SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

MBA HRD 202

SUBJECT NAME: WAGES & SALARY ADMINISTRATION

UNIT-IV

TOPIC NAME: ALLOWANCE

ALLOWANCE

An **allowance** is the financial benefit given to the employee by the employer over and above the regular salary. These benefits are provided to cover expenses which may be incurred to facilitate the discharge of service for example Conveyance **Allowance** is paid to foot expenses incurred for commuting to workplace.

An **allowance** is an amount of money given or allotted usually at regular intervals for a specific purpose. In the context of children, parents may provide an allowance (British English: **pocket money**) to their child for their miscellaneous personal spending. In the construction industry it may be an amount allocated to a specific item of work as part of an overall contract.

The person providing the allowance is usually trying to control how or when money is spent by the recipient so that it meets the aims of the person providing the money. For example, an allowance by a parent might be motivated to teach the child money management and may be unconditional or be tied to completion of chores or achievement of specific grades.

The person supplying the allowance usually specifies the purpose and may put controls in place to make sure that the money is spent for that purpose only. For example, a company employee may be given an allowance or per diem to provide for meals and travel when working away from home and may then be required to provide receipts as proof or they are provided with specific non-money tokens or vouchers that can be used only for a specific purpose such as a meal voucher.

Salary Allowances in India

SALARY ALLOWANCES

Any monetary benefits offered by the employer to its employees for meeting expenditures, over and above the basic salary are known as Salary Allowances.

The employers offer various kinds of additional benefits in monetary terms to their employees over and above the basic salary, which are known as salary allowances. These salary allowances are given to meet the expenditure of particular nature. According to Income Tax Act, allowances are added to the salary of an individual and taxed under the head Income from Salaries. The salary allowances can be bifurcated into three broad categories:

1. **TAXABLE**
2. **NON-TAXABLE**
3. **PARTLY TAXABLE ALLOWANCES.**

An allowance is a fixed amount of money received by a salaried employee from his employer to meet a particular type of expenditure over and above salary. For example, companies provide overtime allowance to employees if they work more than fixed working hours. Similarly, there are many other allowances which are provided to salaried individuals. Allowances are treated as part of the salary and are taxable, except for those for which specific exemptions have been provided under various sections of Income Tax Act. Based on their respective tax treatment, these allowances can be categorized into three buckets - **Taxable, non taxable and partially taxable.**

<u>TAXABLE, NON-TAXABLE AND PARTIALLY TAXABLE ALLOWANCES AY 2017-18</u>

TAXABLE ALLOWANCES	**PARTIALLY-TAXABLE ALLOWANCES**	**NON-TAXABLE ALLOWANCES**
• Dearness allowance • Entertainment allowance • Overtime allowance • City compensatory allowance • Interim allowance • Project allowance • Tiffin/meals allowance • Uniform allowance • Cash allowance • Non-practicing allowance • Warden allowance • Servant allowance	• HRA except when it qualified as exempt under Section 10 • Fixed medical allowance • Special allowance(including children education allowance, children hostel allowances) • Conveyance allowance above Rs. 19,200 per annum under section 10 (14) (ii) of income tax act • Entertainment allowance Ã¢â‚¬â€œ deduction of 1/5 of salary or Rs. 5,000 whichever is less under section 16 (ii) of income tax act	• HRA upto 40% of basic salary (50% in case of employees staying in 4 metros - Delhi, Mumbai, Chennai and Bangalore) subject to actual rent paid being more than HRA plus 10% of basic • Conveyance allowance upto Rs. 1,600 per month or Rs. 19,200 per annum • Payments to government employees posted abroad • Allowance for UN employees • Sumptuary allowance paid to judges of Supreme Court and High Courts • Compensatory allowance paid to judges of Supreme Court and High Courts

The taxability of various salary allowances are given below:

1.Taxable Allowances

1. **Dearness Allowance (DA):** DA is provided for converse the inflationary effect from the cost of living of the people. Income Tax Act does not provide any exemption on DA.
2. **City Compensation Allowance:** It is offered to the employees for meeting the highly inflated costs in the large or metro cities.
3. **Entertainment Allowance:** It is an amount given to the employees for achieving the expenses incurred towards the meal, beverages, hotels, etc. for the business clients of the company. An exemption u/s 16(ii) can be claimed for entertainment allowance by the Government employees. Non-government employees are taxed entirely.
4. **Overtime Allowance:** It is provided to the employees for working more than the regular working hours.
5. **Tiffin Allowance:** It is provided to meet the food expenses.
6. **Cash Allowance:** Any cash allowance provided by the employer becomes taxable. For instance, marriage allowance, holiday allowance, etc.
7. **Project Allowance:** Allowance provided to bear the expenses relating to the project.
8. **Servant/helper Allowance:** Amount provided for hiring a servant is fully taxable in the hands of an employee.

2. Fully Exempt Allowances/Non-Taxable Allowances in India

Non taxable allowances are those allowances that are a part of an individual's salary which are fully exempted from taxes. Here is the list of allowances that are totally non -taxable.

1. **Allowances Paid to Government Employees Abroad**

   When Indian government servants are paid while serving their employment tenure in other countries, this allowance is considered as non taxable.

2. **Allowance to Government Employees**

   Any amount paid as a provision for rendering services outside India by the Government Employees is exempt.

3. **Allowances Paid to UNO Employees**

   Allowances that are paid to UNO Employees are completely non taxable. Benefits received by the people working in **United Nations Organization (UNO)** are fully exempt.

4. **Allowances Paid to Judges of HC & SC**

   Allowances that are paid to the judges of High Court and Supreme Court are completely exempted from tax. These allowances are called as sumptuary allowances. Allowances to Judges of Supreme Court or High Court are **not taxable**.

