

Bulletin

Are you aware?

New Job Creation can earn the Employer Additional Deduction of 30% under section 80JJAA of the Income-tax Act, 1961



Section 80JJAA of the Income-tax Act, 1961 ('the Act') was introduced with the objective of employment generating in the country. The provisions of earlier section 80JJAA of the Act had many restrictions and the section itself was narrow. To widen the coverage of section 80JJAA of the Act, the Finance Act, 2016 ('Finance Act') substituted the section with the new one covering as many employers as possible. These provisions also aim to promote cashless economy by mandating the employers make payments by banking channels only.

If you are a new undertaking or an existing undertaking and your Gross Total Income includes income under the head 'Profits & Gains from Business or Profession' to which Tax Audit Provisions under section 44AB are applicable; you can claim deduction of 30% of additional employee cost incurred in the course of such business during the relevant previous year, for a period of 3 assessment years; subject to the conditions prescribed in the section 80JJAA.

Deduction under section 80JJAA shall not be available in the following cases:

1. Business is formed by splitting up or reconstruction of the existing business
2. There has been reorganisation of the business by way of acquisition by transfer from any other person
3. There has been no increase in the total number of employees employed during the previous year as compared to the total number of employees employed as on the last day of the earlier previous year
4. Emoluments (Salaries and Other Employee Benefits) are paid otherwise than by Account Payee Cheque / Bank Draft or by Electronic Transfer (Bank Mode)

Conditions with respect to the Additional Employees:

1. New Employees should be employed during the previous year thereby increasing the total number of employees as employed on the last day of the earlier previous year.
2. Emoluments to such Additional Employees should not exceed Rs. 25,000/- per month.
3. Such Additional Employees should be employed for a period of 240 days or more during the relevant previous year.
4. An employee whose entire contribution is paid by the Government under the National Pension Scheme and an employee who does not participate in the Recognised Provident Fund are not covered.

Emoluments include any sum paid or payable to an employee in lieu of his employment. But, it does not include any contribution made by the Employer towards Provident Fund / Superannuation Fund. Emoluments also do not include any Retirement Benefits / Lump-sum consideration paid at the time of the termination of the employment.

Let us consider an example for better understanding.

ABC Ltd. started its operations in FY 2012-13. As on March 31, 2016, it had 82 employees. During the previous year 2016-17, it employed additional 20 employees. Salaries paid to each of these additional employees is Rs. 15,000/- per month. All the salaries were paid through Account Payee Cheques. Out of these 20 additional employees, 15 were appointed on 01 June 2016; while 5 were appointed on 01 December 2016. All the other conditions as prescribed under section 80JJAA of the Act have been complied with. Now, ABC Ltd. wants to know how much deduction can it claim under section 80JJAA for the previous year 2016-17 i.e. Assessment Year 2017-18.



The total number of employees as on the last day of the earlier previous year was 82. New additional employees satisfying the eligibility criterion set out in section 80JJAA equal to 20. However, out of these 20, only 15 were employed for 240 days or more. As such, deduction is restricted to 30% of the additional employee cost of only these 15 employees.

The deduction under section 80JJAA shall be calculated as below:

$$[15 \text{ Employees} \times \text{Rs. } 25,000 \times 10 \text{ Months} \times 30\% = \text{Rs. } 11,25,000/-]$$

Accordingly, ABC Ltd. shall be eligible to deduction of Rs. 11,25,000/- under section 80JJAA for 3 Assessment Year starting from Assessment Year 2017-18.

Other Requirement:

Along with the Return of Income, a separate report under Rule 19AB of the Income-tax Rules, 1962 should be submitted. This Report is to be prepared in Form 10DA and is to be signed by an Accountant as defined in the explanation to section 288 of the Act i.e. a Chartered Accountant.



Key Takeaways:

- Government is trying to facilitate job creation and employment generation through introduction of new section 80JJAA.
- Requirement of payment of Salaries (Emoluments) through bank mode only will help achieve cashless economy.
- Additional Deduction shall help the Organisations reduce their Employee Cost and thereby achieve better profitability.

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