

CHAPTER FOUR : EMPLOYMENT INCOME II

Chapter Topic List:

Introduction

1. Meaning of ‘gains and profits’
2. Basis of assessment
3. Deductions

Learning Outcome:

On completion of this chapter, learners should be able to:

1. Explain the different types of employment income under Section 13(1)(a) – (e);
2. List the exemptions; and
3. Identify the allowable expenses for deductions.

Introduction

One of the major sources of revenue for the Government is income tax. It is assessable under Section 4(b) of the Act. Employment income relates to an employee for any consideration paid for services rendered.

1. Meaning of “gains and profits”

1.1 Section 13(1)(a):- Gross income of an employee in respect of gains or profits from an employment includes the following:-

- i. wages
- ii. salary
- iii. remuneration
- iv. leave pay
- v. fee
- vi. commission
- vii. bonus
- viii. gratuity
- ix. perquisite or allowance

1.1.1 The exemption of gratuity can be provided with the following condition:-

Non-Government Employee		Government Employee	
Partial exemption	Full exemption	Full exemption	Full exemption

1.1.2 Various perquisite or allowance:

- i. Share option and share incentive scheme
- ii. Allowances
- iii. Loan to employees
- iv. School / Tuition fees
- v. Insurance premium
- vi. Gift or personal computers
- vii. Professional subscriptions
- viii. Excellent public service award
- ix. Excellence service
- x. Pecuniary liabilities
- xi. Credit card facilities
- xii. Scholarship
- xiii. Asset provided FOC or sold at discounted price

1.2 Benefits-in-kind

Section 13(1)(b):- Benefits that are not convertible into money or known as 'benefits in kind'.

Example:

- i. Furniture
- ii. Uniforms
- iii. Mobile phone
- iv. Driver

1.2.1 Tax exempt benefits

1.3 Living accommodation

Section 13(1)(c):- Where the employer provides free or subsidized living accommodation to its employees, only the value of unfurnished living accommodation provided will be assessed.

1.4 Unapproved fund

Section 13(1)(d) income would include:

- (a) contribution made by employer to the unapproved pension or provident fund, scheme or society; and
- (b) any income earned by such unapproved fund and credited to the employee.

1.5 Compensation for loss of employment

Section 13(1)(e) includes:-

- (a) salary or wages in lieu of notice;
- (b) compensation for breach of contract of service;
- (c) payment for the release of the employer's obligation under contract of service;
- (d) ex-gratia
- (e) restrictive covenant.

1.5.1 Exemption for 'compensation for loss of employment'

- i. Full exemption
- ii. Partial exemption

2. Basis of assessment

W.e.f. 1.1.2000, Current year assessment has been implemented to substitute the earlier Previous year assessment.

The basis year for a particular YA is the calendar year.

4. Deductions

As compared to business income, employment income has a much-restricted scope in deduction. There is no utilization of losses to be set off against the statutory income. Allowable expense to be deducted against employment income must be:-

- i. a revenue expense;
- ii. reasonably expected to be incurred by most employees;
- iii. not private or domestic in nature;

- iv. relating to the current job; and
- v. employment source must first has existed.