

1. PERQUISITES

“Perquisite” may be defined as any casual emolument or benefit attached to an office or position in addition to salary or wages. In essence, these are usually non-cash benefits given by an employer to employees in addition to cash salary or wages. However, they may include cases where the employer reimburses expenses or pays for obligations incurred by the employee. Perquisites are also referred to as fringe benefits.

Broadly, “perquisite” is defined in the section 17(2) of the Income-tax Act as including:

- 1) Value of rent-free or concessional rent accommodation provided by the employer.
- 2) Value of any benefit/amenity granted free or at concessional rate to specified employees etc.
- 3) Any sum paid by employer in respect of an obligation, which was actually payable by the assessee.
- 4) Any sum paid by the employer for assurance on life of the employee or to effect a contract for an annuity.
- 5) Value of any other fringe benefit as may be prescribed.

2. TAXATION OF PERQUISITES

2.1 Two-pronged approach for taxation of perquisites and fringe benefits

A two-pronged approach is adopted for the taxation of perquisites and fringe benefits:

- 1) Where perquisites can be directly attributed to the employees, they are taxed in the hands of the employees according to section 17(2) of the Income-tax Act. For such perquisites, the method of valuation is outlined in Rule 3 of the Income-tax Rules.
- 2) Where the attribution of the personal benefit poses problems, or where it is not feasible to tax the benefits in the hands of the employee, a separate tax known as the Fringe Benefit Tax is levied on the employer. This tax is levied on the employer on the value of such benefits provided or deemed to have been provided to the employees. For this purpose, a separate Chapter XII-H is inserted in the Income-tax Act.

This two-pronged approach has taken effect from 1st April 2006 and accordingly applies to assessment year¹ 2006-2007 (previous year 2005-2006) and subsequent years.

¹ (as a matter of clarification generally, assessment year means the 12 month period starting on the 1st of April every year which relates to the previous year, which is the financial year immediately preceding the assessment year). The provisions described in this text largely relate to this date of application. Where subsequent amendments have altered the provisions, including the effective date of application of the provisions, these are usually mentioned separately in this text.

To clarify matters, certain perquisites are taxed in the hands of the employees as part of salary income, while other fringe benefits are taxed in the hands of the employer by the levy of the Fringe Benefit Tax. However, where the perquisite is taxed in the hands of the employee, it is not taxed in the hands of the employer.

2.2 Perquisites taxable in the hands of the employee as a part of salary income

Broadly, in this system, the perquisites taxable in the hands of the employee as a part of salary income include:

- 1) Value of rent-free or concessional rent accommodation provided by the employer.
- 2) Value of any benefit/amenity granted free or at concessional rate to specified employees, etc. Specified employees are company directors, employees with substantial interest in the company and any other employee whose salary income exclusive of non-monetary benefits and amenities exceeds Rs. 50,000/-.
- 3) Any sum paid by employer in respect of an obligation, which was actually payable by the assessee.
- 4) Any sum payable by the employer, directly or through a fund for assurance on life of the employee or to effect contract for an annuity. However, sums payable to recognised provident funds or approved superannuation funds, and certain other specified funds are exempt.
- 5) Value of any other fringe benefit as may be prescribed (excluding fringe benefits subjected to the Fringe Benefit Tax).

Besides rent-free or concessional rent accommodation, other perquisites taxable in the hands of the employee include provision of services of a sweeper, a gardener, etc., supply of gas, electricity or water for household consumption, provision of free or concessional educational facilities for any member of the employee's household, provision of interest free or concessional loan, and benefit resulting from the use of any movable asset.

It has been clarified that the value of any leave travel concession or assistance received by an employee normally falls within the meaning of salary. It is, therefore, taxable in the hands of the employee subject to the exemption under clause (5) of section 10 of the Income-tax Act. However, leave travel concession not included in salary will be classified as an expense for the purposes of Fringe Benefit Tax and taxable in the hands of the employer. Other allowances falling within the meaning of salary like children education allowance and transport allowance, which are exempt subject to certain conditions are also to be considered part of salary income of the employee (Circular No. 8/2005). Certain perquisites and allowances, which are exempt, are listed in section 5 of this text.

Salary income for the purposes of taxation and valuation of perquisites includes the pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called, from one or more employers, as the case may be, but does not include the following, namely:

- 1) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned;
- 2) employer's contribution to the provident fund account of the employee;
- 3) allowances which are exempted from the payment of tax;
- 4) value of the perquisites specified in the concerned provision;
- 5) any payment or expenditure specifically excluded.

2.3 Tax liability for value of perquisites other than those subject to Fringe Benefit Tax

The value of perquisites taxable in the hands of the employee are considered a part of salary income and added to the total income of the employee (assessee). They are then subject to tax at the prevailing rates of income tax.

2.4 Fringe benefits taxable in the hands of the employer under Fringe Benefit Tax

Other benefits and amenities, not taxable as salary in the hands of the employee, but provided by the employer to the employee are taxable in the hands of the employer as per the provisions of the Fringe Benefit Tax. Chapter XII-H of the Income-tax Act provides the scope of items taxable as fringe benefits provided or deemed to have been provided by the employer. Fringe benefits provided by the employer mean any consideration for employment provided by way of:

- 1) any privilege, service, facility or amenity, directly or indirectly, provided by an employer, whether by way of reimbursement or otherwise, to his employees (including former employee or employees),
- 2) any free or concessional ticket provided by the employer for private journeys of his employees or their family members;
- 3) any contribution by the employer to an approved superannuation fund for employees; and
- 4) **w.e.f. 1/4/2008-** any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer free of cost or at concessional rate to his employees (including former employees).

