

SALARIES

(Sections 15 to 17)

CHAPTER 1 - INTRODUCTION

The Chargeability [Section 15]

Point 1:





Any income is chargeable to tax under the head Salaries only if there exists an employer and employee relationship between payer and payee.

Point 2:

The method of Accounting to be followed under Salaries is due or receipt basis whichever is earlier.

Question 1: Point 1 explained

State whether the following are taxable under the head Salaries or not:

1. Auditor		Audit fees	
2. Firm		Partner's Salary	
3. Govt. of India		MP's Salary	
4. Employee retires- receives compensation / retirement benefits from employer. - Employee dies- legal heirs receives compensation.			
5. Company		Director's Fees/Remuneration	
A. Remuneration for day to day working in organization.			
B. Board meeting fees for representing share holder.			

Concept Capsule 2: Point 2 explained

1. Mr. Chatur receives Salary of March 2020 in the month of April 2020.

→ Salary is due in the Month of March 2020

Salary is received in the month of April 2020

Taxable in → Due or Receipt whichever is earlier i.e. March 2020

2. Sanatanu receives Salary of April 2020 in the month of March 2020.

→ Salary is due in the Month of April 2020

Salary is received in the month of March 2020

Taxable in → Due or Receipt whichever is earlier i.e. March 2020

Computation of salary in graded system

Students may find salary structure given in the problem as 12000-500-17000-800-20200 from 1.4.2015. Such a salary structure implies that basic salary of the employee would start from 12000. Thereafter he will get an annual increment of ₹500 up to ₹17000. Then from 17000 his salary would increase at a rate of ₹800 p.a. upto ₹20200. Once the salary reaches ₹20200 he will not get any further increment till he is placed in other grade.

Question 2: Employee was appointed on 01-04-2016 at a salary structure of 10,000 – 2000 – 14,000 – 3,000 – 23,000. Compute salary for P.Y. 2019-20.

Solution:

2016-17 = 10,000 p.m.

2017-18 = 12,000 p.m.

2018-19 = 14,000 p.m.

2019-20 = 17,000 p.m

Salary for P.Y 2019-20 = 17,000 X 12 = ₹ 2,04,000

Question 3: Employee appointed on 1-07-2016 at a salary structure of 10,000 – 2,000 – 14,000 – 3,000 – 23,000. Compute salary for P.Y. 2019-20.

Solution:

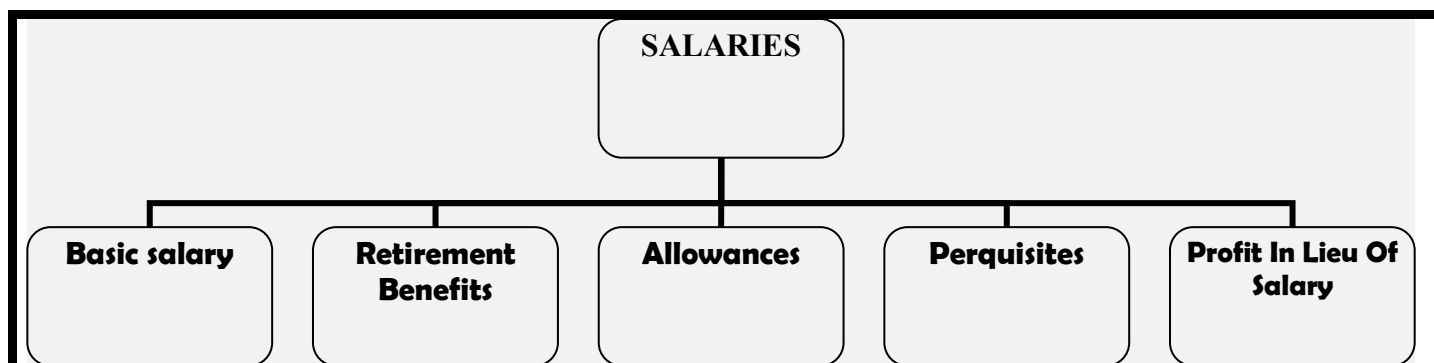
1.07.16 – 30.06.17 = 10,000 P.M

1.07.17 – 30.06.18 = 12,000 P.M.

1.07.18 – 30.06.19 = 14,000 P.M.

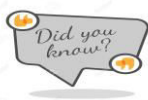
1.07.19 – 30.06.20 = 17,000 P.M.

