



**I**ntroduction of newer taxation policies has led to compensation structure rationalisation. In 2001, most sectors were benefit-heavy and had 13-15 items of pay. In 2005, this halved to 6-8 items with examples of simplified structures with just 3 items of pay."  
—Sandeep Chaudhary, practice leader, analytics, consulting India, Hewitt Associates



**T**he increase in the threshold limit to Rs1.5 lakh will aid employees at entry level. This is a welcome change. It will help people who were earlier in the tax bracket to get out of it and save more. Those having a higher salary will not see a big difference."  
—E Balaji, CEO, Ma Foi Management Consultants



**F**ringe benefit tax on Esops needed to be rationalised as stock options are very effective in attracting and retaining employees. But FBT on Esops still remains a pain area, especially in the current talent scenario."  
—Gangapriya Chakraverti, business leader, human capital product solutions, Mercer Consulting, India

**6.798%** The fringe benefit tax to be paid by employer

**Rs 44,000** The increase in the annual salary for a male earning Rs5 lakh

**4** new areas added to the items attracting FBT

## Fringe benefits aren't such a drain, after all

Team DNA

If your salary shrinks under the impact of taxes, don't go complaining to the finance minister. He has done all he could to help you earn more by reducing the tax outgo.

"The revised tax slab incorporates the benefit of a possible increment in salary being realised in the hands of the salaried class taking into account inflation," says Ranjeet Mudholkar, CEO of Financial Planning Standards Board of India.

Still, if you want to further reduce the impact of the tax axe, you can knock on your HR manager's door and ask for a revision in your salary structure.

A compensation structure comprising salary and non-taxable allowances is ideal. Says Vikram Shroff, head of employment law at Nishith Desai Associates, "In addition to salary, the compensation package should ideally include a mixture of short- and long-

term benefits such as bonuses, stock options, housing, insurance, social security, etc."

"Companies continue to assist their employees in structuring their compensation package to make it tax efficient as long as such exercise remains within the broad framework of the corporate policies and applicable laws," Shroff adds.

Indeed, benefits are being used to lure employees not just in India, but globally. Anita Belani, country head - human capital group at Watson Wyatt Worldwide says, "Our recently concluded total rewards survey highlights that besides aggressive pay positioning, organisations use a plethora of benefits such as sign-on bonus, deferred income plan and Esops to reduce attrition."

The adjoining table (*How FBT helps*) shows the salary structure of an individual who has less of allowances and another who has a balance of allowances and salary com-

ponent. The former is paying taxes through his nose, vis-a-vis the second individual who has been able to reduce his total tax outgo by taking a higher amount of allowances.

"There are things you need to clarify with the management before accepting such a structure, especially if you have been getting employee stock options or Esops, which last year were brought under the FBT net."

"Tax laws allow companies to recover the FBT paid by companies upon exercise of stock options. It is however advisable for companies to clarify upfront, whether the FBT would be recovered from the employees. There have also been cases where the FBT burden is shared," suggests Shroff.

But, as the table indicates, even if the employee decides to take the entire FBT burden in his salary, he still has a better take home as compared with the earlier structure.

But, not all companies have been asking the employee to bear the brunt of FBT, Shroff says.

### DNA'S TAKE



## It's nice to be given an extra month's paycheque, but...

**T**wo familiar and imposing figures hogged television screens across the country on the leap year day - finance minister P Chidambaram and cricketer Adam Gilchrist. Both started the day slowly and then as the 'game' wore on, blazed their trail.

It was Gilchrist's last outing at the Melbourne Cricket Ground. And the FM's? Well, much would depend on how the Budget goes down with the masses.

I think it is the best budget for the working professional in the last decade, with well-deserved tax breaks for women and senior citizens. So, it's three cheers for the FM from all working professionals, though I would make that six cheers if I were a farmer keep cheering if I were a farmer and



Shiv Agrawal  
CEO, ABC Consultants

had defaulted on loan obligations.

Most middle income earning executives will see their take-home salaries shoot up the next year. Even if there is some sort of a slowdown and increments peter out, lower taxes will ensure increased salaries. An executive having a taxable salary of Rs5 lakh is likely to earn around Rs45,000 per year more due to a lower tax payout. This extra earning amounts to almost one-month's salary.

Sadly, that is where the cheerleading seems to end because the moment I don my India Inc cap, there is little to cheer.

Yes, the excise duties have been cut to 14%, the auto sector has been given

some sops, and many sectors have benefited from rationalised taxes and duty cuts. But, where is the reward for good corporate performance over the last three years?

The dreaded FBT stays and so do our tax rates and the ill-advised surcharge on them. The IT/ BPO sector was pleading for relief but none was given.

As an eminent expert put it on a television show, "there is no counter cyclical fiscal policy and no insurance agent against a global slowdown." In simple words, it won't be enough to stem the rot or boost our growth in the face of the impending 'bad times'.

