

Course: B.Com Part III

Paper: VII

Topic: Types of Allowances

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What is Allowance?

An allowance is a fixed amount of money received by a salaried employee from his employer to meet a particular type of expenditure over and above salary. For example, companies provide overtime allowance to employees if they work more than fixed working hours. Similarly, there are many other allowances which are provided to salaried individuals. Allowances are treated as part of the salary and are taxable, except for those for which specific exemptions have been provided under various sections of Income Tax Act. Based on their respective tax treatment, these allowances can be categorized into three buckets - **Taxable, non taxable and partially taxable.**

Taxable, Non-Taxable and Partially Taxable Allowances

Taxable Allowances	Partially-Taxable allowances	Non-Taxable allowances
Dearness allowance	HRA except when it qualified as exempt	HRA upto 40% of basic salary (50% in
Entertainment allowance	under Section 10	case of employees staying in 4 metros -
Overtime allowance	Fixed medical allowance	Delhi, Mumbai, Chennai and
City compensatory allowance	Special allowance(including children	Bangalore) subject to actual rent paid
Interim allowance	education allowance, children hostel	being more than HRA plus 10% of
Project allowance	allowances)	basic
Tiffin/meals allowance	Conveyance allowance above ₹ 19,200	Conveyance allowance upto ₹ 1,600
Uniform allowance	per annum under section 10 (14) (ii) of	per month or ₹ 19,200 per annum
Cash allowance	income tax act	Payments to government employees
Non-practicing allowance	Entertainment allowance - deduction of	posted abroad
Warden allowance	1/5 of salary or ₹ 5,000 whichever is less	Allowance for UN employees
Servant allowance	under section 16 (ii) of income tax act	Sumptuary allowance paid to judges of Supreme Court and High Courts Compensatory allowance paid to judges of Supreme Court and High Courts