

INDIA LEGAL UPDATE

August 26, 2023

Criteria to determine the value of perquisite in respect of residential accommodation provided by employer modified

Notification Date:
August 18, 2023
Effective Date:
September 1, 2023
Legal Framework:
Income Tax Act, 1961 Income Tax Rules, 1962 Income Tax (Eighteenth Amendment) Rules, 2023
Government Authority:
Central Board of Direct Taxes
Weblink:
CBDT Notification

LEGAL UPDATE

The value of rent-free or concessional accommodation provided to an employee, by the employer (except central and state government) is amended for the purpose of calculating “perquisite” in case of unfurnished and furnished accommodation (owned by the employer or taken on lease or rent by the employer).

The categorisation and the limits of cities and population are now based on the 2011 census. The revised limits of the population are 40 lakh in place of 25 lakh and 15 lakh in place of 10 lakh. The earlier perquisite rates of 15%, 10% and 7.5% are now reduced to 10%, 7.5% and 5% of the salary respectively.

Previous Categorisation and Rates		New Categorisation and Rates	
Population	Perquisite Rate	Population	Perquisite Rate
More than 25 lakh	15%	More than 40 lakh	10%
Between 10 lakh to 25 lakh	10%	Between 15 lakh to 40 lakh	7.5%
Less than 10 lakh	7.5%	Less than 15 lakh	5%

Exception:

These provisions will not apply to the accommodation temporarily provided to an employee working:

- at a mining site or
- an on-shore oil exploration site or
- a project execution site, or
- a dam site, or
- a power generation site, or
- an off-shore site,

having a plinth area not exceeding 1000 sq. ft. (earlier 800 sq. ft.) and located not less than eight kilometres away from the local limits of any municipality or a cantonment board.

These Rules have rationalised the computation of fair tax implication in case the accommodation is owned by the employer and occupied by the same employee for more than one previous year. In such a case, the value of the perquisite shall not exceed the amount calculated by indexation of the amount of perquisite calculated in the first year of accommodation by the cost inflation index of the current previous year.

This amendment pertains to the rules for valuation of unfurnished / furnished accommodation for a salaried person. It brings changes to the “categorization and limits of cities and populations”, along with revised “perquisite rates” based on the 2011 census. This could impact on the tax calculation.

This amendment will have an impact on the amount of tax that will be deducted from their salary. The amended rules for accommodation provided to an employee will use various factors such as valuation rate, population threshold of a city, furnished or unfurnished to calculate the rent of the house. By incorporating the 2011 census data and adjusting the perquisite rates, the amendment seeks to create a more balanced and accurate system for valuing residential accommodation perquisites.

Looking for a better clarity on the tax implication basis the revised population criteria and perquisite rate? Our tax experts have already done that analysis for you. Employers and employees alike will benefit from the clarity and transparency provided by this amendment, enhancing the overall efficiency of the taxation framework. Feel free to connect with us for a more detailed discussion.

Queries?

If you have any queries about this article, please reach out to our experts:



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