



Country Tax Guide: India

About this Guide:

This guide is based on information provided by international tax experts at IBFD to provide employers with a general overview of the tax treatment of key benefits in kind granted to resident employees. It is intended to offer practical insights to help multinational employers better understand potential tax implications when structuring benefit programs in-country. The guide does not include different tax concessions granted to non-residents and/or expatriates, tax reliefs employees may claim in their own tax returns, option arrangements and low interest bearing loans. While the content reflects extensive research and the expertise of IBFD, it is provided for informational purposes only and does not constitute formal tax advice. Employers are strongly encouraged to consult qualified tax advisors for guidance tailored to their specific business operations, workforce profile, and benefits design in the relevant jurisdiction.

Source of Information

The treatment of benefits in kind or perquisites is included in the sections 10 and 17(2) of the Income Tax Act (ITA). Furthermore, Rule 2BB and Rule 3 of the Income Tax Rules 1962 (the IT Rules) provide for the mechanism to compute taxable perquisites (available at <https://incometaxindia.gov.in/Pages/rules/income-tax-rules-1962.aspx>.) Finally, the Central Board of Direct Taxes (CBDT) issues notifications (Not.) and circulars (Circ.) providing instructions and directions for the taxpayers and tax authorities.

Main principles

Perquisites or benefits in-kind are taxable under the new tax regime (applied by default). However, if the taxpayer opts for the old tax regime, the taxpayer can avail tax exemption of the specified perquisites or benefits in-kind. This note provides for the exemption rules applicable to perquisites or benefits in-kind as is available under the old tax regime.

Perquisites or benefits in-kind are generally taxable, although in some specific cases they have been made exempt. The definitions of perquisites and profits from employments are drafted broadly. Under section 17(2) of the ITA perquisites are benefits a person receives based on his/her official position in addition to his/her salary.

In addition, an employer may provide allowances to employees. Allowances are fixed periodic monetary amounts, apart from salary and reimbursement in the course of employment, which are paid by an employer for the purpose of meeting some particular requirements of the employee. E.g., Tiffin allowance, transport allowance, uniform allowance, etc. There are generally three types of allowances for the purpose of the Income-tax Act: (i) taxable allowances; (ii) fully exempted allowances; and (iii) partially exempted allowances.



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Benefit types

Meals

The value of meals in excess of INR 50 per meal, is a taxable perquisite, reduced by actual costs borne by the employee. The provision of free meals to employees is not treated as a taxable perquisite if the meals are provided during office hours in office or business premises, or via paid non-transferable vouchers, and do not cost more than INR 50 per meal (and are restricted to two meals a day).

Company car

An automobile provided by the employer to an employee is exempt if the car is used only for an official purpose. It is taxable to the extent of the net amount borne by the employee (amount actually incurred by the employer less the amount recovered from the employee), including all costs relating to a chauffeur and normal maintenance. In a case where the car is partly used for private purposes, the exemption would be subject to the threshold prescribed in the ITA based on engine capacity.

Commuting

Transportation provided and made available to all employees uniformly is tax exempt, if used for work purposes or for commuting between the office and home. This would include a commuting allowance or voucher that is offered to all employees. Such benefit is, however, taxable if it is only provided to a “specified employee” (i.e. director-employee, employee that has substantial interest (i.e. has at least 20% of the voting power in the company)).

Childcare

The provision of the services of domestic servants, nannies, gardeners, etc. constitutes a taxable perquisite. The taxable value to the employee is the actual cost incurred by the employer, reduced by any costs borne by the employee. See also Tuition assistance that can be provided in respect of employees’ children.

Employers have provided a daycare program with a fixed sum available monthly for children under say 6 years old, with the sum only available for childcare and not transferrable or able to be carried forward. It has not been tested yet for exempt status but treated as a business expense.

Well-Being

Gyms, Yoga, Sports and Other Club memberships: Membership fees and annual fees incurred by the employer, reduced by any costs borne by the employee, is a taxable perquisite. However, if such expenditure is incurred wholly and exclusively for business purposes, or if provided uniformly to all employees, such perquisite is tax-exempt (specific documentation requirements apply).

Leave travel concessions and other assistance in connection with going on leave, retirement or termination of employment, to any place in India by the employee and his family are exempt. The family includes the spouse, children, parents and other dependants. However, this exemption is available only twice in a block of 4



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calendar years. The availability of this benefit is also subject to some limitations on the expense incurred (section 10(5) of the ITA).

Gifts. Gifts, vouchers or tokens which in aggregate amount to less than INR 5,000 per employee per year are not treated as taxable perquisites. If the gifts, vouchers or tokens are given in cash or convertible to cash they are fully taxable. So notional accounts that cannot be converted to cash and can be spent according to specific rules can be provided tax exempt.

