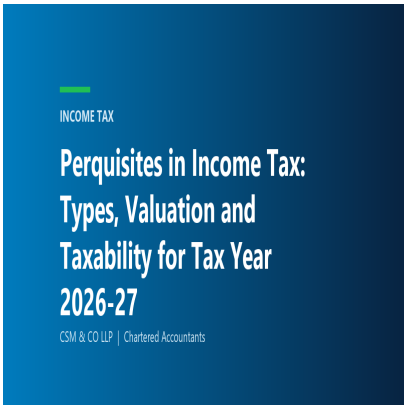

Perquisites in Income Tax: Types, Valuation and Taxability for Tax Year 2026-27

Description

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Quick summary

- A perquisite is a benefit your employer gives you because of your job, and it is taxed as salary at the value fixed by Rule 15 of the Income-tax Rules, 2026.
- The 2026 Rules raised several limits: free meals ?200 per meal, gifts ?15,000 a year, interest-free loans ?2,00,000, school fees ?3,000 per child a month, and the salary test for non-director employees ?4,00,000.
- Rent-free accommodation is valued at 10%, 7.5% or 5% of salary by city size, and hotel accommodation at 24% of salary.
- Employer contributions above ?7,50,000 a year to PF, NPS and superannuation are also a perquisite.

Salary is more than the money in your bank account. A house, a car, a cheap loan, free meals or shares given by your employer because of your job are perquisites, and they are taxed as part of salary. From Tax Year 2026-27 the definition is in section 17 of the Income-tax Act, 2025 and the valuation is in Rule 15 of the Income-tax Rules, 2026. For FY 2025-26 the 1961 Act and Rule 3 apply, with lower limits.

What counts as a perquisite? (section 17(1))

- the value of rent-free accommodation, and of accommodation at a concessional rent above the rent you pay,
- a benefit or amenity given free or at a concessional rate by a company to a director or a person with a substantial interest in it, or by any employer to an employee whose salary income in cash is more than ?4,00,000 (Rule 17; it was ?50,000),
- the value of shares or specified securities, including sweat equity, allotted free or at a concession,
- any other benefit or amenity prescribed,
- an obligation of yours that the employer pays, such as your personal bills,
- life insurance or annuity premium paid by the employer, other than for a recognised provident fund, approved superannuation fund or deposit-linked insurance fund, and
- the employer's contribution above ?7,50,000 in a tax year, taken together for the recognised provident fund, the NPS and an approved superannuation fund, and the yearly accretion on that excess.

What is not a perquisite? (section 17(2))

- Medical treatment of the employee or family in a hospital maintained by the employer.
- Medical expenses paid by the employer in Government, local authority or approved hospitals, and for prescribed diseases in hospitals approved by the Chief Commissioner (Rule 18).
- The employer's share of health insurance premium under an approved scheme, and the premium you pay that the employer reimburses.
- The cost of a vehicle used for the journey between home and the office.
- Medical treatment abroad and travel and stay abroad for the patient and one attendant, to the extent permitted by the RBI (and for travel, only if gross total income is within the prescribed limit).

Rent-free and concessional accommodation (Rule 15(2))

Case	Value
Government employee in Government accommodation	Licence fee set by the Government, less rent paid
Employer owns it: city with population above 40 lakh (2011 census)	10% of salary for the period occupied, less rent paid
Employer owns it: city between 15 and 40 lakh	7.5% of salary, less rent paid
Employer owns it: other areas	5% of salary, less rent paid
Employer rents or leases it	Lower of the rent paid by the employer and 10% of salary, less rent paid by the employee
Hotel accommodation	Lower of the hotel charges and 24% of salary, less rent paid. Nil for up to 15 days in all on a transfer

Further points: if the accommodation is furnished, add 10% a year of the cost of the furniture and appliances (or the actual hire charges). If the same accommodation continues for more than one tax year, the value cannot

rise above the first year's value adjusted by the Cost Inflation Index. On a transfer, if you keep the old accommodation, only the lower-valued one counts for up to 90 days. Temporary accommodation at a mining, oil, project, dam or power site (up to 1,000 sq ft, at least eight kilometres from municipal limits, or in a remote area) is excluded.

Motor car

A car provided for personal use has a value for each month in Table II of Rule 15(3): ?5,000 (plus ?3,000 for a chauffeur) for a car up to 1.6 litres or an electric vehicle, and ?7,000 (plus ?3,000) above 1.6 litres, where the employer meets the running costs; ?2,000 and ?3,000 (each plus ?3,000 for a chauffeur) where you meet the running costs. A car used wholly for official duties has no value if journey records and the employer's certificate are kept. The full table is in our separate post on cars provided by employers.