With a view to use a presumptive method to tax perquisites that are difficult to identify, certain fringe benefits are deemed to have been provided. Fringe benefits are deemed to have been provided by the employer if he has incurred any expense on, or made payment for the purposes summarized below:

- 1) entertainment;
- 2) provision of hospitality of every kind to any person, whether by way of food or beverages or in any other manner. However, food or beverages provided to the employees in the office or factory or non-transferable paid vouchers [w.e.f. 1-4-2009: or non-transferable pre-paid electronic meal card satisfying

- certain prescribed conditions] usable only at eating joints or outlets are excluded;
- 3) conference expenses excluding fee for participation by the employees in any conference;
 - 4) sales promotion including publicity but excluding specified expenditure on advertisement;
 - 5) employee welfare. However, any expenditure or payment made to fulfil any statutory obligations or mitigate occupational hazards or provide first aid facilities in the hospital or dispensary run by the employer are excluded. With effect from 1-4-2009, any expenditure on payment made to provide creche facility for the employees' children, or sponsor a sportsman employee, or organize sports events for employees will also be excluded;
 - 6) conveyance;
 - 7) use of hotel, boarding and lodging facilities;
 - 8) repair, running (including fuel) and maintenance of motorcars and the amount of depreciation thereon;
 - 9) repair, running (including fuel) and maintenance of aircrafts and the amount of depreciation thereon;
 - 10) use of telephone (including mobile phone) other than expenditure on leased telephone lines;
 - 11) maintenance of any accommodation in the nature of guest house other than accommodation used for training purposes (expenditure on or payment made for maintenance of any accommodation in the nature of guest house shall not be included for valuation of fringe benefit with effect from 1/4/2009);
 - 12) festival celebrations;
 - 13) use of health club and similar facilities;
 - 14) use of any other club facilities;

- 15) gifts;
- 16) scholarships; and
- 17) Tour and Travel (including foreign travel).

2.5 Liability to pay Fringe Benefit Tax

The liability to pay Fringe Benefit Tax is to be borne by the employer including :

- i) a company
- ii) a firm
- iii) an association of persons or body of individuals excluding any fund or trust or institution eligible for exemption under section 10(23C) or 12AA.
- iv) a local authority.
- v) an artificial juridical person

Tax on fringe benefits is payable by the employer even if he is not liable to pay income tax on his total income computed in accordance with the provisions of the Income-tax Act other than the Fringe Benefit Tax provisions.

Perquisites in respect of which tax is paid or payable by the employee is not subject to the Fringe Benefit Tax payable by the employer.

The tax on fringe benefits shall be levied at the rate of 30% on the value of fringe benefits provided.

3. VALUATION OF PERQUISITES TAXABLE IN THE HANDS OF THE EMPLOYEE

For perquisites taxable in the hands of the employee for the purposes of taxation, the employee is the "assessee". As a general rule, the taxable value of perquisites in the hands of the employees is its cost to the employer. However, specific rules for valuation of

certain perquisites have been laid down in Rule 3 of the Income-tax Rules. These have been revised by Central Board of Direct Taxes Notification No. 68/2005 dated 28.2.2005. Furthermore, Finance Act 2007 has provided clarifications regarding the valuation of rent-free and concessional accommodation. The clarifications provide what constitutes concession in the matter of rent. The revised provisions are briefly given below:

3.1 Where accommodation is provided by the Central Government or any State Government

- 1) Where unfurnished accommodation is provided by the Central Government or any State Government, the value of the perquisite is the license fee determined by the Central Government or any State Government in respect of the accommodation in accordance with the rules framed by such Government, as reduced by the rent actually paid by the employee.
- 2) Where furnished accommodation is provided by the Central Government or any State Government, concession in the matter of rent is deemed to have been provided, with effect from 1st April, 2002. Therefore, the provisions apply in relation to the assessment year 2002-2003 (previous year 2001-2002) and subsequent years. In this case, the concession is deemed to have been provided if the license fee determined by the Central Government or any State Government in respect of the accommodation in accordance with the rules framed by such Government, as increased by the value of furniture and fixtures in respect of the period during which the said accommodation was occupied by the employee (assessee) as reduced by the rent actually paid by the employee, exceeds the aggregate of rent recoverable from or payable by the employee and any charges paid or payable for the furniture and fixtures by the employee.

In the case of furnished accommodation provided by the Central Government or any State Government, the value of the perquisite of the accommodation alone is the same as that of the

unfurnished accommodation provided by the Central Government or any State Government as given above. In addition, the value of furniture and fixture is taken to be 10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, airconditioning plant or equipment or other similar appliances or gadgets) or if such furniture is hired from a third party, the actual hire charges payable for the same as reduced by any charges paid or payable by the employee.

3.2 Where unfurnished accommodation is provided by any employer other than the Central Government or any State Government, with effect from 1st April, 2002 to 31st March 2006

- 1) In a case where the accommodation is owned by the employer, value of the perquisite of the concessional accommodation in such a case is determined at the rate of 10% of salary in cities having population exceeding four lakhs as per 1991 census and 7.5% of salary in other cities, in respect of the period during which the said accommodation was occupied by the employee, as reduced by the rent, if any, payable by the employee.

However, w.e.f. 1-4-2005, the value of the perquisite of the concessional accommodation in such a case would be determined at the rate of 20% of salary in cities having population exceeding 4 lakhs as per 2001 census and 15% of salary in other cities, in respect of the period during which the said accommodation was occupied by the employee, as reduced by the rent, if any, payable by the employee.

