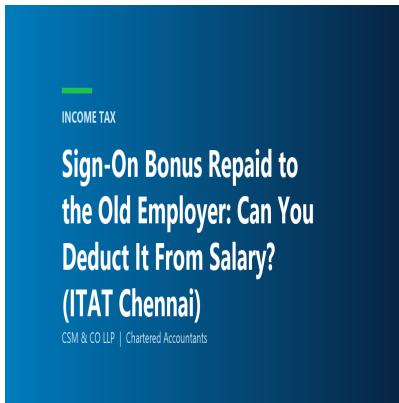




## Sign-On Bonus Repaid to the Old Employer: Can You Deduct It From Salary? (ITAT Chennai)

### Description

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#### Quick summary

- A sign-on bonus is salary and is taxed when you receive it.
- In *S.S.N. Ravi v ACIT* (ITAT Chennai, 06/05/2016), an employee who repaid a ₹25 lakh sign-on bonus to his old employer on leaving early was not allowed to reduce his taxable salary by that amount.
- The Tribunal held that the bonus was a revenue receipt, he left voluntarily, and the Act has no provision to deduct such a repayment from salary.
- Section 19 of the Income-tax Act, 2025 lists the deductions from salary, and a repaid bonus is not one of them.

A sign-on bonus is a payment to attract you to a job. Most contracts add a clawback: if you leave within a year, you repay it. The tax question that follows is a hard one. You were taxed on the bonus when you got it. Can you reduce your taxable salary when you pay it back?

### The tax position on receipt

A sign-on bonus is paid by the employer because of the employment. That makes it salary. Section 16 of the Income-tax Act, 2025 says salary includes wages, fees or commission, perquisites and profits in lieu of salary, and a joining bonus falls in these. The employer deducts TDS under section 392 when it pays the bonus.

### The case: *S.S.N. Ravi v ACIT*

**Forum and date:** Income Tax Appellate Tribunal, Chennai, order dated 06/05/2016, I.T.A. No. 933/Mds/2015, assessment year 2008-09.

#### Facts

- The taxpayer joined Barclays in November 2006 and received a sign-on bonus of ₹25 lakh in FY 2006-

07, which he included in his income of that year.

- The bonus was repayable if he left within one year.
- He left on 31/10/2007, before the year was complete, and moved to Deutsche Bank. Deutsche Bank paid him ₹25 lakh, which he used to repay Barclays.
- In his return for FY 2007-08 he reduced his salary by ₹25 lakh. The Assessing Officer added it back.

**Decision.** The Tribunal dismissed the appeal. In short:

- The sign-on bonus is a **revenue receipt** of the nature of employment income.
- The employee **left voluntarily**; he was not terminated.
- Section 17(1) of the 1961 Act made no provision for reducing salary by a refund of the bonus.
- The amount that the new employer paid to cover the repayment could not be treated as compensation for the lost bonus.
- The ₹25 lakh could not be reduced from taxable income.

## The position under the Income-tax Act, 2025

The 2025 Act has the same structure. Section 19(1) lists the deductions from salary: professional tax, the standard deduction, the retirement exemptions (gratuity, commutation of pension, leave encashment and similar) and compensation items. **A repayment of a bonus is not in that list.**

The ruling is a Tribunal order on its facts, in a case where the employee left voluntarily and a new employer paid the sum. Do not treat it as settling every repayment: a different fact pattern could be argued differently.

## Practical points

1. **Read the clawback clause** before you sign. Check the repayment period and whether the repayment is of the gross amount or of the amount net of tax.
2. **If your new employer reimburses the repayment**, remember that the reimbursement is a payment from an employer, so expect it to be taxed as salary, with no deduction for the amount you repay.
3. **Take advice** before claiming a deduction for a repaid bonus. If you claim it, keep the contract, the repayment proof and the old employer's acknowledgement.

## Frequently asked questions

### Is a sign-on bonus taxable?

Yes. It is a payment from the employer in connection with employment, so it is salary under section 16 of the Income-tax Act, 2025 and taxed in the year you receive it, with TDS.

### Can I deduct a sign-on bonus that I repay to my old employer?

The Chennai Tribunal held that you cannot reduce your taxable salary by a repaid sign-on bonus when

the employee left voluntarily. The Act does not provide a deduction for the repayment.

### Does it matter that my new employer reimbursed the repayment?

In S.S.N. Ravi the new employer paid the employee the amount to repay. The Tribunal treated it as a revenue receipt, not a capital receipt, and the employee was taxed on it as well.

### Which case is this?

S.S.N. Ravi, Chennai v ACIT, ITAT Chennai, order dated 06/05/2016, I.T.A. No. 933/Mds/2015, assessment year 2008-09.

### What should I do before signing a sign-on bonus clause?

Read the clawback terms and ask who bears the tax if you have to repay. If a new employer will reimburse the repayment, ask for advice on how that payment will be taxed in your hands.

## Official sources

- [ITAT Chennai: S.S.N. Ravi, Chennai v ACIT, order of 06/05/2016 \(I.T.A. No. 933/Mds/2015\)](#)
- [Income Tax Department: Income-tax Act, 2025 \(sections 16 and 19\)](#)

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