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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 component. 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.

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