

Income From Salary Under The Income Tax India Act 2025: A Critical And Contemporary Analysis Of Taxability, Allowances, Perquisites And Deduction

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ABSTRACT

Income from salary play an important role in taxable income under Indian direct-tax law. For a large section of the working population, salary represents the principal source of livelihood and, consequently, the principal basis of individual income-tax liability. The legal concept of salary is more vast and larger than the ordinary understanding of monthly wages or basic pay. It encompasses pension, wages, fees, compensations, profit lieu of salary, income, advance salary, leave encashment and employer's contributions. Hence, these receipts of Taxation is dependent upon statutory classification, the existence of an employer-employee relationship, the time of accrual or receipt, applicable exemptions, valuation of perquisites and deductions.

The introduction of the Income-tax Act, 2025 marks a significant development in India's direct-tax framework. The new legislation rearranges the requirements relating to salary and introduces a relatively simplified statutory architecture. Section 15 governs the Taxability of salary, section 16 provides an including definition of salary and section 19 prescribes deductions from salary income. The new Act also integrates tax-deduction-at-source provisions, with section 392 pertaining governing dually education of tax from salary payments.

This article analyses the employer-employee relationship, basis of charge, components of salary, benefits, additional benefits, retirement benefits, salary-TDS and deduction etc. It further compares the conceptual framework of the 2025 Act with the earlier Income-tax Act, 1961 and examines raising problems and issues from remote employment, contractual work, flexible compensation and non-monetary employment benefits. The article argues that the effectiveness of the new salary-tax regime depends upon statutory certainty, equitable treatment, simplified compliance and an analysis capable of responding to changing employment relationships.

Key words: Salary Income; Employer-Employee Relationship; Allowances; Perquisites; Income-tax Act, 2025.

1. Introduction

Income taxation is an important asset of public finance and constitutes an important mechanism by which the State mobilises resources for governance and public welfare. Among the different fields of taxable income, income from salary occupies a separate state because it is closely associated with the relationship between an individual and the association or person engaging him or her.

Salary taxation is not limited to the monthly amount received by an employee. Modern employment contracts often contain multiple components, including basic salary, allowances, bonuses, commissions, retirement benefits, employer contributions, accommodation, transport facilities, medical benefits, stock-based compensation and other advantages. The effects of these components may differ significantly.

The Income-tax Act, 2025 has reordered the statutory structure of governing income from salary. According to the official Income Tax Department "Salary is the first head of income and continues to recognise the employer-employee relationship as the essential prerequisite for taxation under this head".

Section 15 of the 2025 Act offers that Salary becomes chargeable when it is due, whether paid or not, when it is paid before becoming due, or when overdue payments are received and were not taxed before.¹ The provision therefore accepts the established principle that salary is taxable on the due or receipt basis, any of which is earlier.

The legislative shift is specially important for the financial year beginning on 1 April 2026. The Income Tax Department has clarified that salary paid up to March 2026 remains governed by the earlier Act, whereas salary payments made from April 2026 onwards are governed by the Income-tax Act, 2025.²

The present article accordingly examines the substantive and procedural aspects of salary taxation under the new legislative framework.

2. Research methodology

The research adopts a doctrinal and analytical methodology. Primary sources include the Income-tax Act, 2025, relevant provisions of the Income-tax Act, 1961, statutory rules and judicial decisions of the Supreme Court and High Courts.

Secondary sources include official publications of the Income Tax Department, academic literature, commentaries and relevant tax-law materials.

The research principally examines the statutory provisions governing salary, allowances, perquisites, deductions and tax deduction at source, while using judicial decisions to identify the principles developed by Indian courts.

3. Objectives of the study

The principal objectives of this research are:

To examine the meaning and scope of income from salary under the Income-tax Act, 2025.

To examine the importance of the employer–employee relationship. To consider the taxation of benefits and perquisites.

To analyse withholding available from salary income.

To analyse the salary-TDS mechanism under section 392.

To contrast the new structure with the corresponding provisions under the Income-tax Act, 1961.

To identify new challenges in the taxation of modern employment arrangements.

To recommend assess for improving certainty and simplicity in salary taxation.