Services, utilities and education (Table III)

Benefit	Value
Sweeper, gardener, watchman or personal attendant	Salary paid for those services, less what you pay
Gas, electricity or water bought from an outside agency	The amount the employer pays, less what you pay
Gas, electricity or water from the employer's own resources	Manufacturing cost per unit, less what you pay
Free or concessional education, in general	Employer's expenditure, less what you pay
Education in the employer's own school, or free education in another institution	Cost of similar education nearby, less what you pay, only where the value is more than ?3,000 per child per month (it was ?1,000)
Free travel by a transport employer (not an airline or the railways)	The value offered to the public, less what you pay

Other benefits (Table IV)

Benefit	Value and exemption
Interest-free or concessional loan	Interest at the State Bank of India rate on the first day of the year for the same type of loan, on the maximum monthly balance, less interest you pay. No value if the loans total ?2,00,000 or less (it was ?20,000), or if they are for medical treatment of the diseases in Rule 18 (to the extent not reimbursed by insurance)

Benefit	Value and exemption
Holiday travel, stay and other expenses paid by the employer	The employer's expense. For an official tour extended into a vacation, only the vacation part. LTA under Rule 277 is outside this
Free food and non-alcoholic drinks	The employer's expense, less what you pay. No value for up to ?200 per meal (it was ?50) at the office or through vouchers usable only at eating places, for tea or snacks in working hours, or for free food in a remote area or offshore installation
Gift, voucher or token	The amount of the gift. Nil if the total in the tax year is below ?15,000 (it was ?5,000)
Credit card expenses, including fees, paid or reimbursed by the employer	The amount, less what you pay. No value for expenses wholly for official purposes with records and the employer's certificate
Club expenses and fees	The employer's expense, less what you pay. Initial fee for corporate membership is excluded. No value if wholly for business and facilities are open to all employees
Use of a movable asset (not a laptop, computer, tablet or mobile phone)	10% a year of its cost, or the rent paid by the employer, less what you pay
Transfer of a movable asset to the employee	Cost less wear and tear (50% a year for computers and electronics, 20% for motor cars, 10% for other assets, each on the reducing balance method), less what you pay
Any other benefit	Cost to the employer at arm's length, less what you pay. Telephone and mobile phone expenses are excluded

Shares and stock options

The value of specified securities or sweat equity shares allotted free or at a concession is taxed as a perquisite on the date the option is exercised. For a listed share, the fair market value is the average of the opening and closing price on the exchange with the highest volume on that date, and where there was no trading, the closing price on the nearest earlier date. Unlisted shares are valued under the method in the rule. See our posts on ESOP taxation.

Tax paid by the employer

Where the employer pays the tax on a non-monetary perquisite at its option, that tax is itself not added to your income (Schedule III, Sl. No. 10).

Example

Priya's salary for the rule is ?10,00,000. Her employer, in a city with 20 lakh population (2011 census), provides unfurnished accommodation it owns, and she pays no rent. She also gets a ?4,00,000 interest-free loan that is outstanding for the year and a ?12,000 gift voucher at Diwali.

Item	Taxable value
Accommodation: 7.5% of ?10,00,000	?75,000
Loan: interest at the SBI rate on ?4,00,000 (the loan is above ?2,00,000), less nil interest paid	Interest at the SBI rate for that type of loan
Gift voucher: ?12,000 is below ?15,000	Nil

Keep records

The employer shows perquisites in the salary statement and in the Form 16 of the employee. Employees should check each figure against the valuation rule, because wrong valuation, such as using the old ?50 per meal limit, over-states income.

Frequently asked questions

What is a perquisite?

A benefit or amenity given by the employer because of the employment, for example rent-free housing, a car for personal use, a loan at a low rate, or shares. It is taxed as part of salary.

How is rent-free accommodation valued?

If the employer owns it: 10% of salary in cities with population above 40 lakh (2011 census), 7.5% in cities between 15 and 40 lakh, and 5% elsewhere, less rent paid. If the employer rents it: the lower of the rent paid and 10% of salary, less rent paid by you.

When is an employer loan taxable?

When the interest-free or low-interest loans total more than ?2,00,000. The value is interest at the State Bank of India rate on the maximum monthly balance, less interest you pay. Loans for specified diseases

are not taxed.

Are free meals taxable?

Not if the value is within ?200 per meal at the office or through vouchers usable only at eating places, or if it is tea or snacks in working hours.

Are gifts from the employer taxable?

Gifts, vouchers or tokens are taxable only if their total in the tax year is ?15,000 or more. Cash gifts are always salary.

Official sources

- Income Tax Department: Income-tax Act 2025 as amended by Finance Act 2026 (section 17)
- Income Tax Department: Income-tax Rules, 2026 (Rules 15 to 18)

Related reading

- What are the 5 Heads of Income Tax?
- Telephone and Internet Allowance: Is It Taxable?
- Tax-Free Income in India: Complete List for Tax Year 2026-27

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