



# ALLOWANCES TO EMPLOYEES



# MEANING

Allowances may be defined as a fixed monetary amount or a percentage on basic pay paid by the employer to the employee for meeting some specific expenses for the performances of his duties.

Examples:

- Dearness Allowance,
- Travelling Allowance;
- House Rent Allowance etc.

# CLASSIFICATION ON THE BASIS OF TAXABILITY/ EXEMPTION

- Fully Exempted Allowances

- Fully Taxable Allowances

- Partly Exempted/Taxable Allowances

# FULLY EXEMPTED ALLOWANCES

- ❑ Allowances paid as Compensatory Allowance to a Judge- for relocation on transfer between high courts;
- ❑ Foreign Allowance to govt. employees posted outside India;
- ❑ Certain Allowances to Judges of High Court/ Supreme Court;
- ❑ Sumptuary Allowance and Transport Allowance to Chairman/ Member of UPSC
- ❑ Allowances paid by UNO

# EXAMPLES OF FULLY TAXABLE ALLOWANCES

- Fixed Medical Allowance
- Lunch/ Tiffin/ Dinner Allowance
- Dearness Allowance
- City Compensatory Allowance
- Overtime Allowance
- Servant Allowance
- Marriage/ Family Allowance
- Project allowance etc.

# PARTLY EXEMPTED/ TAXABLE ALLOWANCES

These are again classified into the following categories:

- Allowances exempt up to a specific limit prescribed in the I.T Act or the amount received whichever is less
- Allowances exempt up to the extent of amount received or spent for the purpose whichever is less;

# ALLOWANCES EXEMPT UP TO A SPECIFIC LIMIT PRESCRIBED IN THE I.T ACT OR THE AMOUNT RECEIVED WHICHEVER IS LESS

Examples:

- ❑ Children Education Allowance –Rs. 100 per month per child upto a maximum of two children
- ❑ Hostel Allowance –Rs. 300 per month per child upto a maximum of two children
- ❑ Special Compensatory (Tribal/ Scheduled/ Agency Areas)- Rs. 200 p.m in specified areas.

# ALLOWANCES EXEMPT UP TO A SPECIFIC LIMIT PRESCRIBED IN THE I.T ACT OR THE AMOUNT RECEIVED WHICHEVER IS LESS

Examples:

❑ Transport Allowance between residence and place of duty-

Rs. 3200 per month for an employee who is blind or deaf or dumb or orthopaedically handicapped with disability of lower extremities

❑ House Rent Allowance

## EXEMPTION FOR HOUSE RENT ALLOWANCE –SECTION 10 (13A)

Least of the following is exempted:

- Actual amount of allowance received
- Rent paid for the relevant period in excess of 10% of Salary
- 50 % pf Salary in case of accommodation at Mumbai, Kolkata, Delhi or Chennai or 40 % of Salary otherwise

## EXEMPTION FOR HOUSE RENT ALLOWANCE –SECTION 10 (13A)

- ❑ Salary for the purpose of exemption of HRA means basic salary
- ❑ It will include dearness allowance/pay if terms of employment so provide
- ❑ It will include commission if paid at a fixed percentage of turnover achieved by the employee
- ❑ Exemption is available only if the employee incurs rent expenditure.

## ALLOWANCES EXEMPT UP TO THE EXTENT OF AMOUNT RECEIVED OR SPENT FOR THE PURPOSE WHICHEVER IS LESS;

Travelling Allowance

Daily Allowance

Conveyance Allowance

Helper Allowance

Academic Allowance

Uniform Allowance