Salary for April 2019 to March 2020 = (14,000 X 3) + (17,000 X 9) = ₹ 1,95,000



COMPUTATION OF TAXABLE SALARIES OF MR. X FOR A.Y. 2020-21 [P.Y. 2019-20]

PARTICULARS	AMOUNT (₹)	AMOUNT(₹)
(1)BASIC SALARY		XXXX
1		
(2) ALLOWANCES		XXXX
(3) PERQUISITES		XXXX
(4) PROVIDENT FUND		XXXX
(5) RETIREMENT BENEFITS		XXXX
GROSS SALARY →		XXXX
LESS: DEDUCTION U/S 16		
STANDARD DEDUCTION	XXX	
PROFESSIONAL TAX	XXX	
ENTERTAINMENT ALLOWANCES	<u>XXX</u>	<u>XXXX</u>
(FOR GOVT. EMPLOYEE)		
		XXXX
TAXABLE SALARIES →		

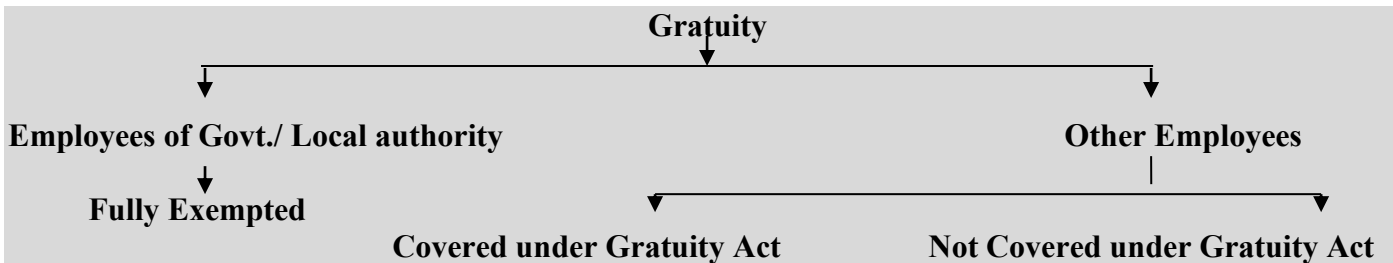


Salary, allowances, Perquisites, pension etc. received from UNO are fully exempt by virtue of section 2 of the United Nations (Privileges and Immunities) Act, 1947.

CHAPTER 2: RETIREMENT BENEFITS

(A) GRATUITY

Gratuity is a lump sum payment which is given to employee on retirement or on resignation or to legal heirs on his death, in appreciation of past services. If it is received by employee then it is taxable under salaries or if it is received by the legal heirs then it is taxable under other sources in the hands of such legal heirs. The taxability of gratuity under salaries/other sources is subject to the following exemptions given u/s. 10(10) -



In case of private organization it is mandatory to give gratuity if there are 10 or more employees in the organization or in case of factory. In such cases, we say that employee is covered under Gratuity Act. Where there are less than 10 employees, it is not compulsory to give gratuity. The employer may give it voluntarily, in that case employee is not covered under Gratuity Act.

Employees covered under the payment of Gratuity Act, 1972

Least of the following shall be exempted U/s 10(10) and balance of gratuity received is taxable:

- (i) The amount of gratuity actually received
- (ii) $(15/26 \times \text{last drawn salary}) \times \text{No. of years of service or part thereof in excess of 6 months}$

[However in the case of an employee who is employed in a seasonal establishment and is not so employed throughout the year, the exemption shall be for 7 days wages for each season.]

- (iii) ₹20,00,000

Notes:

- (1) Year of service or part thereof in excess of 6 months

For Example:

<u>No. of years worked</u>	<u>No. of years for Gratuity Calculation</u>
(1) 20 years and 11 months	21 years
(2) 20 years and 5 months	20 years
(3) 20 years and 6 months	20 years

- (2) Last drawn salary means salary at the time of retirement.

- (3) Under Payment of Gratuity Act, month is considered to be of 26 days.

- (4) Salary = Basic + D.A (Dearness Allowances)

Other Employees
(Employees not covered under The Payment of Gratuity Act, 1972)

Least of the following shall be exempted and balance of gratuity received is taxable:

1. Actual amount of gratuity received
2. $\frac{1}{2} \times \text{Average Salary of Last 10 months} \times \text{Number of completed year of service.}$
3. ₹20,00,000

Notes:

1. Only completed years are to be considered

For example- if employee works for 25 years 10 months, then it will be considered as 25 years.

2. Month is considered to be of 30 days.

3. Average salary of last 10 months is calculated excluding the months of retirement.

Suppose, if an employee retires in November 2019 (whether on 1st Nov or 30th Nov), then the average salary from Jan 2019 to Oct 2019 shall be considered.

4. Salary = Basic + D.A (If forming part of salary/retirement benefits/terms of employment so provide)
 + Commission based of fixed percentage of turnover achieved by employee.

Question 4: Whether the following commissions are covered in the meaning of salary-

