

# PERKS TO BURN BIGGER HOLE IN EMPLOYEE POCKETS

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## **Introduction:**

The Government has introduced new rules of taxation, which in a way replaces the provisions of the already abolished Fringe Benefit Tax. According to the new rules notified by the Central Board of Direct Taxes, The Fringe Benefit Tax (FBT) which was being paid by employers for giving non-cash benefits to employees will be replaced with a regime that will tax the perquisites in the hands of the employees.

## **Effective date:**

The new rule, called the Income-tax (13th Amendment) Rules, 2009, **comes with retrospective effect from April 1, 2009.**



## **The Earlier picture:**

Ever since the introduction of the FBT, companies have been demanding abolition of this tax. The current Finance Minister withdrew FBT, which probably resulted in this new rule, which is now a burden on the employee.



## **The current scenario**

As per the new rule, the value assigned to the perk enjoyed by the taxpayer will now be added to her total income and be taxed, depending on the tax bracket she is in. In fact, some employees could even go up to a higher tax bracket because of this addition of perks to the income.

## **Examples of perks falling within the ambit of 13<sup>th</sup> amendment:**

Perquisites provided by employers such as cars, rent-free accommodation, services of personal attendants, concessional education, concessional journeys, credit card expenses of the employee met by the employer, interest-free loans, gift vouchers, hotel stay

exceeding 15 days and medical facilities, employee stock option plan have now become taxable in the hands of employees.

**Illustration:**

Small cars below 1.6 litres engine capacity will now have a value of Rs 1,800 per month while cars above 1.6 litre cubic capacity will have a value of Rs 2,400 per month, if expenses on maintenance and running are reimbursed by the employer.

This essentially means that a salaried taxpayer will have to add Rs 21,600 to his annual income if he has a company provided small car or Rs. 28,800 if it is a big car. The net result- He will have to pay tax on this amount.

Earlier the same was taxed in the hands of the employer as FBT.

**The Main Issue :**

Since the rule has come with retrospective effect from 1<sup>st</sup> April 2009, the entire tax liability will need to be recovered from the employees' paycheques for the remaining three months of the year. This could result in lesser rupees in the wallet of the employee.



For the full text of the notification, click [here](#).