4. Hypothesis

The study continues on the hypothesis that although the Income-tax Act, 2025 simplifies and resturctures the legal framework governing salary income, effective taxation of modern employment remuneration still requires clear rules concerning classification, valuation, exemptions, deductions and the distinction between employees and in relia professionals.

5. Concept of income from salary

The term “salary” has a larger and clearer legal meaning than its ordinary commercial meaning.

Section 16 of the Income-tax Act, 2025 shows an inclusive meaning of salary. It adds wages, pension, gratuity, fees or commission, profits in lieu of or in addition to salary or wages, advance salary and payment received for leave not availed of. It also covers specified employer contributions and other statutory components.³

The use of the expression “includes” demonstrates that the statutory definition is intended to be detailed rather than limited.

The same legal approach existed under section 17 of the Income-tax Act, 1961.⁴ The fresh Act hence retained the fundamental principle that salary taxation extends beyond basic remuneration.

6. Employer–Employee relationship

The presence of an employer–employee relationship is the foundation of taxation under the term “Salaries”.

The Income Tax Department expressly recognizes that income can be assessed under the term “Salaries” only in the case of the relationship between payer and recipient is that of employer and employee. In the absence of such relationship, the receipt may ordinarily loss under profit and gains of business or profession or income from other sources.⁵

This difference has become increasingly important because employment structures have changed significantly.

Contemporary organisations frequently engage: consultants; visiting; faculty; contractual employees; freelancers; professional advisors; retainers; project-based workers; and independent service providers.

The terminology used in an agreement cannot mainly determine the legal figures of the relationship. The substance of the arrangement must be analysed.

For example, a person appointed as an individual consultant may technically receive a monthly payment similar to salary, but if the legal relationship is one of independent service rather than employment, the income may not fall under the head “Salaries”.

The difference has effects for deductions, TDS, compliance and computation of taxable income.

7. Basis of charge of salary

Section 15 of the Income-tax Act, 2025 establishes the grounds for the charge of salary.

The following are taxable under the head “Salaries”:

Salary due throughout the tax year, whether paid or not;

salary paid or permitted during the tax year before it becomes due; and arrears received during the tax year where the employer not previously taxed.⁶

The provision prevent self sacrificing delay of tax liability. Example If an employee entitled to salary in March but receives it in April under law, the amount may be taxable in the tax year in which it became due.

Same as if an employer pays salary in before date or in advance and it has already been taxed on receipt, it should not be taxed again when it thereafter it becomes due.

This principle is important for preventing double taxation.

8. Components of salary

Salary income may contains a number of component.

A. Basic Salary

Basic salary comprises the fundamental component of remuneration. It is generally taxable in full rather a specific statutory exemption applies.

B. Dearness Allowance

Dearness allowance is basically paid to remunerate employees for inflation and increased cost of living. Its treatment depends upon the applicable statutory provision and the purpose for which it is included in the compensation structure.

C. Bonus

Bonus received from an employer because of employment usually comprise salary.

D. Commission

Commission received by an employee from an employer may form part of salary where It occurs from the employment

relationship.

E. Pension

Pension is specifically included within the statutory definition of salary under section 16.⁷

F. Gratuity

Gratuity is also specifically included within the statutory definition. Its actual taxability, however depends upon the applicable provisions.

G. Leave Encashment

Payment received for leave not availed of is included within salary.⁸

Thus, the statutory definition demonstrates that salary taxation encompasses both regular remuneration and employment-related terminal benefits.

9. Allowances

An allowance is ordinarily an additional monetary payment made by an employer to an employee for a particular purpose or as part of the employee's remuneration.

Allowances may be: Fully taxable; partly excluded; or excluded subject to prescribed conditions.

The official Income Tax Department explains that allowances are generally taxable unless a specific exclusive is provided under the statute.⁹

House Rent Allowance

House Rent Allowance has anciently held one of the most important exclusives available to salaried employees under the earlier frame.

The exclusive depends upon legal field concerning: Actual HRA received; rent actually paid; salary; and place of residence.

The important principle is that the entire HRA received does not automatically become exclusive. Only the amount satisfying the statutory formula is exempt.

10. Perquisites

Perquisites are benefits or amenities provided to an employee in addition to monetary salary. They may include: rent-free accommodation; concessional accommodation; motor vehicles; concessional loans; employer-provided assets; domestic servants; educational facilities; club facilities; and other employment-related benefits.