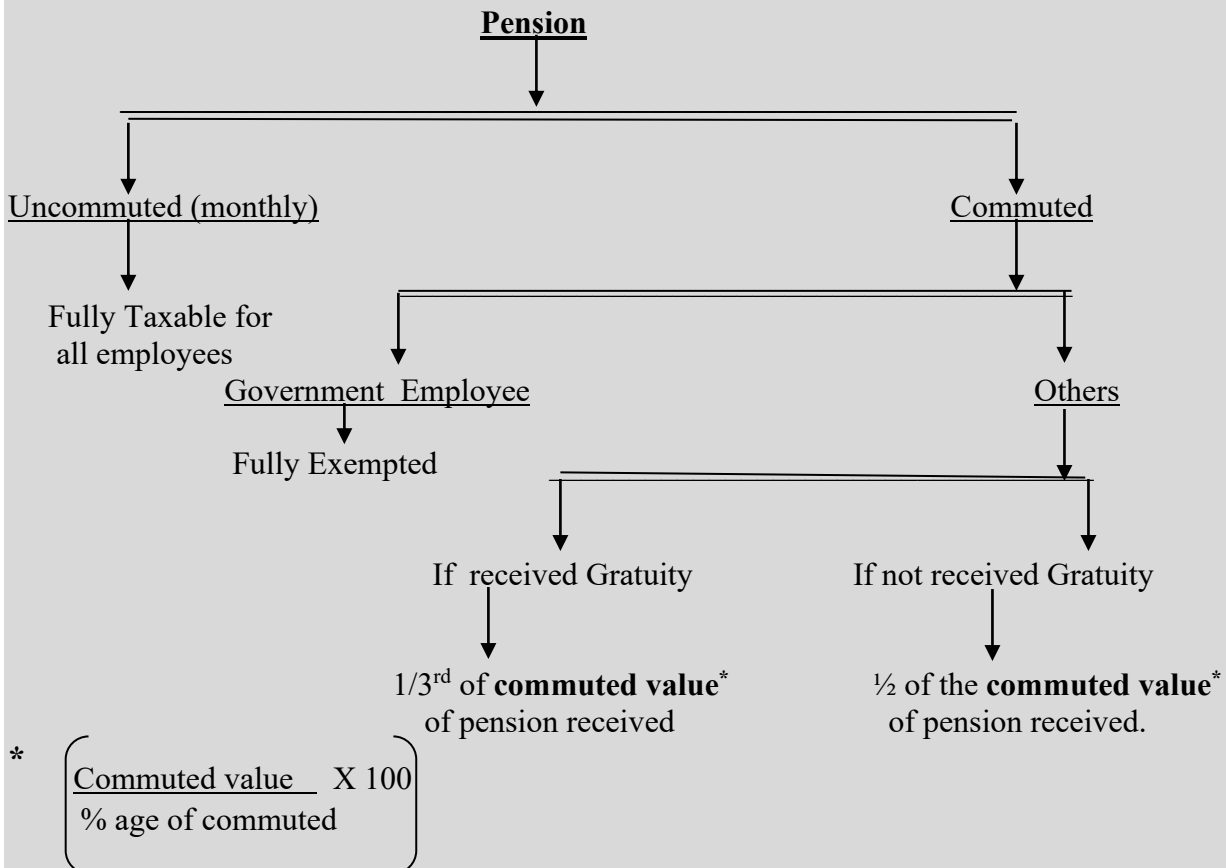
Method of Payment of Commission	Taken or not in Meaning of Salary
₹1,000 per month	
1% of Gross Profit/1 % of Net Profit	
1% of Sales achieved by the employee	

-:Dearness Allowances:-

An allowances which is given to employee to meet out the increased cost of living. If both the employer and employee agree that dearness allowances must be included in calculation of retirement benefits then, D.A forms part of salary, but if they have agreed that D.A should not be included in the calculation of retirement benefits then, D.A does not form part of salary.

(B) PENSION

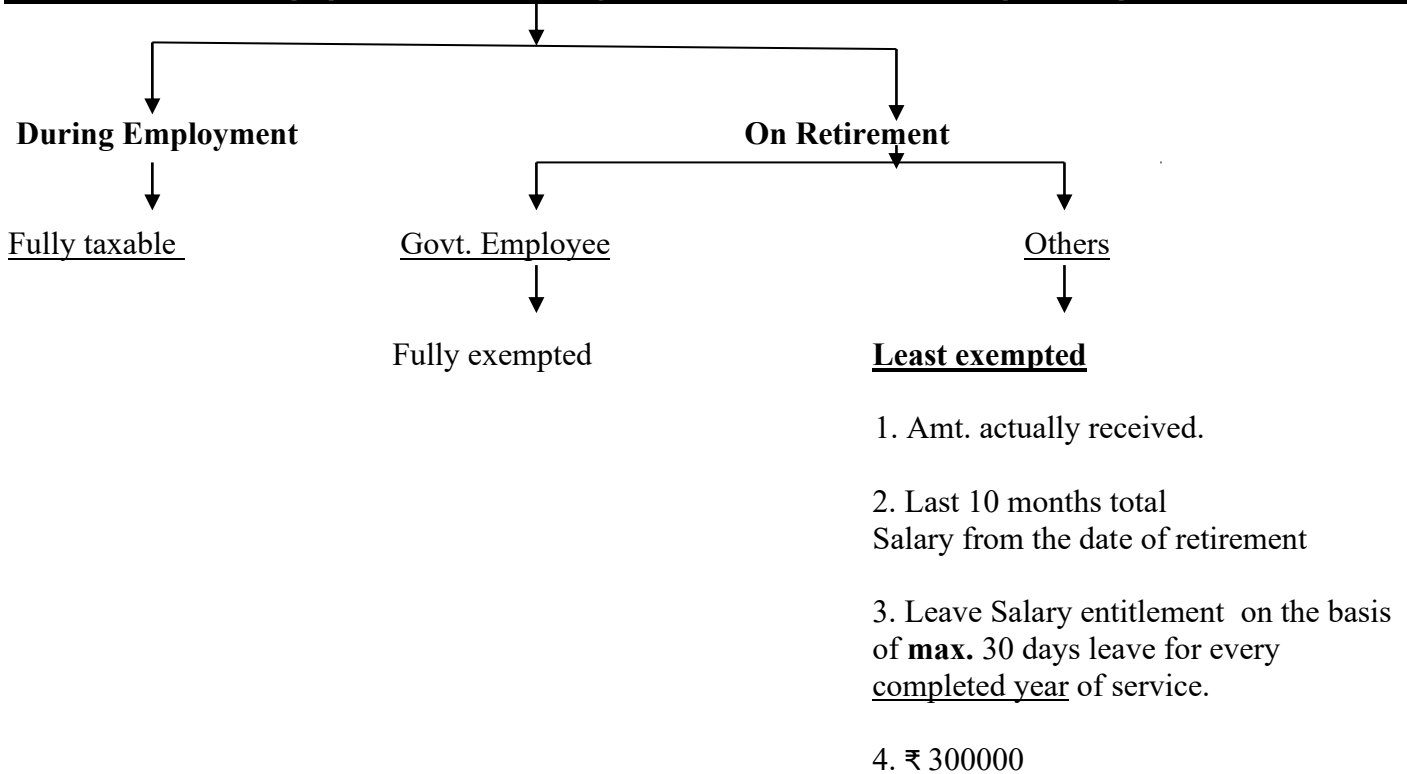
Pension is the payment made by the employer after the retirement/death of the employee as a reward for the past service. Pension is normally paid as a periodical payment on monthly basis. But sometimes pension is allowed to be commuted i.e. a lump sum amount is given as against monthly pension. Where the employee dies then his family members receive pension. This is known as Family pension and is taxable under the head Other Sources and not under Salary. The treatment of pension is different in both the situations:



