

Tax Hotline

September 28, 2001

GOVERNMENT ANNOUNCES RULES FOR TAXATION OF PERQUISITES

The final notification of rules on valuation of perks were issued by the Government of India on September 26, 2001. The notification provides marginal concessions on the valuation of cars, conveyance allowance, housing loans, residential accommodation and children's education, which are less stringent than the provisions of the draft rules. Under the said notification, the value of free or concessional residential accommodation provided by the employer would be 10% of salary in cities with a population of over four lakh, while in other cities it would be 7.5% of salary. In the case of cars owned or hired by the employer where all expenses on maintenance and running are met or reimbursed by the employer, the cars would be valued for the purposes of taxation at Rs. 1,200 per month (for cars with an engine capacity up to 1600 cc) and Rs. 1,600 per month (for cars with a higher engine capacity). No tax would be levied for entertainment expenses, as well as credit card bills paid by the employer, whenever the expenditure is incurred by the employee for the performance of official duty and exclusively for official purposes and is fully supported by detailed documentation, as specified. The documentation must include the date and nature of expenditure, a certificate from the employee that such expenditure was incurred wholly and exclusively for the performance of official duty, as well as the prescribed certification from the supervising authority.

With regards to educational facilities, the exemption limit has been raised to Rs 1,000 per child. The notification provides that laptops and computers are not to be taxed for they increase employee efficiency. In addition, a rate of 50 % is prescribed at which employers can provide for the wear and tear of computers and electronic items and 20% for cars. Further, Form No. 16, which is normally issued by employers on account of tax deduction at source from salaries has also been amended, incorporating a row for value of perks, under section 17(2) and also for profits in lieu of salary under section 17(3) of the Income-tax Act, 1961. Officials have clarified that employees have an option to value all their perks as per earlier rules for the period from April 1, 2001 to September 30, 2001 or value all of them as per the new rules.

Source: *The Economic Times*, September 26, 2001 and September 27, 2001.

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