The sops being doled out give the impression that a mess is being created with the knowledge that someone else would have to get down and clean it. One can only hope the provisions meet their logical end - lost in red tape.

### How salaries have changed after Budget

Basic Salary	120,000	300,000	420,000	600,000	900,000
HRA	60,000	150,000	210,000	300,000	450,000
CCA	12,000	12,000	12,000	12,000	12,000
Conveyance	9,600	9,600	9,600	9,600	9,600
Medical	15,000	15,000	15,000	15,000	15,000
Special Allowances	33,400	13,400	83,400	63,400	113,400
<b>Total Salary</b>	<b>250,000</b>	<b>500,000</b>	<b>750,000</b>	<b>1,000,000</b>	<b>1,500,000</b>
Tax saving investments (Sec 80 C, 80 D)	50,000	115,000	115,000	115,000	115,000
<b>Tax payable after budget</b>	<b>5,000</b>	<b>32,000</b>	<b>95,500</b>	<b>170,500</b>	<b>352,550</b>
In Hand	245,000	468,000	654,500	829,500	1,147,450
Effective Tax Rate	2.0%	6.4%	12.7%	17.1%	23.5%

With the assumption that they are male employees below 65 years and both Sec 80 C and 80 D limits are fully utilized for salary greater than equal to Rs 5 lakh

Source: ABC Consultants

### How FBT helps

CTC Rs74,250 per month	Scheme A	Scheme B
Basic Monthly Salary (taxable)	50,000	35,000
PF Contribution	6,000	4,200
HRA	15,000	15,000
Medical (monthly)	1,250	1,250
LTA (monthly)	2,000	2,000
<b>Reimbursements - FBT applicable</b>		
Company car and expenses	0	5,045
Driver's Salary	0	3,200
Entertainment expenses	0	3,500
Books and Periodicals	0	3,000
Others, Misc.	0	1,000
<b>Total FBT</b>	<b>0</b>	<b>1,069</b>
<b>Total Monthly Salary</b>	<b>74,250</b>	<b>74,250</b>
Taxable Income	65,000	50,000
Gross Yearly Salary	7,80,000	6,00,000
Deduction u/s 80C, 80CCC & 80D	1,00,000	1,00,000
Taxable Income	6,80,000	5,00,000
Tax	94,000	55,000
Add: Education Cess	2,820	1,650
Tax payable as TDS	96,820	56,650
Add: FBT Paid by company	0	12,828
<b>Total tax Cost to employee</b>	<b>96,820</b>	<b>69,478</b>
<b>Monthly take home of employee</b>	<b>56,932</b>	<b>59,955.17</b>

Source: ABC Consultants

### How FBT helps

CTC Rs74,250 per month	2007-08	2008-09
Basic Monthly Salary (taxable)	35,000	35,000
PF Contribution	4,200	4,200
HRA	15,000	15,000
Medical (monthly)	1,250	1,250
LTA (monthly)	2,000	2,000
<b>Reimbursements - FBT applicable</b>		
Company car and expenses	5,045	5,045
Driver's Salary	3,200	3,200
Entertainment expenses	3,500	3,500
Books and Periodicals	3,000	3,000
Others, Misc.	1,000	1,000
FBT	1,069	1,069
<b>Total Monthly Salary</b>	<b>74,250</b>	<b>74,250</b>
Taxable Income	50,000	50,000
Gross Yearly Salary	6,00,000	6,00,000
Deduction u/s 80C, 80CCC & 80D	1,00,000	1,00,000
Taxable Income	5,00,000	5,00,000
Tax	97,000	55,000
Add: Education Cess (3%)	2,910	1,650
Tax payable as TDS	99,910	56,650
Add: FBT Paid by company	12,828	12,828
<b>Total tax Cost to employee</b>	<b>1,12,738</b>	<b>69,478</b>
<b>Monthly take home of employee</b>	<b>56,350</b>	<b>59,955.17</b>

Source: ABC Consultants

**T**he Sixth Pay Commission Report will not have any effect on the private sector. But the commission suggests a 25% increase in salary to central government employees. The increase in salary would give a boost to consumption, in turn driving up the economy that is slowing down slightly."



—Kris Lakshminathan,  
founder CEO & MD, The Headhunters India Pvt Ltd

### Flashback

- Per capita income in 2005-06, in real terms, increased by 7.4%, savings rate was estimated at 32.4%, while the investment rate at 33.8%
- The finance minister made no changes to the fringe benefit tax structure in the previous budget
- Esops given to employees, however, were brought under the fringe-benefit tax ambit

### Missed the bus...

### Status quo ante on 80C

The total investment allowed under Section 80C was widely expected to be raised from the current Rs1 lakh, thus increasing take-home incomes