The concept is particularly important because a perquisite may generate taxable income even though the employee does not receive additional cash. For example, where an employer provides accommodation free of rent, the employee receives an economic benefit. Tax law therefore provides valuation mechanisms to determine its taxable value.

The earlier section 17 of the Income-tax Act, 1961 similarly included rent-free accommodation and concessional accommodation within the concept of perquisite.¹⁰

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11. Taxation of employer-Provided accommodation

Accommodation provided by an employer constitutes one of the most common on-cash employment benefits.

The taxability depends upon factors such as:

Whether the employer owns or leases the property; whether the employee pays rent;

The nature of the employer;

The location of accommodation;

The nature of the accommodation; and the prescribed valuation rules.

The purpose of valuation is to determine the economic benefit received by the employee.

The principle reflects a broader concept in income-tax law: taxable income may arise through an economic benefit even where no direct cash payment is made.

12. Motor vehicle as a perquisite

Employer-given motor vehicles can create taxable benefits. The tax treatment may lay upon whether:

The vehicle is used exclusively for authorised purposes; it is used exclusively for individual purposes; or

It is used partly for authorised and partly for individual purposes.

Where the employee derives individual and personal benefits from an employer-provided vehicle, the prescribed valuation rules determine the taxable perquisite.

This depicts the essentiality of accurate pay roll records and documentation.

13. Retirement benefits

Retirement benefits occupied a significant place in salary taxation. They include: Gratuity; pension; provident fund; leave encashment; employer's assistance to pension schemes and other retirement benefits.

Section 16, mainly covers pension, gratuity and certain employer contributions within the statutory concept of salary.¹¹

Simultaneously, specific provisions may provide complete or partial exemption.

The law therefore needs a difference between inclusion within the definition of salary and ultimate taxability after applying an exclusive.

14. Deductions from salary

Section 19 of the Income-tax Act, 2025 governs deductions from salary. The provision allows decrease including:

Tax on employment/ professional tax, where applicable; standard deduction; and
Specified retirement-related amounts in accordance with the statutory structure.¹²

A particularly important development is the standard deduction.

For tax payers whose income is computed under Section 202(1), the standard deduction is

75,000 or salary, whichever is less. On other side, the amount is 50,000 or salary, whichever is less, subject to the statutory provisions.¹³

The higher level deduction simplifies salary computation because the employee need to establish actual expenditure for claiming it.

15. New Tax Regime And Salary

The new tax system is an important feature of contemporary Indian taxation.

The Income-tax Act, 2025 includes specific provisions concerning computation of tax under the new set of rules. The statutory structure seeks to simplify taxation by decreasing the dependence on various exemptions and deductions.

For salaried employees, the choice of tax structure can materially influence final tax liability.

An employee having particular deductions under the alternative structure may reach a distinct tax out come from an employee with a similar gross salary but fewer deductions.

Therefore, tax planning must be based upon actual taxable income rather than gross salary alone.

16. Tax deducted at source on salary

Tax Decreased at Origin is a central compliance mechanism in salary taxation.

Section 392 of the Income-tax Act, 2025 specifically deals with salary and accumulated balance due to an employee. It requires the person responsible for paying salary to deduct income tax at the applicable average rate on the estimated salary income for the tax year.¹⁴

The Income Tax Department has explained that the new Act consolidates the earlier salary-TDS provisions and places salary deduction under section 392.¹⁵

TDS serves four principal purposes:

(i) Regular collection of tax

(ii) reduction of tax

(iii) default;

(iv) distribution of tax payments throughout the year; and creation of a transparent reporting mechanism.

17. Transition from the 1961 Act to the 2025 Act

The transition between the two statutes requires careful attention. The Income Tax Department has specifically clarified that:

Salary relating to FY 2025–26 and paid upto March 2026 is governed by the Income-tax Act, 1961

Salary paid from April 2026 onwards for Tax Year 2026–27 is governed by the Income-tax Act, 2025; and employers must reset salary-TDS computation from 1 April 2026.¹⁶ Income Tax Department +1

This change is especially significant for employers because pay roll process must use the correct statutory provisions.

18. Judicial approach

Indian courts have anciently analysed salary provisions by examining the statutory character of employment-related receipts.

