Negotiating salary? 4 important tips

Meenakshi Subramaniam

When Sanjeev Verma took the offer to join a new company, he was quite happy with the cost-to-company salary that was offered to him.

However, after the first month, when the salary cheque came, he was shocked with the numbers. His actual take-home was slightly more than his previous salary. And,Verma is not alone.

There are many of us who get lured with the numbers that show in our CTC package, but when the actual take-home salary comes in our hand, it causes a lot of heartache. It is therefore very important that when you are negotiating the salary, you should have a clear idea about numbers. A good way to achieve this is by using tax saving strategies that would reduce your burden.

Ah! those slips that snip

The first thing to look for is the different heads in your salary package. Heads like performance incentive sound challenging, but they are always taxed. Special allowances, added with conveyance and phone reimbursement, also attract tax.

Often, there is a notion among salary-earners that a lesser basic pay and high allowances may bring down income tax burden. However, it is best if you avoid this approach. A reduced basic salary leads to a lower provident fund, which is a forced saving for your future.

Anyone who gets many allowances must combine all of them under a single head. Put car allowance, books reimbursement, house rent allowance, office travel allowance, phone, vehicle and staying in hotels under on head, which straight away lowers your tax bill. Call this consolidated allowance.

Allowances that help

Always go for conveyance allowance. A sum of Rs 800 a month is tax-free. Even if your office does not give conveyance allowance, you can ask for a reduced basic pay and additional conveyance allowance. This move can cut down tax outgo.

Daily allowance, wherever allowed, must be grabbed with both hands because it carries total tax exemption. Professional tax, up to Rs 2,500, is also unencumbered by tax. Also, office loans for car or personal reasons can be used to avoid taxation to a great extent.

Policies that pay

Employees State Insurance Scheme, if available, must be compulsorily availed. Unlike LIC schemes, the amount is absolutely free from income tax. Fidelity Guarantee Scheme is another insurance plan that is completely tax-free.

Even if you are contributing to a Public Provident Fund, a salaried individual must also opt for Employers Provident Fund, because this also doesn't attract tax. Many salaried people are unaware that a loan for medical treatment is exempt from income tax under Rule 3 A, but make sure that your medical insurance policy is not utilised.

Avoiding FBT

The fringe benefit tax can be avoided if you own a car and the company pays for maintenance and petrol bills. The most profitable way to claim HRA is to ask the company to take a house on lease, which is owned by any of your relatives. If it's your parents, who don't have any income, it works completely to your advantage.

It is because, on one hand, you claim HRA and they, having zero income, don't have to pay any tax. In fact, even if they have some income, but less than the stipulated base limit of Rs 220,000 a year (assuming they are retired), they would gain from the situation. The maximum benefit occurs when the rent is over 20 per cent of your salary.

When gift vouchers are given, insist on taking them under the employee welfare scheme.

Mobile phone bills are considered a perquisite and taxed, causing your office to fret a lot. You can again offer tax counselling by suggesting a simple trick.

The mobile phone bills can be placed under "recurring operative expenditure" head. All taxes are eliminated at one stroke. At home, leased phone landlines installed at the company's behest and cost, allows you to get rid of paying tax on calls.

Travel expenses and hotel stays are taxed under FBT. In fact, even a conference to discuss reducing tax incidence on perquisites will also be taxed! However, by not showing the expenditure as conference/seminar and calling it "convention" would remove the tax burden.

The office may want to give meals, breakfast or tiffin, but FBT fear precludes an employer from extending this perquisite to staff. Why not have an office "food and beverage" account? Show the claim in the income tax return.

The FBT will not apply, at all. Finally, soft furnishings for a house (such as curtains and table cloth), which give the abode a decent appearance for entertaining guests who drop in for official duties, can be shown as expenses. They also qualify for tax exemption.