Group insurances schemes: Employer's contribution to a group insurance scheme for the benefit of an employee is tax-exempt benefit provided such benefit is given to all employees under similar terms.

Health care and access to medical facilities. An exemption is provided for the value of the following health care facilities for employees and their families provided by or paid for by the employer:

- medical treatment in any hospital maintained by the employer;
- cost of treatment in any government hospital or hospital approved for the treatment of government employees, or, in respect of specified ailments or diseases, any other hospitals approved by the Chief Commissioner of Income Tax (section 17(2)(proviso) of the ITA);
- any premiums, or a proportion thereof, paid by an employer in respect of an approved scheme to provide health insurance for employees and their families; and
- the costs, or a portion thereof, for medical treatment abroad of an employee or a member of his family, including the costs of travel and stay of the patient and one attendant. The extent to which this is excluded from taxable benefits is conditional upon the approval of the Reserve Bank and the employee's gross annual income not exceeding INR 200,000 (about US\$2,000).

Tuition Assistance:

Educational allowances provided to an employee to meet the cost of the education of the employee's children are fully taxable to the employee. School or college fees of the employee's children paid directly by an employer to the school or college or paid by the employee and reimbursed by the employer, are also fully taxable to the employee. The taxable value is reduced by any costs borne by the employee.

An amount of INR 100 per month per child, up to a maximum of two children, is exempt from tax as a children education allowance. Further, an amount of INR 300 per month per child, up to a maximum of two children, is exempt from tax as a hostel expenditure allowance (student accommodation).

Where the employee's children receive free or concessional education at an educational institution operated directly or indirectly by the employer, the perquisite is valued on the basis of expenses that would have been borne by the employee, unless the cost per child is less than INR 1,000 per month. It is assumed that a fair market value approach will be used.

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Other Benefits, If Any

Accommodation:

- **Rent-free residential accommodation** is a taxable benefit to the employee. For non-government employees, the taxable value is equal to:
 - 5% of salary where the population of the city is up to 1.5 million.
 - 7.5% of salary where the population of the city exceeds 1.5 million but up to 4 million; and
 - 10% of salary where the population of the city exceeds 4 million

The taxable value of accommodation taken on lease or rent by the employer and provided to the employee is the lower of the actual amount of rent payable by the employer or 10% of the employee's salary, less the rent actually paid by the employee.

Accommodation located in remote areas and provided to employees working at mining sites, offshore oil exploration sites, project sites, etc. is not treated as a taxable perquisite.

- **Furnishings, fittings and furniture.** The taxable value of furnishings, fittings and furniture is equal to 10% of the original cost per year, or the actual hire costs.
- **Household utilities.** The taxable value of the provision of household utilities (the supply of gas, water and electricity) is the amount actually paid by the employer for the utilities.
- **House Rent Allowance (HRA)** is paid as a fixed allowance to the employee to meet the cost of a rented house. The tax-free allowance would be the minimum of the following:
 - HRA Actually Received
 - Actual house rent paid minus 10% of salary
 - 50% of salary (if the residence is in Delhi, Mumbai, Kolkata, or Chennai), otherwise 40% of salary
- **Hotel accommodation.** Where an employee is provided with accommodation in a hotel, the taxable value is equal to 24% of the employee's annual salary or the actual charges incurred, whichever is less. The taxable value may be reduced by charges actually incurred by the employee. If the hotel accommodation is provided to the employee on transfer for a period not exceeding 15 days in aggregate, such accommodation will not be treated as a taxable perquisite.

Phone: Expenses in respect of telephones, including mobile phones, actually incurred by the employer on behalf of the employee are not perquisites.

Retirement Fund: Employer's contribution to retirement funds, such as National Pension Scheme, Recognized Provident Fund, Superannuation Fund towards the Employee is tax-exempt provided the contribution is up to INR 750,000 during the current fiscal year.

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Procedures

Benefits which are (partly) taxable for the employee must be included in the salary statement and are subject to withholding obligations.



The information contained in this country tax guide has been provided by the international tax experts at IBFD based on available data as of October 2025.

About IBFD: Founded in 1938 as the International Bureau of Fiscal Documentation, IBFD has developed into one of the most respected organizations studying and documenting international taxation systems and investment legislation. Today, the IBFD's activities include (but are not limited to) research and provision of tax information, databases and publications, consultancy for governments and tax administrators, and training on international tax matters for the public and private sectors. IBFD clients include ministries, international corporations, legal and accountancy practices, banks, educational institutions and others who look to the IBFD as a first-class source of information. As an independent, not-for-profit research foundation, the IBFD offers objective and unbiased information. For more information go to [IBFD.org](https://www.ibfd.org).