In the case of T.K. Ginarajan v. Commissioner of Income Tax, the Supreme Court allowed incentive bonus received by an employee and treated the amount within the statutory framework governing salary. The determinates that an employment related receipt cannot be trasfered into a deductible business expense just because the employee incurred expenditure in connection with earning it.

The Court's perspective reinforces the principle that deductions from salary must be based upon statutory authority.

Simultaneously, in L. W. Russel v. Commissioner of Income Tax, the Supreme Court considered the concept of “perquisite” and examined the nature of an employee's right to an employment profits.¹⁷

These decisions remain significant because the fundamental concepts of salary and perquisites have been retained under the new Act.

19. Critical analysis

The Income-tax Act, 2025 shows dedication to simplify India's income-tax architecture. In relation to salary, the Act retains many established principles while reorganizing the provisions.

The principal strength of the new framework is structural clarity. Salary chargeability is placed in section 15, its definition in section 16 and deductions in section 19. This provides in relation to logical legislative sequence.¹⁸

The new structure also combines salary-TDS provisions in section 392, thereby reducing the fragmentation found in the earlier legislation.¹⁹

Rather, statutory simplification does not automatically eliminate practical difficulties.

First, employers must correctly classify various components of remuneration.

Second, perquisite valuation can generate disputes.

Third, the boundary between employment and individual professional relationships is becoming increasingly uncertain. Fourth, frequent amendments and changes in tax systems can create compliance difficulties for employees and payroll departments.

Fifth, employees often understand the term “salary” as their total monthly remuneration, whereas the legal concept encompasses several additional benefits and adjustments.

Accordingly, tax payer education remains very important.

20. Suggestions

The following measures can improve the administration of salary taxation:

1. Simplified Pay roll Guidance

The CBDT should continue issuing easily understandable pay roll guidance for employers.

2. Greater Clarity on Modern Employment

Proper instructions should address consultants, visiting faculty, remote workers, freelancers and fixed-term employees.

3. Uniform Perquisite Valuation

Valuation rules should be periodically reviewed to reflect contemporary economic realities.

4. Digital Compliance

Pay roll method should distinguish between taxable and exempt components based on statutory provisions by its own.

5. Employee Awareness

Employees must be educated regarding Form 16, TDS, exemptions, reduces and tax-system choices.

6. Transitional Certainty

The Government should provide clear comparative tables between the 1961 and 2025 Acts wherever provisions have been renumbered or substantially restructured.

The Income Tax Department has already developed an official comparison facility between the two Acts, which is a useful compliance mechanism.

21. Conclusion

Income from salary occupies a central status within India's direct - tax structure. Its need arises not from the volume of revenue generated but also from its direct connection with the economic security of millions of individuals.

The Income-tax Act, 2025 retains the fundamental principle that an employer–employee relationship is necessary for taxation under the head “Salaries”. Section 15 determines the basis of charge, while section 16 gives a comprehensive statutory meaning covering wages, pension, gratuity, fees, commission, perquisites, advance salary, leave encashment and specified employer contributions.²⁰

The taxation of salary consequently requires more than identifying the employee's monthly basic pay. A proper computation must allow the allowances, perquisites, retirement benefits, exemptions, deductions and the tax system.

Section 19 provides the principal decreases from salary, in addition to the standard deduction, while section 392 establishes the salary-TDS mechanism under the new Act.²¹

The transition from the Income-tax Act, 1961 to the Income-tax Act, 2025 signifies an important phase in the development of Indian tax law. Despite the statutory structure has been reorganised, the basic philosophy of salary taxation remains substantially continuous.

Hence, The real test of the new law will lie in its implementation. India's employment environment is speedily changes through remote work, contractual employment, flexible compensation, digital platforms and non-cash employee benefits. Salary taxation must consequently remain enough flexible to address these developments while maintaining certainty and fairness.

A modern salary-tax system should eventually achieve four objectives: simplicity, certainty, equity and effective revenue collection. The Income-tax Act, 2025 provides an essential statutory foundation, but sustained administrative guidance and judicial interpretation will be important to guarantee that its provisions operate effectively in the changing employment environment.

III-Stylefootnotes

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9. Income-tax Act, 2025, § 16.

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