- 2) In a case where the accommodation is taken on lease or rent by the employer, the value of the perquisite of the concessional accommodation in such a case is the actual amount of lease rental paid or payable by the employer or 10% of salary, whichever is lower, in respect of the period during which the said accommodation was occupied by the employee, as reduced by the rent, if any, payable by the employee.

The provisions apply in relation to the assessment year 2002-2003 (previous year 2001-2002) and subsequent years till the amendments given below.

3.3 Where unfurnished accommodation is provided by any employer other than the Central Government or any State Government, with effect from 1st April, 2006

- 1) In a case where the accommodation is owned by the employer, with effect from 1st April, 2006, concession in the matter of rent is deemed to have been provided if the value of the accommodation determined at the specified rate in respect of the period during which the said accommodation was occupied by the employee, exceeds the rent recoverable from, or payable by the employee. The provisions apply in relation to the assessment year 2006-2007 (previous year 2005-2006) and subsequent years.

The specified rate and value of the perquisite of the concessional accommodation in such a case is determined at the rate of 15% of salary in cities having population exceeding 25 lakhs as per 2001 census, 10% of salary in cities having population exceeding 10 lakhs but not exceeding 25 lakhs as per 2001 census, and 7.5% of salary in other areas in respect of the period during which the said accommodation was occupied by the employee, as reduced by the rent, if any, actually paid by the employee.

- 2) In a case where the accommodation is taken on lease or rent by the employer, with effect from 1st April, 2006, concession in the matter of rent is deemed to have been provided if the value of the accommodation being the actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, in respect of the period during which the said accommodation was occupied by the employee, exceeds the rent recoverable from, or payable by the employee.

The value of the perquisite of the concessional accommodation

in such a case is the actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, in respect of the period during which the said accommodation was occupied by the employee, as reduced by the rent, if any, actually paid by the employee.

3.4 Where furnished accommodation is provided by any employer other than the Central Government or any State Government, with effect from 1st April, 2002

In a case where the accommodation is owned by the employer, the concession is deemed to have been provided if the valuation of the employer-owned accommodation alone as determined above, as increased by the value of furniture and fixtures in respect of the period during which the said accommodation was occupied by the employee (assessee), exceeds the aggregate of rent actually paid by the employee and any charges payable for the furniture and fixtures by the employee.

In a case where the accommodation is taken on lease or rent by the employer, the concession is deemed to have been provided if the valuation of the leased or rented accommodation alone as determined above, as increased by the value of furniture and fixtures in respect of the period during which the said accommodation was occupied by the employee (assessee), exceeds the aggregate of rent actually paid by the employee and any charges payable for the furniture and fixtures by the employee.

In the case of furnished accommodation provided by any employer other than the Central Government or any State Government the value of the perquisite of the accommodation alone is the same as that of the unfurnished accommodation provided by any employer other than the Central Government or any State Government as given above for the two cases of employer owned and leased or rented accommodations, respectively. In addition, the value of furniture and fixture is taken to be 10% per annum of the

cost of furniture (including television sets, radio sets, refrigerators, other household appliances, airconditioning plant or equipment or other similar appliances or gadgets) or if such furniture is hired from a third party, the actual hire charges payable for the same as reduced by any charges paid or payable by the employee. The provisions apply in relation to the assessment year 2002-2003 (previous year 2001-2002) and subsequent years.

3.5 Where accommodation is provided by the employer in a hotel, with effect from 1st April, 2002

The concession is deemed to have been provided if the value of the accommodation determined at the rate of 24% of salary paid or payable or actual charges paid or payable to such hotel, whichever is lower, for the period during which such accommodation is provided, exceeds the rent recoverable from or payable by the employee.

The value of the accommodation is determined at the rate of 24% of salary paid or payable or actual charges paid or payable to such hotel, whichever is lower, for the period during which such accommodation is provided, as reduced by the rent, if any, actually paid or payable by the employee. An exception is made where the employee is provided such accommodation for a period not exceeding 15 days on his transfer from one place to another.

3.6 Exception for accommodation in mining site, on-shore oil exploration site, etc.

An exception is provided for any accommodation provided to an employee working at a mining site or an on-shore oil exploration site or a project execution site, or a dam site or a power generation site or an off-shore site which:

- 1) is of a temporary nature and having plinth area not exceeding 800 square feet, is located not less than eight kilometers away

from the local limits of any municipality or a cantonment board; or

- 2) is located in a remote area. Remote area means an area that is located at least 40 kilometers away from a town having a population not exceeding 20,000 based on latest published all-India census.

3.7 Exception for accommodation on account of transfer

Where on account of his transfer from one place to another, the employee is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite is 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 accommodations.

3.8 Value of benefit from the provision of the services of a sweeper, a gardener, a watchman or a personal attendant

The value of the benefit to the employee or any member of his household resulting from the provision by the employer of the services of a sweeper, a gardener, a watchman or a personal attendant is the actual cost to the employer. The actual cost is the total amount of salary paid or payable by the employer, or any other person on his behalf for such services, as reduced by any amount paid by the employee for such services.

3.9 Value of benefit resulting from the supply of gas, electric energy or water

The value of the benefit to the employee resulting from the supply of gas, electric energy or water for his household consumption is the sum equal to the amount paid on that account by the employer to the supplying agency. Where the supply is made from the resources owned by the employer, without purchasing them from

any other outside agency, the value of the perquisite is the manufacturing cost per unit incurred by the employer. Where the employee is paying any amount in respect of such services, the amount so paid is deducted from the value of the perquisite arrived at.