Question 5: Mr. X retired on 1.6.2019 and his pension was fixed at ₹ 5,000 p.m. On 1.10.2019 he got commuted pension of ₹ 4,000 for ₹ 1,20,000. Compute taxable pension, if he received gratuity also.



(C) Leave Salary [Exemption u/s 10(10AA)]



Class Notes:

Certain organizations allow certain specified number of days of leave to their employees during a particular year. But if an employee without taking the leave works extra in the organization then for such extra work the employee gets some extra money from the organization. This extra money is known as Leave Salary. It is at the option of the employee to take the leave salary during the employment or to take it at the time of retirement.

Computation

(1) In point (2) above, last 10 months total salary is calculated from the date of retirement. Suppose, if an employee retires on 15 November 2019, then the total salary from 15th Jan 2019 to 15th Nov 2019 shall be considered.

(2) For computing leave Salary in point (3) above:

i) Total Leave is calculated on the basis of maximum 30 days i.e., if an organization allows 45 days leave, then we consider leave as 30 days and if an organization allows 25 days leave, then we consider leave as 25 days only.

ii) Only completed year of service is to be considered. i.e., if employee works for 25 years 10 months, then it will be considered as 25 years.

iii) Leave encashment is computed by considering Average salary of last 10 months from the date of retirement.

iv) One month is considered as 30 days.

3. Salary = Basic + D.A (If forming part of salary/retirement benefits/terms of employment so provide)
+ Commission based on fixed percentage of turnover achieved by employee.

Question 6: Mr. Mitra, an employee of XYZ Ltd. retired from the company on 30.11.2019. At the time of his retirement he received ₹225000 as leave salary from his employer. From the following particulars calculate the taxable amount of leave encashment:

(i) Salary at the time of retirement p.m.	₹10,000
(ii) Period of service	25 Years and 10 months
(iii) Leave Entitlement for every completed year of service	40 days
(iv) Leave availed while in service	300 days
(v) Unavailed leave at the time of retirement	700 days
(vi) Average salary for the last 10 months till November	₹9,000



Computation of Taxable Leave salary

Particulars	Amount(₹)	Amount (₹)
Leave Salary Received		
Less: Exempted under section 10(10AA) (Least of the following)		
(1) Amount Actually received		
(2) Last 10 Months Total salary from the date of retirement		
(3) Leave salary entitlement as per Income Tax Rules		
(4) Maximum Exemption Limit		
Taxable leave salary		

(D) Voluntary Retirement Scheme [Section 10(10C) read with rule 2BA]

VRS is given by those organization where there is surplus numbers of employees. For example, if an organization required 1000 employee but it has 1200 employees, then it can give offer for Voluntary retirement to such surplus 200 employees and give some compensation to them.

Tax implication of VRS compensation in the hands of employee:

1. VRS compensation received by employees of partnership firm, sole proprietorship concern and directors of a company or directors of a co-operative society are always taxable under the head “Salaries”.
2. However, VRS received by employees of any Company, Co-operative society, Govt./local authority/Govt. Body, IIT/other notified university such as Delhi university, Calcutta university etc. shall be taxable after giving the following exemptions -

Exemption : Least of the following:

- Amount actually received
- 3 months salary for every completed year of service
- Salary at the time of retirement X No. of months service left for retirement
- ₹5,00,000.

