

Perks tax rules replace FBT

Employees will now have to pay taxes on perquisites given to them by their employers as the Central Board of Direct Taxes has notified the much-awaited rules for valuation of the benefits.

With these rules, the fringe benefit tax (FBT) being paid by employers for giving non-cash benefits, including cars and employee stock options (ESOPs), to employees will be abolished and replaced with a regime that will tax the perquisites in the hands of the employees. It could mean less take-home pay for employees.

The rules are largely the same as what were prevalent before the introduction of FBT by finance minister P Chidambaram in 2005, though there are changes in the valuation of cars. Employees provided with cars will now have to pay tax on a monthly valuation of Rs 1,800 for the vehicle and Rs 500 for chauffeur if the car capacity is less than 1.6 litre. For cars above that category, valuation will be Rs 2,400 for car and Rs 900 for chauffeur. The valuation prior to introduction of FBT was Rs 1,200 a month.

The government was earning Rs 6,000 crore annually from FBT. While welcoming the switchover to the new rules, experts say the replacement of FBT with taxation of perquisites collected as tax deducted at source (TDS) from employees will lead to a marginal fall in its revenue. "It is unlikely to be revenue neutral because FBT was being charged on notional value but now it is specific," said Rajesh Srinivasan, senior director, Deloitte.

Srinivasan said FBT was causing complications for companies, though certain issues were still not clarified.

"Overall it is a good move. Primarily, the difference is that taxes were earlier being picked by employers and now employees are picking up the tab," he added. For those in the higher income bracket, it might not lead to higher taxes since the government abolished the income tax surcharge of 10 per cent last July. But for those in the middle and lower income group, it might lead to a higher tax outgo.

WALLET WATCH	
PERK	TAX PRINCIPLE
Employer-owned accommodation	Depending on city, 7.5-15% of basic salary added to income
Leased/rent paid by employer	Actual rent, or 15% of salary, whichever is lower added to income and taxed
Company-owned car for personal use	Actual expenses, driver's salary added to income and taxed*
ESOPs	Difference of mkt value & grant price added to income & taxed
Interest-free/concessional loan (except medical reasons)	Interest component to be added to income
Salary to sweeper, gardener, PA	Added to income
Gas, electricity, water expenses	Added to income
Free/concessional education	Added to income
Company sponsored vacation	Added to income
Gift/vouchers of over Rs 5,000	Added to income
Club membership/annual fees on credit card (other than official)	Added to income

**For part-official, part-personal use depending on engine capacity, up to Rs 3,300/month added to income*

Among the grey areas, he said that since the budget came in July, companies had already paid the first instalment of advance FBT in June. The government would need to clarify whether this FBT would be treated as TDS of employees.

Another area which requires clarity is the calculation for international workers. In the case of FBT, the government had issued FAQs (frequently asked questions), which were issued for apportionment. "Now, we need to know whether the same FAQs are applicable or a fresh notification will be issued," said Srinivasan.

With respect to taxing of other benefits like accommodation and employees stock options, the rules remain the same as earlier. The valuation on ESOPs is based on the distinction between shares of listed and unlisted companies. In the case of FBT, employers were paying the tax to the government for giving ESOPs and were recovering it from employees. Now, the employees will directly pay the tax.

While government employees will be taxed after the deduction of licence fee from the valuation arrived according to the city of accommodation, in the case of government employees on deputation to public sector companies and private sector employees, the tax will be on entire valuation.