3.10 Value of benefit resulting from the provision of free or concessional educational facilities

The value of the benefit to the employee resulting from the provision of free or concessional educational facilities for any member of his household is the sum equal to the amount of expenditure incurred by the employer in that behalf. In the case where the educational institution is itself maintained or owned by the employer, or where free educational facilities for such member of employees' household are allowed in any other educational institution by reason of his being in employment of that employer, the value of the perquisite is determined with reference to the cost of such education in a similar institution in or near the locality (however, in this case this sub-rule does not apply if the cost of such education or the value of such benefit per child does not exceed Rs. 1,000 per month). Where any amount is paid or recovered from the employee on that account, the value of benefit is reduced by the amount so paid or recovered.

3.11 Value of the benefit resulting from the provision of interest-free or concessional loan

The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan for any purpose made available to the employee or any member of his household by the employer or any person on his behalf is determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India, as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it, on the maximum outstanding monthly balance as reduced by the interest, if any, actually paid by the employee or any such member of his household.

However, an exception is made if such loans are made available for medical treatment in respect of diseases specified in Rule 3A of the Income Tax Rules or where the amount of loans are petty not exceeding in the aggregate Rs. 20,000. Where the benefit relates to the loans made available for medical treatment referred to above, the exemption so provided is reduced by any amount that has been reimbursed to the employee under any medical insurance scheme.

3.12 Value of benefit resulting from the use of any movable asset

The value of benefit to the employee resulting from the use by the employee or any member of his household of any movable asset (other than assets like furniture, televisions, etc., in furnished accommodation already specified in Rule 3 and other than laptops and computers) belonging to the employer or hired by him is determined at 10% per annum of the actual cost of such asset or the amount of rent or charge paid or payable by the employer, as the case may be, as reduced by the amount, if any, paid or recovered from the employee for such use.

3.13 Value of benefit to the employee arising from the transfer of any movable asset

The value of benefit to the employee arising from the transfer of any movable asset belonging to the employer directly or indirectly to the employee or any member of his household is the amount representing the actual cost of such asset to the employer as reduced by the cost of normal wear and tear and as further reduced by the amount, if any, paid or recovered from the employee as consideration for such transfer. The cost of normal wear and tear is calculated at the rate of 10% of such cost for each completed year during which such asset was put to use by the employer (normal wear and tear is calculated at the rate of 50% in the case of computers and electronic items, and 20% in the case of motor cars by the reducing balance method).

To summarize in a simple manner, the valuation of some

important perquisites taxable in the hands of the employee as part of salary income is given below:-

Nature of perquisite	Valuation of perquisite
Unfurnished rent-free or concessional accommodation to Central or State Government Employees	License fee as determined by the government as reduced by the rent paid by the employee.
Unfurnished rent-free or concessional accommodation to non-Government Employees	<p>w.e.f. 1/4/2002 to 31/3/2006- 10% of the salary in cities where population as per 1991 census is above 4 lakhs and 7.5% of salary in other cases. (w.e.f. 1-4-2005 to 31-3-2006 - 20% of salary in cities having population exceeding 4 lakhs as per 2001 census and 15% of salary in other cities) In case accommodation provided is not owned by the employer, but is taken on lease or rent, then actual amount of lease rent paid/payable by the employer or 10% of the salary, whichever is lower.</p> <p>w.e.f. 1/4/2006- 15% of the salary in cities where population as per 2001 census exceeds 25 lakhs, 10% of the salary in cities where population as per 2001 census exceeds 10 lakhs but does not exceed 25 lakhs and 7.5% of salary in other cases. In case accommodation provided is not owned by the employer, but is taken on lease or rent, then actual amount of lease rent paid/payable by the employer or 15% of the salary, whichever is lower.</p> <p>In both of above cases, the value of the perquisite would be reduced by the rent, if any, paid by the employee.</p>
Furnished Accommodation	Value of unfurnished accommodation as computed above, increased by 10% per annum of the cost of furniture (including TV/radio/refrigerator/AC/ other gadgets). In case furniture is hired from a third party, the value of unfurnished accommodation increased by hire charges paid/ payable by the employer. Any payment recovered from the employee towards the above would be reduced from this amount.
Hotel accommodation	24% of salary or the actual charges paid/payable to the hotel, whichever is lower. The above would be reduced by any rent actually paid by the

employee. It may be noted that no perquisite would arise, if the employee is provided such accommodation on transfer from one place to another for a period of 15 days or less.