Conditions: The above exemption is given subject to the following conditions as stated in Rule 2BA -

1. The employee has completed 10 years of service or 40 years of age (this condition does not apply for public sector Company's voluntary separation scheme)
2. It applies to all employees, including workers and executives except, to directors of a company or co-operative society.
3. The vacancy caused by VRS should not be filled up and VRS should cause an overall reduction in the existing strength of the employees.

Note: The assessee shall have an option either to claim exemption under the above provisions for VRS or to claim relief U/s 89 but not both

MEANING OF SALARY

Basic Salary
+
D.A (if forming part of retirement benefits)
+
Commission based on fixed percentage of turnover achieved by the employee.

Question 7: John is employed in a public sector company and is paid a sum of ₹ 6,00,000 on Voluntary retirement from service. The normal age of retirement in the company is 60 and John, who was 45 at the time of retirement had completed 20 years of service. His monthly salary at the time of retirement was as follows:

Basic Pay ₹ 10,000; DA (forming part of salary) ₹ 3,000; What is the amount of compensation taxable under the Act?



Assessee: Mr. John
Status: Individual

Previous Year : 2019-2020
Assessment Year: 2020-2021

Computation of Taxable amount of VRS

PARTICULARS	AMOUNT	AMOUNT
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VRS Received

Less: Exempted U/s 10(10C) – Least of the following

- (i) Amount actually received
- (ii) 3 months salary for every completed year of service
- (iii) Salary at the time of retirement x No. of months service left for retirement
- (iv) Maximum Exemption Limit

TAXABLE VRS →

RETIREMENT BENEFIT FROM TWO OR MORE EMPLOYERS

1. VRS: With respect to VRS , exemption is available only once. If VRS is received for the second time it becomes fully taxable. Suppose in 2004-05 the assessee received VRS exemption of ₹ 1 lakhs. If he again receives VRS in 2019-2020 it shall be fully taxable.

2. Gratuity & Leave Salary: The exemptions in respect of gratuity and leave salary can be availed more than once but every successive time the maximum exemption limit is reduced by amount exempted earlier.

For example: If an employee has received exemption for gratuity ₹ 1,00,000 and he again receives gratuity on retirement / resignation then he shall again get exemption but the maximum exemption limit shall be ₹ 19,00,000 (i.e, ₹ 20,00,000 - ₹ 1,00,000)

CHAPTER 3: ALLOWANCES

[FIXED PAYMENT FOR A SPECIFIC PURPOSE]

A. House Rent Allowance [Exemption u/s 10(13A) read with rule 2A]

Sometimes employer provides to his employee an allowance to meet his house rent expenses. This house rent allowance is exempt U/s 10(13A) to the extent of least of the following:

1. Amount Actually Received
2. Rent paid – 10% of Salary
3. 50% of the salary where the residential house is situated at Mumbai, Kolkata, Delhi, Chennai and 40% of the salary if the house is situated at any other place.

However no exemption shall be available if the employee has not actually incurred expenditure on payment of rent or stays in his own accommodation.

Meaning of Salary: Basic + D.A (if the term of employment so provide) + commission based on fixed percentage of turnover achieved by the employee. (Salary is to be taken on due basis)

Question 8: Mr. X is employed with XYZ Ltd. on a basic salary of ₹ 5000 p.m. He is also entitled to a dearness allowance of 5% of basic salary. He is entitled to HRA of ₹ 3000 p.m. He takes an accommodation on rent in Kolkata and pays ₹ 2500 p.m. as rent for the accommodation. Compute his taxable HRA.

Assessee: Mr. X

P.Y.: 2019-20

Status: Individual

A.Y.: 2020-21

Particulars	Amount (₹)	Amount (₹)
House Rent Allowances Received		36,000

Less: Exemption available U/s 10(13A)

Least of the following :

(i) Amount actually received	36,000	
(ii) Rent paid (-) 10% of salary:		
(a) Rent paid 2500 x 12	30,000	
(b) 10% of Salary (5000 +250) x 12	<u>6,300</u>	23,700
(iii) 50% of salary i.e. $\frac{1}{2}$ x 63,000	<u>31,500</u>	<u>23,700</u>
TAXABLE HRA →		12,300

B. Special Allowances [exempt U/s 10(14) read with Rule 2BB]

The following allowances are exempted at lower of amount received or the following limits:

I. ALLOWANCES EXEMPTED UPTO FIXED LIMITS, IRRESPECTIVE OF EXPENDITURE INCURRED

1. **Children Education Allowance**: Upto ₹100 p.m. per child upto a maximum of 2 children
2. **Hostel Expenditure Allowance**: Upto ₹300 p.m. per child upto a maximum of 2 children
3. **Transport Allowance**: In case of an employee who is blind or orthopedically handicapped with disability of the lower extremities of the body or deaf and dumb, to meet his expenditure for commuting between his residence and place of duty – ₹3,200 per month.
4. Tribal Area Allowances – 200 p.m
5. Allowance to an employee of transport company for meeting expenditure during his duty of running of such transport (provided he is not in receipt of daily allowance): 70 % of the allowance or 10,000 p.m. whichever is lower.

