in a recognized provident fund, to the extent to which it is chargeable to tax, under sub-rule (4) there, i.e., taxable portion of transferred balance from unrecognized provident fund to recognized provident fund.

- the contribution made by the Central Government or any other employer in the previous year, to the account of an employee under a pension scheme referred to in Section 8OCCD.

Meaning of Salary

The salary for the purpose of calculation of income from salary includes:

- Wages;
- Pension;
- Annuity;
- Gratuity;
- Advance Salary paid;
- Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages;
- Annual accretion to the balance of Recognized Provident Fund;

- Leave Encashment;
- Transferred balance in Recognized Provident Fund;
- Contribution by Central Govt. or any other employer to Employees Pension A/c as referred in Sec. 80CCD.