Motor car provided by the employer	<p>W.e.f. 1-4-2008, if an employer providing such facility to his employee is not liable to pay fringe benefit tax, the value of such perquisite shall be :</p> <ol style="list-style-type: none"> Nil, if the motor car is used by the employee wholly and exclusively in the performance of his official duties. Actual expenditure incurred by the employer on the running and maintenance of motor car including remuneration to chauffeur as increased by the amount representing normal wear and tear of the motor car and as reduced by any amount charged from the employee for such use (in case the motor car is exclusively for private or personal purposes of the employee or any member of his household). Rs. 1200-(plus Rs. 600-, if chauffeur is also provided) per month (in case the motor car is used partly in performance of duties and partly for private or personal purposes of the employee or any member of his household if the expenses on maintenance and running of motor car are met or reimbursed by the employer). However, the value of perquisite will be Rs. 1600-(plus Rs. 600-, if chauffeur is also provided) per month if the cubic capacity of engine of the motor car exceeds 1.6 litres. Rs. 400- (plus Rs. 600-, if chauffeur is also provided) per month (In case the motor car is used partly in performance of duties and partly for private or personal purposes of the employee or any member of his household if the expenses on maintenance and running of motor car for such private or personal use are fully met by the employee). However, the value of perquisite will be Rs. 600- (plus Rs. 600-, if chauffeur is also provided) per month if the cubic capacity of engine of the motor car exceeds 1.6 litres. <p>If the motor car or any other automotive conveyance is owned by the employee but the</p>
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	actual running and maintenance charges are met or reimbursed by the employer, the method of valuation of perquisite value is different. (See Rule 3(2)).
Provision of sweeper, gardener, watchman or	Actual cost that is total amount of salary paid/ payable by the employer or any other person on by the employee.
Supply of gas, electric energy or water	Amount paid by the employer to the supplying agency or where supplied from resources owned by the employer, the manufacturing cost per unit incurred by the employer, less any amount paid by the employee.
Free or concessional educational facilities	Amount of expenditure incurred by the employer. In the case where the educational institution is maintained or owned by the employer, or where provision is made in any other educational institution by reason of employee being in employment of that employer, the cost of such education in a similar institution in or near the locality (however, in this case this sub-rule does not apply if the cost of education or the value of benefit per child does not exceed Rs. 1,000 per month). Any amount paid by or recovered from the employee is reduced from the value of the benefit.
Interest-free or concessional loan	Interest computed at rate charged per annum by the State Bank of India, in respect of loans for the same purpose, on the maximum outstanding monthly balance as reduced by the interest, if any, actually paid by the employee or any such member of his household. Exception is made for loans for specified medical treatment (amount of such exception is reduced by reimbursement from medical insurance) or where the amount of loans in aggregate is less than Rs. 20,000/-.
Free meals	The perquisite value in respect of free food and non-alcoholic beverages provided by the employer, not liable to pay fringe benefit tax, to an employee shall be the expenditure incurred by the employer as reduced by the amount paid or recovered from the employee for such benefit or amenity. However, no perquisite value will be taken if food and non-alcoholic beverages are provided during working hours and certain conditions specified under Rule 3(7)(iii) are satisfied.

Value of gift or voucher or token	The perquisite value in respect of any gift, or voucher, or token in lieu of which such gift may be received by the employee or member of his household from the employer, not liable to pay fringe benefit tax, shall be the sum equal to the amount of such gift, voucher or token. However, no perquisite value will be taken if the value of such gift, voucher or token is below Rs. 5000- in the aggregate during the previous year.
Credit Card provided by the employer	The perquisite value in respect of expenses incurred by the employee or any of his household members, which are charged to a credit card provided by the employer, not liable to pay fringe benefit tax, which are paid or reimbursed to an employee shall be taken to be such amount paid or reimbursed by such employer. However, no perquisite value will be taken if the expenses are incurred wholly and exclusively for official purposes and certain conditions mentioned in Rule 3(7)(v) are satisfied.
Club membership provided by the employer	The perquisite value in respect of amount paid or reimbursed to an employee by an employer, not liable to pay fringe benefit tax, against the expenses incurred in a club by such employee or any of his household members shall be taken to be such amount incurred or reimbursed by the employer as reduced by any amount paid or recovered from the employee on such account. However, no perquisite value will be taken if the expenditure is incurred wholly and exclusively for business purposes and certain conditions mentioned in Rule 3(7)(vi) are satisfied.
Use of any other movable asset	10% per annum of the actual cost of asset or the amount of rent or charge paid/payable by the employer as reduced by the amount, if any, paid or recovered from the employee. Laptops and computers are exempt.
Transfer of any movable asset	Actual cost of asset to the employer less the cost of normal wear and tear and as further reduced by the amount, if any, paid or recovered from the employee. The cost of normal wear and tear is calculated at 10% of cost for each completed year during which asset was put to use by the employer (normal wear and tear is calculated at 50% in the case of computers and electronic items and 20% in the case of motor cars by the reducing balance method).

4. VALUATION OF PERQUISITES TAXABLE IN THE HANDS OF THE EMPLOYER UNDER PROVISIONS OF FRINGE BENEFIT TAX

4.1 Value of fringe benefits for purposes of levy of Fringe Benefit Tax

The value of fringe benefits for purposes of levy of the Fringe Benefit Tax is computed as the aggregate of the valuations for the various fringe benefits provided or deemed to have been provided. The method of valuation of these fringe benefits is given below:

Nature of fringe benefit	Valuation of fringe benefit
Free/concessional ticket for private journeys of employees or their family members	100% of cost of free/concessional ticket as provided by the employer to the general public less amount paid/recovered from the employee/employees. Where the value of free/concessional ticket is included in any other type of benefit mentioned below, the value of free/concessional ticket is reduced by the amount included in the other benefit.
Contribution made by employer to an approved superannuation fund	Actual amount of contribution in excess of Rs. 1 lakh per employee made by the employer.
w.e.f. 1/4/2008- Any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer free of cost or at concessional rate to his employees (including former employees) This includes securities offered under Employees' Stock Option Plans	w.e.f. 1/4/2008- Fair market value (determined by method prescribed by Central Board of Direct Taxes in circular no. 9, dated 20/12/2007) of the specified security or sweat equity shares, on the date on which the option vests with the employee less the amount paid by or recovered from the employee in respect of such security or shares
Entertainment	20% of the expenses
Provision of hospitality (excluding food or beverages in office/factory or non transferable vouchers usable at eating joints/outlets)	20% of the expenses (Lower rate of 5% of the expenses for employer engaged in the business of a hotel)

