

11 Tax Free Allowances in Salary

Its appraisal season and employees are worried about their hike. But equally important is the salary structure as it determines your take home amount and also what you pay in taxes.

Your salary consists of lot of components, some of them are fully taxable, and some are partially taxable while remaining is tax free.

Here is a list of 11 components in your salary that is tax free. In case you have it in your pay slip, great – but in case you don't have it – you can always discuss with your company and HR.

1. House Rent Allowance (HRA):

The HRA that can be claimed for tax exemption is minimum of

- Actual HRA Received or
- 40% (50% for metros) of (Basic + Dearness Allowance) or
- Rent paid (-) 10% of (Basic + Dearness Allowance)

If you pay rent of more than Rs 1 Lakh, you need to give PAN Card number of landlord to your employer. In case your landlord does not have a PAN Card, you will need to [get a declaration signed by him](#) for the same.

Tip: HRA at 50% of (Basic + Dearness Allowance) is the most optimum break up in a salary.

Also Read: [8 Questions about Tax Exemption on HRA](#)

2. Medical Reimbursement:

You can claim up to **Rs 15,000 per year against medical expenses by submitting medical bills**. Even cost for eye testing and spectacles frame and lens costs are covered.

3. Transport Allowance:

Transport Allowance **up to Rs 800 per month is tax free** while this limit is Rs 1,600 per month for orthopedic person. Even if your employer pays more than 800 per month, you can only claim tax exemption up to Rs 800.

4. Meal Coupons:

Meal Coupons like Sodexo or Ticket are tax free subject to Rs 50 per meal. Assuming 22 days working month and 2 meals a day, **meal coupon up to Rs 2,200 per month are tax free.** Annually this amount comes to Rs 26,400.

5. Mobile Phone and Internet Bill Reimbursement:

We all use mobile phones and internet and many a time for office work too. The reimbursement of mobile and internet bills used for company purpose is tax free. There is no limit on the amount of reimbursement and is fixed by company depending on work profile.

On a conservative estimate you can **easily claim Rs 500 for mobile and Rs 1,500 for internet expense tax free every month.**

6. Leave Travel Allowance (LTA):

LTA is tax free only when you get your travelling expenses reimbursed from the company on submission of the bills. **You can claim LTA twice for two domestic trips with family in block of four years.** The present block is 2014 – 2017. **There is no maximum limit of LTA and is decided by employer.**

The meaning of ‘family’ for the purposes of exemption includes spouse and children and parents, brothers and sisters who are wholly or mainly dependent on you. **Only expenses incurred in travelling is covered.** You cannot claim hotel stay and food bills.

Assuming Rs 1,500 per ticket for one way train journey in 3AC, it costs Rs 12,000 for return journey for family of four. For journey by flight this expense can easily go to Rs 30,000 per trip. Since this can be claimed once in two years LTA of at least Rs 12,000 per year seems sensible.

7. Company Car/ Car Maintenance Allowance:

Company provided car lessens the tax burden for employees to a good extent and if your company provides such facility you must avail it.

Here is rough calculation of your benefit:

You have your own car and travel around 1,000 Kms per month and also keep a driver with monthly salary of Rs 8,000.

Assuming Rs 8 per KM as fuel and maintenance expense for running the car, you would be spending Rs 8,000 on car and Rs 8,000 on driver’s salary, making it total of Rs 16,000 per month.

Your company can only reimburse Rs 1,800 per month for car less than 1600 CC (Rs 2,400 per month for bigger cars) along with Rs 900 per month for driver salary as tax free allowance.

In case you have the same situation but the car is owned by company and also the driver is provided by the company, here is how things change. The company can now **reimburse both the driver salary and running expenses fully tax exempted**. But it would add Rs 1,800 per month for car less than 1600 CC (Rs 2,400 per month for bigger car) along with Rs 900 per month for driver salary as perquisite. This perk is added to the income and taxed accordingly.

Tip: Its tax efficient to get company owned car because then you can claim full reimbursement for fuel, maintenance and driver's salary.

8. Uniform Allowance:

Amount **up to Rs 24,000 per annum is tax free**, but this cannot be given for normal clothes. This is more common in manufacturing units where they have dress code; it would be difficult to implement the same in IT/ITES sector.

9. Children Education Allowance:

Rs.100 per month per Child and Rs.300 for Hostel Expenditure for maximum of two children is tax exempted.

10. Newspaper/Journal Allowance:

Amount up to Rs 12,000 per annum is tax free against submission of bills.

11. Gift voucher:

Gift Vouchers up to Rs 5,000 per year is exempted from tax. It's a good idea for companies to gift these on employees' birthdays or marriage anniversary.

12. Funding Professional Education:

Many companies fund higher studies or professional courses or certifications for their employees. This keeps their employees updated and more productive. In case of such funding, only 10% of the course fee is considered as perk and tax is calculated only on this perk value.

13. Gadgets for Personal & Professional Use:

If the company provides gadgets like laptop or tablet for professional and personal use, only 10% of the cost of gadget is considered as perk. You would be taxed only on this 10% perk value.

How much Taxes can be saved?

If companies give all the above allowances, here is a rough estimate of how much you can save.

Salary Components	Monthly (Rs.)	Annual (Rs.)
Medical Reimbursement		15,000
Transport Allowance	800	9,600
Meal Coupons	2,200	26,400
Mobile Phone and Internet Bill Reimbursement	2,000	24,000
LTA (Leave Travel Allowance)		12,000
Company Car/ Car Maintenance Allowance	1,800	21,600
Uniform Allowance	2,000	24,000
Children Education/Hostel Allowance	400	4,800
Newspaper/Journal Allowance	1,000	12,000
Gift voucher		5,000
Total Tax Free Components (Rs.)	10,200	1,54,400

Savings through Tax Free Allowances in Salary

As you can see the **presence of above salary components can easily lower your annual taxable income by Rs 1.5 lakhs.** This means annual saving of Rs 15,000 for person in lowest tax bracket and Rs 45,000 for person in highest tax bracket.

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The Sad Part:

Though the government keeps on tinkering with the tax rates and slabs every year but it has not looked into most of the above exemptions.

The transport allowance of Rs 800 has been there since 1998 while the cost of transportation has increased manifold. Same is the case with Medical Reimbursement. The medical treatment cost has increased but the exemption of Rs 15,000 remains as it is which was last revised in 1998.

The exemption of children education of Rs 100 and Rs 300 for hostel is again not helping anyone. I hope that going forward finance ministers take a re-look at these exemptions and provide benefits which are relevant with market rates.

Recommendation:

A lot of tax saving can happen by optimizing and introducing right salary components. So you should not only focus on CTC (Cost to company) but also look into the salary structure and components. Some companies allow you to design your own salary components keeping the CTC fixed. It's a great initiative and you should take advantage of all the components above.

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