II. ALLOWANCES EXEMPTED UPTO EXPENDITURE INCURRED FOR OFFICE PURPOSE

The following allowances are exempted upto the amount spent for office purpose:

- (i) Travelling or Transfer Allowance ;
- (ii) Conveyance Allowance ;
- (iii) Daily Allowance;
- (iv) Helper Allowance;
- (v) Academic Allowance;
- (vi) Uniform Allowance

Thus if an employee receives ₹1000 as travelling allowance and he incurs ₹800 to meet travelling expenditure during the course of employment then ₹200 (₹1000 – ₹800) would be taxable.

III. ALLOWANCES WHICH ARE FULLY TAXABLE

Medical Allowances, Entertainment Allowances, Project Allowances and all other similar allowances not discussed above shall be fully taxable.

Question 9: From the following information compute the taxable amount of allowances:

1. Children Education Allowance received ₹500 p.m. per child for 3 children. Expenditure on education ₹80 p.m. per child.



	₹
Children Education Allowance Received	
Less: Exempted U/s 10(14)	
Taxable Amount:	

2. Children Education Allowance received ₹5,000 p.a. He has 2 children - One aged 7 years and another aged 6 Months.



	₹
Children Education Allowance Received	
Less: Exempted U/s 10(14)	
Taxable Amount:	

3. Children Education Allowance received for meeting Hostel expenditure ₹10,000. He has one child.



	₹
Children Education Allowance Received for Hostel Exp.	
Less: Exempted U/s 10(14)	
Taxable Amount:	

Class Notes:

Question 10: From the following information Compute Income from Salaries:

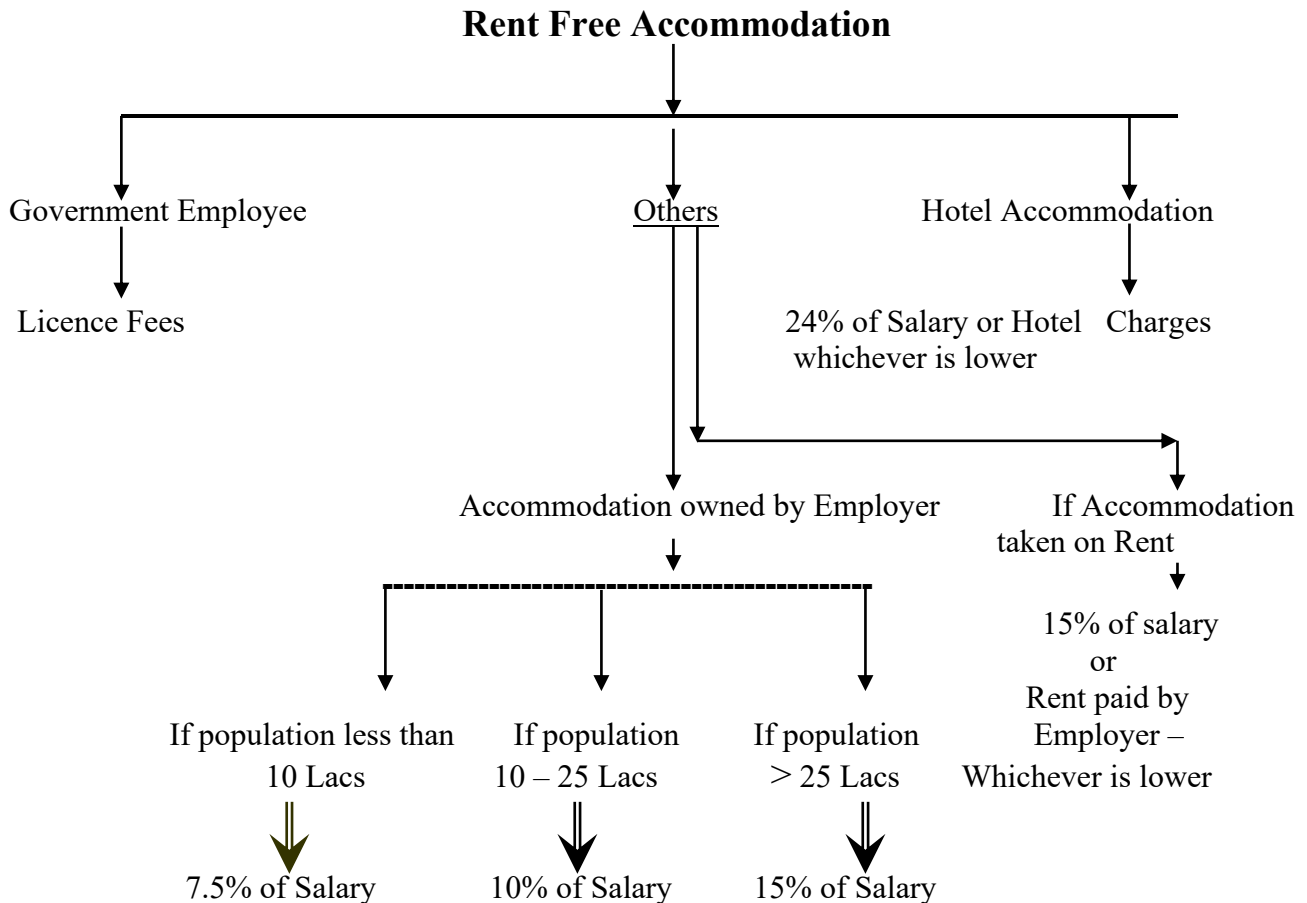
1. Basic Salary ₹20,000 p.m.
2. Bonus ₹10,000
3. Leave Salary ₹10,000
4. Travelling Allowance ₹2,000 p.m. [Expenditure incurred ₹1,800 p.m.]
5. Medical Allowance ₹400 p.m. [Expenditure incurred ₹300 p.m.]
6. Children Education Allowance ₹300 p.m. per child [He has 3 children]



