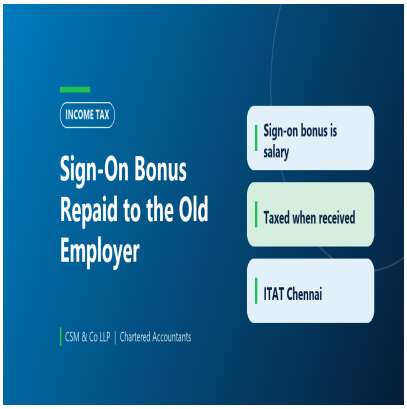

Sign-On Bonus Repaid to the Old Employer: Can You Deduct It From Salary? (ITAT Chennai)

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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