**COMPONENTS OF SALARY STRUCTURE**

* **Some of the components of the salary structure include:**
* **Basic Salary**

The basic salary is the base income of an employee, comprising 35-50 % of the total salary. It is a fixed amount that is paid before any reductions or increases due to bonus, overtime or allowances. The basic salary is determined based on the designation of the employee and the industry in which he or she works in. Most of the other components, like allowances, are based on the basic salary. This amount is fully taxable.

* **Allowances**

Allowance is an amount payable to employees during the course of their regular job duty. It can be partially or fully taxable, depending on what type it is. Allowances provided and the limits on it will differ from company to company, according to their policies.

* **Dearness Allowance** - Dearness allowance is a certain percentage of the basic salary paid to employees, aimed at mitigating the impact of inflation. It is paid by the government to employees of the public sector and pensioners of the same.
* **House Rent Allowance** – A house rent allowance is that component of the salary which is paid to employees for meeting the cost of renting a home. It offers tax benefits to the employees for the sum that they pay towards their accommodation every year. Salaried individuals residing in rented homes can claim this exemption and reduce their tax liability.
* **Conveyance Allowance** - Conveyance allowance, also known as transport allowance, is a kind of allowance offered by employers to their employees to compensate for their travel expenses to and from their residence and workplace. Note - In Union Budget 2018, a standard deduction of Rs. 40,000 has been introduced in lieu of transport (Rs 19,200) and medical (Rs 15,000) allowances.
* **Leave Travel Allowance** - Leave travel allowance is eligible for tax exemption. It is offered by employers to their employees to cover the latter's travel expense when he or she is on leave from work. The amount paid as leave travel allowance is exempt from tax under Section 10(5) of Income Tax Act, 1961. Leave travel allowance only covers domestic travel and the mode of travel needs to be air, railway or public transport.
* **Medical Allowance** - Medical allowance is a fixed allowance paid to the employees of an organization to meet their medical expenditure. Note - In Union Budget 2018, a standard deduction of Rs. 40,000 has been introduced in lieu of transport (Rs 19,200) and medical (Rs 15,000) allowances.
* **Books and Periodicals Allowance** - Books and periodicals allowance is a type of allowance provided to employees for helping them meet the expenses associated with the purchase of books, periodicals, and newspapers. It is tax-exempt to the extent of actual expenditure incurred towards purchase of books and periodicals.
* **Gratuity**

Gratuity is a lump sum benefit paid by employers to those employees who are retiring from the organization. This is only payable to those who have completed 5 or more years with the company. The gratuity amount is paid in gratitude for the services rendered by the individual during the period of employment. According to the Payment of Gratuity Act, 1972, gratuity is calculated as 4.81% of the basic pay. Most firms with a workforce of 10 or more employees come under the Act.

* **Employee Provident Fund**

Employee Provident Fund is an employee benefit scheme where investments are made by both the employer and the employee each month. It is a savings platform that aids employees to save a portion of their salary each month, from which withdrawals can be made following a month from the date of cessation of service or upon retirement. At least 12% of an employee’s basic salary is automatically deducted and goes to the Employee Provident Fund every month. The contributions are maintained by the Employees Provident Fund Organization (EPFO).

* **Professional Tax**

Professional tax is a tax levied on the income earned by salaried employees and professionals, including chartered accountants, doctors, and lawyers, etc. by to the state government. Different states have varying methods of calculating professional tax. The maximum amount that is payable in a year is Rs. 2,500. Employers deduct profession tax at prescribed rates, from the salary paid to employees, and pay it on their behalf to the State Government. The revenue collected is used towards the Employment Guarantee Scheme and the Employment Guarantee Fund.

* **Perquisites**

Perquisites also referred to as fringe benefits, are the benefits that some employees enjoy as a result of their official position. These are generally non-cash benefits given in addition to the cash salary. Some examples of perquisites include provision of car for personal use, rent-free accommodation, payment of premium on personal accident policy, etc. The monetary value of perquisites gets added to the salary and tax is paid on them by the employee.

* **ESIC**

If a company has 10 or more employees (20 in case of Maharashtra and Chandigarh) whose gross salary is below Rs. 21,000 per month, then the employer is required to avail ESIC scheme for such employees. The employer's contribution will be 4.75% of gross salary, whereas the employee's contribution will be 1.75% of gross salary.