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Tax on perquisites set to pinch more

Tough Times: Pre-FBT Norms Return; Value Assigned To Perks Will Be Added To Employees' Total Income

Our Bureau
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SALARIED taxpayers enjoying perks such as chauffeur-driven cars will see their tax outgo jumping in the next three months as the government changed the way these perks are valued and lumps their whole year collection to three months. The Central Board of Direct Taxes on Friday notified new rules for valuation of perquisites provided by employers to employees. It comes with retrospective effect from April 1, 2009, after the Fringe Benefit Tax was abolished and perks became taxable in the hands of the employee.

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

This entire tax liability is to be recovered in the remaining three months of the year if employers have not deducted any tax so far. "Tax liability for the full year needs to be recovered by March 31, 2010 from the taxpayer, which could result economic hardship of employee, in case no tax has been withheld in absence of the perquisite valuation rules," said KPMG partner Vikas Vasal.

Perquisites provided by employees such as cars, rent-free accommodation, services of personal attendants, concessional education, concessional journeys, credit card, interest-free loans, gift vouchers, hotel stay exceeding 15 days and medical facilities, employee stock option plan have become taxable in the hands of employees now. The government has retained the old perquisite valuation rules that were in place prior to the FBT regime, only marginally tinkering in the case of cars and food vouchers.

Small cars below 1.6 litres will now have a value of Rs 1,800 per month while cars with engine capacity 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 and Rs 28,800 if it is a big car.

However, if the employee bears the expenses for running or maintenance of the car, then the value assigned to small car will be Rs 600 per month or Rs 7,200 per annum or Rs 900 per month or Rs 10,800 per annum for a big car. Another Rs 900 per month or Rs 10,800 per annum will be further added if the employee has also been provided with a chauffeur. The valuation has increased compared to previous perquisite taxation rules. However, no value will be assigned if the expenses incurred on a car is used "wholly and exclusively" for official purposes.

"Coming so late in the year, it is a relief that there are no major surprises," said Ernst & Young partner Amitabh Singh. "The increase in valuation of auto perquisites is in line with general increase in fuel prices and should not pinch too much." Government employees who are on deputation to public sector undertakings may have to bear the additional tax liability if they have a rent-free accommodation from the company.

A WHALE OF A BILL

PERKS THAT WILL BE TAXED

- Rent-free accomodation, car
- Free or concessional educational facilities
- Employee stock option plan
- Free club membership
- Credit card
- Gift voucher
- Meal coupons
- Hotel stay