	w.e.f. 1/4/2007- (Lower rate of 5% of the expenses for employer engaged in the business of carriage of passengers or goods by aircraft or ship)
Conference (excluding participation fee)	20% of the expenses
Sales promotion including publicity (excluding specified advertisement expenditures mentioned in para 4.2)	20% of the expenses
Employee welfare (excluding statutory obligations/mitigation of occupational hazards/first aid) w.e.f. 1/4/2009- (excluding expenditure incurred or payment made to provide crèche facility for employees' children, sponsor an employee sportsman, or organize sports events for employees)	20% of the expenses
Conveyance	20% of the expenses (Lower rate of 5% of the expenses for employer engaged in the business of construction. Further, the value of fringe benefit is 5% of expenses for employer engaged in manufacture/production of pharmaceuticals or computer software)
Tour and travel (including foreign travel)	5% of the expenses
Use of hotel, boarding and lodging facilities	20% of the expenses (The value of fringe benefit is restricted to 5% of expenses for employer engaged in manufacture/production of pharmaceuticals or computer software) (Lower rate of 5% of the expenses for employer engaged in the business of carriage of passengers or goods by aircraft or ship)
Repair, running (including fuel) of motor cars and depreciation thereon	20% of the expenses (Lower rate of 5% of the expenses for employer engaged in the carriage of passengers or goods by motor car)
Repair, running (including fuel) of aircraft and depreciation thereon	20% of the expenses ('Nil' in the case of employer engaged in

	the carriage of passengers or goods by aircraft)
Use of telephone (including mobile phone but excluding expenditure on leased telephone lines)	20% of the expenses
Maintenance of guest house accommodation (excluding accommodation for training purposes)	20% of the expenses w.e.f. 1/4/2009-Exempt
Festival celebrations	50% of the expenses w.e.f. 1/4/2009-20% of the expenses
Use of health club and similar facilities	50% of the expenses
Use of any other club facilities	50% of the expenses
Gifts	50% of the expenses
Gifts and Scholarships	50% of the expenses

4.2 Specified advertisement expenditures not included in 'sales promotion including publicity' for valuation of fringe benefits

Certain specified advertisement expenditures are not included in 'sales promotion including publicity' for valuation of fringe benefits. The specified advertisement expenditures are as follows:

- 1) expenditure (including rental) on advertisement of any form in any print or electronic media or transport system;
- 2) expenditure on holding of or participation in any press conference, business convention, fair or exhibition;
- 3) expenditure on sponsorship of any sports event or any other event organized by any Government agency or trade association or body;
- 4) expenditure on publication in any print or electronic media of any notice required under law or order of court or tribunal;

- 5) expenditure on advertisement by way of signs, art work, painting, direct mail, bill boards, etc. (**w.e.f. 1/4/2008-** display of products) or such other medium of advertisement;
- 6) expenditure by way of payment to any advertising agency for the purposes mentioned above.
- 7) **w.e.f. 1/4/2007-** expenditure on distribution of free samples of medicines or medical equipment to doctors;

w.e.f. 1/4/2008- the above is substituted by expenditure on distribution of samples either free of cost or at concessional rate; and
- 8) **w.e.f. 1/4/2007-** payment to any person of repute for promoting the sale of goods or services of the business of the employers.

4.3 Exemption of expenditure of employers incurred on the to and fro journeys of the employee from the residence to the office w.e.f. 1/4/2007

Any benefit or amenity in the nature of free or subsidised transport or any such allowance provided by the employer to his employees for journeys by the employees from their residence to the place of work or such place of work to the place of residence shall not form a part of fringe benefits for levy of Fringe Benefit Tax. The provision takes effect from 1st April, 2007 and applies in relation to the assessment year 2007-2008 (previous year 2006-2007) and subsequent years.

4.4 Exemption of expenditure of contribution by employer to approved superannuation fund subject to a limit w.e.f. 1/4/2007

The contribution by an employer to an approved superannuation fund up to Rs. 1 lakh per employee in respect of

whom contribution is made is exempt from Fringe Benefit Tax. The provision takes effect from 1st April, 2007 and applies in relation to the assessment year 2007-2008 (previous year 2006-2007) and subsequent years.

For example, if an employer contributes Rs. 50,000 for employee A, Rs. 90,000 for employee B and Rs. 2 lakhs for employee C, in case of employees A and B the value of fringe benefits shall be nil since the contribution per employee does not exceed Rs. 1 lakh. For employee C the value of fringe benefits shall be Rs. 2 lakhs less Rs. 1 lakh exemption, i.e. Rs. 1 lakh.

4.5 Exemption of expenditure on pre-paid, non-transferable electronic meal card w.e.f. 1/4/2009

Any expenditure on or payment through pre-paid meal card shall be excluded from the hospitality expenditure for calculation of the value of fringe benefit. Such electronic meal card should not be transferable, should be usable only at eating joints or outlets and should fulfil such other conditions, as may be prescribed.

The provision takes effect from 1st April, 2009 and applies in relation to the assessment year 2009-2010 (previous year 2008-2009) and subsequent years.

4.6 Exemption of expenditure on crèche facility, sponsorship of sportsman employee and sports events for employees w.e.f. 1/4/2009

Any expenditure incurred or payment made to-

- provide crèche facility for the children of the employee; or
- sponsor a sportsman, being an employee; or
- organize sports events for employees,

shall not be considered as expenditure for employees' welfare for the purpose of calculation of the value of fringe benefits.

The provision takes effect from 1st April, 2009 and applies in relation to the assessment year 2009-2010 (previous year 2008-2009) and subsequent years.

4.7 Clarification regarding proximate purpose of expenditure

It has been clarified that the identification of expenditure for purposes of Fringe Benefit Tax shall be on basis of the proximate (immediate) purpose and not the distant (ultimate) purpose. For instance, if travel expenditure is incurred for the discussion of an advertisement plan, it shall fall within the purpose of travelling and not the purpose of advertisement.