CHAPTER 4: PERQUISITES [Section 17(2)]

(A) PERQUISITES ALWAYS TAXABLE IN THE HANDS OF EMPLOYEES

1. RENT FREE ACCOMMODATION/ACCOMMODATION AT CONCESSIONAL RENT [RULE 3(1)]

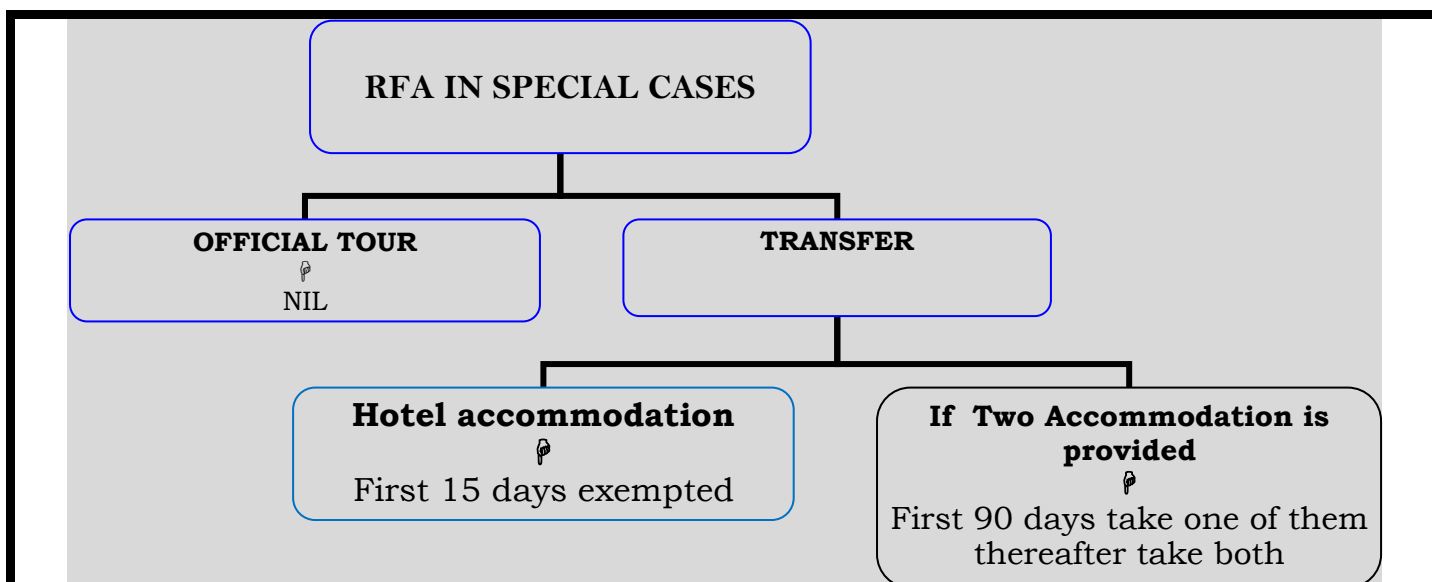


If the employer provides furniture also then the amount to be added shall be 10% p.a. of the Cost of furniture *or* hire charges as the case may be.

(1) In all the above cases, the amount of perquisite shall be reduced by the amount of expenses reimbursed by the employee. Suppose the Perquisite Value of the house is ₹1,00,000 but the amount repaid by the employee to the employer is ₹20,000 then the Net perquisite Value would be ₹80,000.

(2) **For this purpose Salary means:** Basic Salary + D.A. forming part of retirement benefits + taxable allowances + bonus + commission + any monetary payment (i.e. Bonus, Leave Salary and commission) paid by the employer but **does not include** employer's contribution to Provident Fund and value of any perquisites.

(3) Salary is to be calculated on due basis and whether received from that employer or other employer. **(This point is explained later with Question 20)**



Example: Employee has been transferred from Kolkata to Mumbai. He has been provided with two accommodations for 120 days at Kolkata for family and at Mumbai for self. In this case, perquisite Value shall be taxable as under:

First 90 days : Any one accommodations shall be taxable ; either Kolkata or Mumbai. (*whichever is lower*)

Next 30 days : Perquisite Value of both the houses shall be taxable.