5. **Compensatory Allowances**

   When Judges of High Court and Supreme Court receive any compensatory allowances, these are exempted allowances in income tax.

3. Partly Taxable Allowances/Partially Taxable Allowances in India

Partially taxable allowances are those allowances which can be exempted from tax to a certain limit, as per specified in the income tax rules & regulations. Some of the partially taxable allowances are mentioned below.

1. **Conveyance Allowance Exemption Limit**

   An amount of Rs. 1600 per month is offered to the employees for commuting from home to office and vice-versa. Any expense over and above that is taxable.

   This type of allowance is paid to employees for commuting to their work place from home every day. If a conveyance allowance is less than Rs. 1,600, then it will be considered as non-taxable. The allowance is exempted up to Rs. 1,600 only, any amount more than that will be taxable as per income tax act.

2. **House Rent Allowance (HRA) Exemption Limit**

   HRA is offered to meet the residential rent expenses of the employee for its accommodation. It is partially exempt u/s 10(13A), and the remaining amount after deduction is taxable.

   House rent allowance is provided to the employees by a company to help them in coping up with their accommodation expenses. But, if an individual doesn't lives in a rented space, this allowance is fully taxable. Employees can claim deduction on house rent allowance under section 10 (13A), if:

   - Actual HRA received by an individual from employer
   - If the employee resides in metro cities like Delhi, Mumbai, Chennai or Bangalore, actual rent paid should be as much as 50% of the basic salary
   - 40% of basic salary for people living in non metros
   - Excess of rent paid annually over 10% of annual salary

3. **Medical Allowance Exemption/ Medical Bills Reimbursement Allowance**

   This is an allowance paid by an employer when the employee or any of his family members fall sick and requires prolonged medical treatment. However, if the medical expense exceeds a certain amount (e.g. Rs. 15,000), then it becomes taxable.

   A token of Rs. 15000 is given by the employer for meeting the treatment costs in case the employee or its family falls ill. Any expenditure incurred above Rs. 15000 is taxable.

4. **Leave Travel Allowance**

   LTA is offered for travelling anywhere in India. Deduction on the fare cost is provided to some extent, and the balance is taxable.

5. **Education Allowance**

   Employees are given a certain amount to educate their children in India. Any sum spent more than the provided limit of Rs. 100 per month per child for maximum two children, is taxable.

6. **Hostel Allowance**

   Hostel Allowance Per Child Rs. 300 per month for maximum two children is allowed as a deduction.

7. **Special Allowance**

   A special allowance is paid to an employee for the performance of a duty, under section 14(i). This allowance does not fall within the category of a perquisite and is partially taxable.

DEARNESS ALLOWANCE

The **Dearness Allowance (DA)** is a calculation on inflation and allowance paid to government employees, public sector employees **(PSE)** and pensioners in India, Bangladesh and Pakistan.

Dearness Allowance is calculated as a percentage of an Indian citizen's basic salary to mitigate the impact of inflation on people. Indian citizens may receive a basic salary or pension that is then supplemented by housing or a dearness allowance, or both.

The guidelines that govern the DA vary according to where one lives. DA is a fully taxable allowance...

TWO TYPES:

1) DA given under terms of employment

2) DA not given under the terms of employment

HISTORY

The **Dearness Allowance** was introduced following the **Second World War**, and was then known as the **"Dear Food Allowance".** The **"Old Textile Allowance"** was also introduced in **1947,** though this was revised and reintroduced in 1953 as the **"Revised Textile Allowance".**

Initially **DA** was given in response to demand of employees for wage revision, however later it was linked to Consumer Price Index. In the past various committees have been constituted to look into the issue of payment of **D.A.** to Central Government employees.

The **III Central Pay Commission** recommended payment of **DA** whenever the **CPI** rose by 8 points over the index of 200 (with base 1960 = 100). The extent of neutralization granted with effect from 1-1-1973 ranged from 100% to 35%.

The **IV Central Pay Commission** recommended the grant of **DA** on a 'percentage system' of the basic pay **(1986).** It also recommended payment of **DA twice a year; 1 January and 1 July.**

Each installment of DA was to be calculated with reference to the percentage increase in the 12 monthly average of All India Consumer Price Index **(base 1960).** The extent of neutralization now ranged from **100% to 65%.**

The **V Central Pay Commission** looked into the issue of differential neutralization and found it to be injustice to senior officers and recommended uniform neutralization of 100% to employees at all levels. The Commission had suggested that dearness allowance should be converted into dearness pay every time the cost of living rises by 50% over the base level.

The **VI Central Pay Commission** recommended revision of base year of the Consumer Price Index (CPI) as frequently as feasible. It also changed base year for DA calculation to 2001 (base year 2001=100).

DA Calculation:

Formula for calculating Dearness Allowance for Central government employees after 1.1.2006 is:

Dearness Allowance %= {(Average of AICPI(Base year 2001=100) for the past 12 months – 115.77)/115.77}*100

Formula for calculating Dearness Allowance for Central public sector employees after 1.1.2007 is :

Dearness Allowance %= {(Average of AICPI (Base year 2001=100) for the past 3 months - 126.33)/126.33}*100

Dearness allowance with effect from January or July of a particular year in the future, once the AICPI (IW) for a particular month is published by the Government, whereas for PSU employees it is declared quarterly by DPE (Department of Public Enterprise).

Beginning **1 January 1996,** the Dearness Allowance is granted to compensate for price increases to which the revised pay scales relate. This will be reviewed twice a year, on 1 January and 1 July.