4.8 Clarification regarding deemed payment of tax by the employee where FBT on securities is recovered by the employer

It has been clarified that where fringe benefit tax (with respect to allotment or transfer of specified security or sweat equity shares) has been paid by the employer and subsequently recovered from the employee, the recovery of fringe benefit tax shall be deemed to be the tax paid by such employee in relation to value of fringe benefits provided to him. The deeming provision shall apply only to the extent to which the amount of recovery relates to the value of the fringe benefits provided to such employee.

Further it is provided that, notwithstanding anything contained in the Income Tax Act, in the above situation, the employee shall not be entitled for any refund out of such deemed payment of tax; and shall also not be entitled to claim any credit of such deemed payment of tax against tax liability on other income or against any other tax liability.

The provision takes effect from 1st April, 2008 and applies in relation to the assessment year 2008-2009 (previous year 2007-2008) and subsequent years.

5. CERTAIN PERQUISITES AND ALLOWANCES EXEMPT FROM INCOME TAX

Some instances of perquisites exempt from tax are given below:

5.1 Provision of medical facilities, etc. (Proviso to Sec. 17(2))

- 1) Value of any medical treatment provided to the employee or his family in a hospital maintained by the employer.
- 2) Value of medical treatment in any hospital maintained by the Government or any local authority or approved by the Government.
- 3) Value of medical treatment for prescribed diseases or ailments in any hospital approved by the Chief Commissioner of Income-tax. For claiming this benefit the employee needs to attach with his income-tax return a certificate from the hospital specifying the disease or ailment and receipt for the amount paid.
- 4) Besides, any sum paid by the employer towards medical reimbursement other than as discussed above is exempt up to Rs.15,000/-.
- 5) Any portion of premiums paid by the employer for health insurance of the employee under schemes approved by the Government or the Insurance Regulatory and Development Authority.
- 6) Any sum paid by the employer in respect of premium paid by the employee, under schemes approved by the Government or the Insurance Regulatory and Development Authority that qualifies for deduction under section 80D of the Income-tax Act.
- 7) Expenditure incurred by the employer on medical treatment of the employee or his family member for medical treatment

outside India. This includes travel and stay abroad of the employee or the family member plus one attendant who accompanies the patient in connection with the medical treatment. This exemption is subject to the condition that:

- a) the expenditure excluded from the perquisite value shall be to the extent permitted by the Reserve Bank of India; and
- b) the travel expenditure is excluded only if the gross total income of the employee before including such travel expenditure does not exceed Rs. 2 lakhs.

It is clarified that if any sum is paid by the employer for expenditure actually incurred by the employee for medical treatment in an unapproved hospital and it exceeds Rs. 15,000/- during the year, such sum is 'salary' and liable to income-tax in the hands of the employee. Such sum is not liable to Fringe Benefit Tax in the hands of the employer.

However, if any sum is paid by the employer for expenditure actually incurred by the employee for medical treatment in an unapproved hospital and it does not exceed Rs. 15,000/- during the year, such sum does not fall within the meaning of 'salary' and is not liable to income tax in the hands of the employee. Since such sum is not taxable in the hands of the employee, it is liable to Fringe Benefit Tax in the hands of the employer.

It is also clarified that if medical expenditure is incurred for treatment of injuries suffered in the performance of duties but the treatment is at a hospital/dispensary not maintained by the employer, such expenditure is liable to Fringe Benefit Tax in the hands of the employer, unless the expenditure is pursuant to a statutory obligation (i.e. any law, rules, etc.).

5.2 Exemption for employees with salary not exceeding Rs. 1 lakh

For the assessment year 2001-02, the value of perquisite is exempt if the salary income for the assessment year 2001-02, of

the employee exclusive of the value of all perquisites not provided as monetary payment does not exceed Rs. 1 lakh.

5.3 Exemption of leave travel concession for travel in India

The value of any leave travel concession or assistance received by an employee for himself and his family for proceeding on leave to any place in India is exempt under clause (5) of section 10 of the Income-tax Act subject to conditions in Rule 2B of the Income-tax Rules.

5.4 Exemption of perquisites allowed outside India by the Government to a citizen of India

Perquisites allowed outside India by the Government to a citizen of India for rendering services outside India are exempt under clause (7) of section 10 of the Income-tax Act.

5.5 Exemption of children’s education allowance and transport allowance subject to limits

Children’s education allowance up to Rs. 100 per month per child for a maximum of two children is exempt. Hostel expenditure allowance of Rs. 300 per month per child for a maximum of two children is exempt.

Transport allowance for the purpose of commuting between residence and place of duty is exempt up to Rs. 800 per month. A higher exemption of Rs. 1600 per month is available for employees who are blind or orthopaedically handicapped with disability of lower extremities.

Some simple illustrative examples of valuation of perquisites and fringe benefits are given below with regard to the provisions as they stand w.e.f. 1/4/2007:

- 1) Mr. X and Ms. Y are employees of/in Company A (i.e. an employer other than the Central Government or any State Government). Company A has a total of 10 employees including Mr. X and Ms. Y.

Mr. X is provided with furnished accommodation in a city with a population exceeding 10 lakhs but not exceeding 25 lakhs as per the 2001 census. The accommodation provided to Mr. X is owned by the employer and has an estimated fair market value Rs. 25 lakhs. The furniture and fixture provided with the accommodation is also owned by the employer and was bought at a cost of Rs. 1 lakh. Mr. X pays a nominal amount of Rs. 500 per month for the furnished accommodation. Mr. X has a salary of Rs. 80,000 per month exclusive of the value of perquisites. He is also provided with a sweeper who receives a salary of Rs. 2000 per month for services to Mr. X. Mr. X pays nothing to the employer for this benefit. Mr. X is provided by the employer with a car and driver only for travel to and from residence to the place of work.

