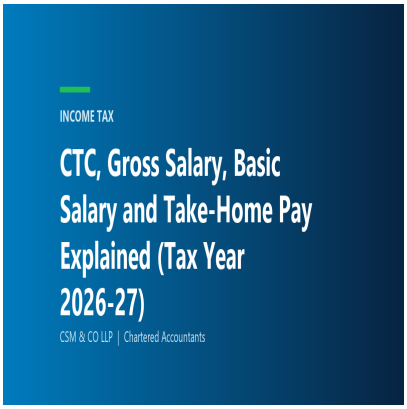

CTC, Gross Salary, Basic Salary and Take-Home Pay Explained (Tax Year 2026-27)

Description

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Quick summary

- CTC (cost to company) is what the employer spends on you in a year; gross salary is the pay before deductions; basic salary is the fixed core of it; take-home is what reaches your bank.
- “Salary” for income tax is wider than the payroll word: section 16 includes wages, pension, gratuity, commission, perquisites, leave encashment and more.
- Basic plus dearness allowance (if the terms provide) is the base for gratuity and the HRA exemption, so a low basic changes more than the payslip.
- Employer’s PF, NPS and superannuation contributions are tax free up to ?7.5 lakh a year in total; the new regime gives a ?75,000 standard deduction.

A job offer quotes a CTC, the payslip shows a gross salary, and the bank credit is much smaller. These terms are payroll language, not tax law, and employers use them a little differently. This post fixes the meaning of each, shows how they fit together, and explains what the Income-tax Act, 2025 calls salary.

The four numbers

Term	Meaning
CTC (Cost to Company)	The total yearly cost of you to the employer: pay, allowances, variable pay, the employer’s PF contribution, the gratuity provision, insurance and other benefits
Gross salary	The pay credited or due to you before any deduction: basic, HRA, allowances, variable pay
Basic salary	The fixed core of gross salary, without allowances, bonus or perquisites

Term	Meaning
Take-home (net) pay	Gross salary less your PF contribution, professional tax, TDS and other deductions

Gross salary is roughly CTC less the employer's PF and the gratuity provision, because those are costs to the employer that you do not receive as monthly pay. Check your offer letter, since some employers show variable pay and benefits differently.

What "salary" means for income tax

Under section 16 of the Income-tax Act, 2025, "salary" includes:

- wages,
- any annuity or pension,
- any gratuity,
- any fees or commission,
- perquisites,
- profits in lieu of, or in addition to, salary or wages,
- any advance of salary,
- any payment for leave not availed of (leave encashment),
- the taxable annual accretion to a recognised provident fund and certain transferred balances,
- the employer's contribution to the notified pension scheme (NPS).

Tax is then charged on the **net salary** after the deductions in section 19: the standard deduction (?75,000, or the salary if less, under the new regime; ?50,000 under the old regime), professional tax (old regime only) and the retirement and exempt items such as gratuity.

Some payments in the CTC are not in your taxable salary at all. The **employer's contribution** to a recognised provident fund, the notified pension scheme and an approved superannuation fund is a perquisite only to the extent the total is above **?7,50,000** in a year (section 17(1)(h)).

Why basic salary matters more than it looks

Basic salary, together with dearness allowance if the terms of employment provide for it, is the base used for several things:

- **Provident fund:** the usual contribution is a percentage of basic plus dearness allowance.
- **Gratuity:** worked out on the last drawn monthly wages, which include basic and dearness allowance (see our post on gratuity).
- **HRA exemption (old regime only):** the least of the HRA received, the rent paid less 10% of salary, and 50% of salary in Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Ahmedabad and Bengaluru (40% elsewhere). Here "salary" means basic pay plus dearness allowance if the terms provide, and excludes all other allowances and perquisites (Rule 279).

A low basic with a large special allowance cuts the PF and gratuity base and the HRA exemption, while a high basic increases all three but also raises your PF deduction and reduces your monthly take-home. Neither is right for everyone; there is no legal percentage of CTC.

Worked example (tax year 2026-27, new regime)

CTC is ?21,00,000 a year.

Component	Amount (?)
Basic	8,40,000
HRA	3,36,000
Special allowance	6,32,800
Variable pay	1,50,000
Gross salary	**19,58,800**
Employer's PF (12% of basic)	1,00,800
Gratuity provision	40,400
CTC	**21,00,000**

Tax under the new regime (section 202):

- Gross salary 19,58,800 less standard deduction 75,000 = **taxable income ?18,83,800**. (Professional tax is not deductible in the new regime, and the employer's PF is within the ?7.5 lakh limit.)
- Tax: 5% on ?4,00,000 to ?8,00,000 = 20,000; 10% on ?8,00,000 to ?12,00,000 = 40,000; 15% on ?12,00,000 to ?16,00,000 = 60,000; 20% on ?16,00,000 to ?18,83,800 = 56,760. Total ?1,76,760.
- Add 4% cess of ?7,070 = **?1,83,830**. No rebate applies as income is above ?12 lakh.

Take-home pay:

Item	Amount (?)
Gross salary	19,58,800
Less: employee’s PF (12% of basic)	1,00,800
Less: professional tax (assumed)	2,400
Less: income tax with cess	1,83,830
Take-home for the year	**16,71,770**
Per month	about 1,39,314

The employer’s PF and gratuity are outside gross salary but inside CTC, which is why take-home looks far below the headline figure.

Practical points

- Ask for the **break-up of CTC** in writing, including what is fixed, what is variable and what is a benefit that may never be paid out in cash.
- Variable pay shown in CTC is paid only when targets are met. Count only the fixed part when you plan your monthly budget.
- Reimbursements and perquisites should be checked against Rule 15 and the new limits (meals ?200 a meal, gifts ?15,000). See our post on perquisites.
- If you can choose between regimes, compare both with your actual HRA, 80C and similar deductions.

Frequently asked questions

What is the full form of CTC?

Cost to Company. It is the total yearly cost of an employee to the employer: pay, allowances, bonus, employer’s PF, gratuity and any benefits.

What is the difference between CTC and gross salary?

CTC includes costs that are not paid to you as salary, such as the employer’s PF and the gratuity provision. Gross salary is what is paid to you before deductions, so it is CTC less those items.

How do I get from gross salary to take-home pay?

Deduct your own PF contribution, professional tax, TDS and any other deductions such as insurance or NPS that your employer recovers.

What percentage of CTC is basic salary?

There is no legal percentage. Employers commonly keep it around 40% to 50% of CTC. A higher basic raises PF, gratuity and the HRA exemption base, but also increases the pay that is fully taxable.

What does “salary” include for income tax?

Under section 16 of the Income-tax Act, 2025: wages, any annuity or pension, gratuity, fees or commission, perquisites, profits in lieu of salary, advance salary and leave encashment, along with certain provident fund and pension scheme items.

Is the standard deduction available in the new regime?

Yes, ?75,000 or the salary, whichever is less, under the new regime. In the old regime it is ?50,000 (section 19(1), serial 2).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 16, 17, 19, 202)
- Income Tax Department: Income-tax Rules, 2026 (Rule 279)

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Date
11/10/2026
Date Created
12/06/2026
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