

## A complete guide to Fringe Benefit Tax on salaries

*By Ameet Patel*

Without sounding melodramatic, I would not be off-the-mark if I say that Fringe Benefit Tax is the biggest challenge that taxpayers are going to face in the months and years ahead. Both employers and employees are anguished at the manner in which the Finance Minister is bringing in amendments into the Income-tax Act with a view to raise revenues only to meet the unending and uncontrolled expenses that our bureaucrats, politicians and other Government servants incur.

Taxpayers have to bear the brunt of such expenses. Instead of trying to curtail expenses, the Government is trying to raise taxes from honest taxpayers while the dishonest black money earners continue to go scot-free.

This article provides a brief insight into a few important items of payments that employees receive from employers and how FBT affects such payments. Recently, the Government has issued a long clarificatory circular dated 29<sup>th</sup> August. The clarifications have been taken into consideration in the following paragraphs.

The general rule that one must keep in mind is that if a particular payment is includible in the salary income of the employee then the same is not subject to FBT. Therefore, if a payment attracts FBT (which is payable by the employer) then it also means that the same is not taxable in the hands of the employee. Thus, there should not be double taxation on the same item of payment. One only hopes and prays that the Income-tax Officers also keep this in mind.

Based on this general rule and based on the circular referred to above, a reference chart has been prepared which gives an easy guide to what is taxable in the hands of an employee and what is subject to FBT.

Get the reference chart here:

### Snapshot on Fringe Benefit Tax

<b>Allowance/Perquisite</b>	<b>Taxable in hands of employee?</b>	<b>FBT payable by employer?</b>
Basic Salary	Yes	No
Bonus	Yes	No
Club Fees of employee paid by employer (including health clubs)	No	Yes
Conference/Seminar expenses – only course fees	No	No
Conference/Seminar expenses – other than course fees (traveling, hotel etc.)	No	Yes
Conveyance Allowance	Yes (subject to exemption of Rs. 800 p.m. under section 10(14))	No
Conveyance Expenses & Traveling Expenses incurred in	No	Yes

the normal course of employment		
Contribution to recognized PF	No	No
Dearness Allowance	Yes	No
Education Allowance (up to Rs. 100 per month per child for 2 children)	No	No
ESOPs	No (if the ESOP scheme is in accordance with guidelines issued by Govt.)	No
Festival celebrations (such as Diwali pooja, Dussera pooja, Christmas eve/New year Eve parties etc.)	No	Yes
Gifts	No	Yes
Gratuity	Yes (subject to exemption under section 10(10))	No
HRA	Yes (subject to exemption under section 10(13A))	No
Interest-free loan / concessional loan	Yes (value of perk as per Rule 3)	No
Leave Encashment	Yes (subject to exemption under section 10)	No
LTA/LTC	Yes (subject to exemption under section 10(5))	No
Meal Coupons (not transferable and usable only at eating joints)	No	No
Medical expenses reimbursed by employer (up to Rs. 15,000 per annum)	No	Yes
Medical expenses reimbursed by employer (in excess of Rs. 15,000 per annum)	Yes	No
Motor car Expenses (petrol, repairs, driver's salary) paid by employer or reimbursed by employer (irrespective of whether car is owned by employer or employee)	No	Yes
Newspapers, books & periodicals expenses reimbursed	No	Yes
Other allowances	Yes (if not specifically exempt under section 10)	No

Performance Incentive	Yes	No
Per Diem Allowance received while on foreign assignment (very common amongst software engineers)	No	Yes
Rent Free Accommodation	Yes (value of perk as per Rule 3)	No
Scholarships	No	Yes
Super Annuation	No	Yes
Telephone Expenses (residential as well as mobile phones)	No	Yes

I have been partial to the Finance Minister and have included only those items which have something to do with employees. There are a host of other items of genuine business expenses (such as sales promotion expenses) which have nothing to do with employees and yet which have been subjected to FBT.