Ms. Y is provided with an unfurnished accommodation in the same city as Mr. X. This accommodation is not owned by the employer but taken on a lease of Rs. 6000 per month. She does not pay the employer any amount for the use of the accommodation. Ms. Y also has a salary of Rs. 80,000 per month exclusive of the value of perquisites. Ms. Y has her gas bills paid by the employer. They amount to Rs. 100 per month and Ms. Y pays nothing to the employer for this benefit. Ms. Y is also provided with a laptop computer that costs Rs. 1 lakh.

The employer also makes an expenditure of Rs. 1 lakh per year for providing health club facilities to its 10 employees. Mr. X uses these facilities regularly but Ms. Y rarely uses these facilities.

The valuation of perquisites for Mr. X and Ms. Y are given below:

Mr. X	Ms. Y
Value of furnished accommodation owned by employer: 10% of salary – Rs. 96,000 per year Plus value of furniture and fixtures: 10% of cost per annum- Rs. 10,000 per year	Value of unfurnished accommodation taken on lease rent: Actual amount of lease rent paid/payable by the employer (Rs. 72,000 per year) or 15% of the salary (Rs. 1,44,000 per year), whichever is lower.

Less amount paid- Rs. 6,000 Therefore, value of this perquisite is Rs. 1,00,000 per year. Note: The fair market value of the accommodation is not relevant for this calculation.	Therefore, value of this perquisite is Rs. 72,000 per year.
Value of benefit of sweeper- Rs. 24,000 per year.	Provision of gas- Rs. 1200 per year.
The provision of the car and driver only for travel to and from residence to the place of work is exempt under the Fringe Benefit Tax provisions.	Provision of movable asset in the case of a laptop is exempt.

The value of the taxable perquisites as given above shall be included in the salary income of Mr. X and Ms. Y, respectively. This in turn, would be a part of the total income of Mr. X and Ms. Y. It would be liable to income tax at the prevailing rates in the hands of the employees, namely Mr. X and Ms. Y.

The provision of health club facilities is liable to be valued at a presumptive rate of 50% of expenses for levy of Fringe Benefit Tax in the hands of the employer. Assuming that this is the only non-exempt fringe benefit provided by the employer the value of taxable fringe benefit is Rs. 50,000 per year. Fringe Benefit Tax is liable to be paid on this amount. At the prevailing rate of 30% this amounts to Rs. 15,000 per year. It should be noted that the employees are not liable to pay tax on the value of the fringe benefit that is liable to Fringe Benefit Tax in the hands of the employer. Furthermore, as already stated, provision of the car and driver only for travel to and from residence to the place of work is exempt under the Fringe Benefit Tax provisions w.e.f 1/4/2007.

2) Mr. A and Mr. B are government employees. Mr. A resides in an unfurnished accommodation provided by the government that has a license fee of Rs. 500 per month as per government rules. He pays Rs. 500 per month as license fee to the government. He receives transport allowance of Rs. 800 per month for commuting to and from his residence to place of work.

Mr. B is provided with a furnished accommodation by the government. The license fee for the accommodation is Rs. 500 per month as per government rules. He pays Rs. 500 per month as license fee to the government. The furniture and fixture provided with the accommodation is also owned by the employer and was bought at a cost of Rs. 20,000. Mr. B pays Rs. 50 per month for the furniture and fixture provided. He also receives the benefit of a car and a driver for commuting to and from his residence to place of work.

The valuation of perquisites for Mr. A and Mr. B are given below:

Mr. A	Mr. B
Value of unfurnished accommodation: License fee as determined by government-Rs. 6,000 per year Less amount paid-Rs. 6,000 per year Therefore, value of this perquisite is Nil.	Value of furnished accommodation: License fee as determined by government- Rs. 6,000 per year Plus value of furniture and fixtures: 10% of cost per annum- Rs. 2,000 per year Less amount paid- Rs. 6,000 per year license fee and Rs. 600 per year for furniture and fixtures. Therefore, value of this perquisite is Rs. 1,400 per year.
Transport allowance up to Rs. 800 per month for commuting to and from his residence to place of work is exempt.	The provision of the car and driver only for travel to and from residence to the place of work is exempt.

**VALUATION
OF
PERQUISITES**



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This booklet should not be construed as an exhaustive statement of the Law. In case of doubt, reference should always be made to the relevant provisions of the Direct Tax Laws and Rules and where necessary, notifications issued from time to time

PREFACE

Booklets under the 'Tax Payers Information Series' are published as part of our endeavour to increase the awareness of the taxpayers about the provisions of tax laws and the steps taken by the government to reduce the complexities of tax laws and improve Tax Payer Service. The updated edition of the Tax Payers Information Series booklet titled "**Valuation of Perquisites**" will assist a large number of salaried tax payers in computing their tax liability correctly.

It is felt that in many cases neither the employers nor their employees are aware about inclusion of perquisite values of various perquisites in the total income of the employees. In some other cases, such persons are not aware about how to correctly value the perquisites. This booklet has in a nutshell tried to address such issues. The present edition has incorporated amendments in law made upto the Finance Act, 2008. The booklet has been written primarily keeping in view the provisions of law applicable for the assessment years 2008-09 and 2009-10. Some important provisions pertaining to earlier years have also been discussed. The author Sh. Supriyo De, JCIT has taken keen interest in updating the edition.

It is hoped that this publication will prove to be more useful for the readers. The Directorate of Income Tax (Public Relations, Printing & Publications and Official language) would welcome any suggestion to further improve this publication.



New Delhi
Dated : June 1, 2008

(Amitabh Kumar)
Director of Income Tax
(PR,PP & OL)

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