FORMAT FOR COMPUTATION OF ACCOMMODATION WHEN TAKEN ON HIRE

Particulars	Amount (₹)	Amount (₹)
(A) 15 % of salary		XXX
(B) Rent paid by employer		XXX
Take Lower of (A) & (B) →		XXX
Add: 10% p.a. of cost of furniture (owned by employer)	XXX	
Furniture hire charges (if taken on rent)	XXX	XXX
Gross Perquisite Value →		XXX
Less – Any rent reimbursed by employee		XXX
Net Perquisite Value →		XXX

Meaning of Salary in different cases

- Gratuity covered under Gratuity act:** Basic salary + Dearness Allowances
- Gratuity not covered under Gratuity act, VRS, Leave salary, HRA, Provident Fund:** Basic salary + Dearness Allowances forming part of salary + Commission based on fixed percentage of turnover achieved by employee
- Rent Free Accommodation:** Basic Salary + DA Forming part of salary + Bonus + Commission + Allowances + Leave Salary etc. (Monetary Payments)

2. Some Fringe Benefits taxable in the hands of employees

(i) Free meals	<p>(i) The amount of expenditure incurred by the employer less exemption ₹ 50/- per meal.</p> <p>(ii) Exemption of ₹ 50 per meal only if it is provided at office premises/ office hours or through non transferable paid vouchers.</p> <p>(iii) For tea and snacks – NIL (i.e. Not Taxable).</p> <p>(iv) For Remote area – NIL. (i.e. Not Taxable)</p>
(ii) Gift or voucher or token or any member of the household	<p>(i) In case of gifts in kind perquisites up to ₹ 5000 in one year shall be exempted and balance taxable [as per CBDT Circular]</p> <p>(ii) Gifts in cash shall be fully taxable.</p>
(iii) Credit Card expenses of employee or any member of the household not being for official use	<p>The amount paid by the employer.</p> <p>Example: The employee spends ₹50,000 through credit card for shopping purposes. This amount is paid by the employer to the Credit card Company/ Bank on behalf of the employee. ₹50,000 shall be taxable in the hands of employee as perquisite (as employees expenses are borne by the employer)</p>
(iv) Expenses at club not for official purpose of the employee or any member of the household.	<p>(i) The amount paid by employer is fully taxable in the hands of employees.</p> <p>(ii) But in case of corporate membership the initial fees paid by the employer shall not be included in perquisite i.e. exempted in the hands of employees.</p>

Question 11:

(1) Employer provides meal costing ₹ 70 per meal to the employee for 300 days.	Answer
Situation 1: The meal is provided at office premises.	Taxable amount = $300 \times (70 - 50) = 6,000$
Situation 2: The meals are provided through nontransferable vouchers.	Taxable amount = $300 \times (70 - 50) = 6,000$
Situation 3: Meals are provided through transferable vouchers	Taxable amount = $300 \times 70 = 21,000$
(2) Employer incurs ₹ 50,000 towards Club Membership of Mr. X.	Entire amount of ₹ 50,000 shall be taxable.
(3) Employer pays ₹ 10,00,000 for membership of 100 employees. The share of each individual employee in the Corporate Membership fees comes to ₹ 10,000.	Nothing taxable.

OTHER PERQUISITES

3. **Rule 3 (3): Value of Sweeper, gardener, watchman, personal attendant provided by employer:** Fully Taxable

4. **Rule 3(4): Supply of Gas, electric energy or water:** Fully Taxable (if such supplies are produced/manufactured by the employer, then the manufacturing/production cost and if it is provided by the outside agencies, then amount paid by employer to such agencies, shall be taxable).

5. **Rule 3(5): Education Facilities**

If the employer provides education facility to employee's children and cost of education facility in similar institution does not exceed ₹1,000 p.m. then nothing shall be taxable. If it exceeds ₹1,000 p.m. then entire amount shall be taxable. [Case of Delhi Public School].

Question 12: Discuss the following:

1. Children Education Allowance ₹ 1,000 p.m. per child for 3 children.

	₹
Children Education Allowance Received	
Less: Exempted U/s 10(14)	
Taxable Amount:	

2. Employer arranges education facility for 3 children of employees. The cost of education in similar institution amounted to ₹ 900 p.m. per child.

	₹

3. Employer arranges education facility for 3 children of employees. The cost of education in similar institution amounted to ₹ 1,100 p.m. per child.

	₹

6. EMPLOYEES STOCK OPTION PLAN [ESOP]

What is ESOP?

Many companies use Employees Stock option Plan to compensate, retain and attract employees. Under ESOP the Companies allot shares to their employees at concessional rate than Market Price. For example, if the market price of the shares is say ₹1,000 then the company may allot 1,000 shares to its employees at concessional rate say ₹200 per share.

Taxable = No. of Shares allotted (FMV of shares on the date of exercising option – Allotment Price)

FMV of listed securities = Average of opening and closing price of shares listed on stock exchange on date of exercising of option.

Question 13: X Ltd. announced its Employees stock option plan on 1/5/2019 as per which the employees are eligible to purchase the shares in the company @ ₹ 200 per share. One of the employees exercised the option on 1/1/2020 and purchased 1,000 shares in the company. The Market price of the shares in Stock exchange on the various dates are as under:

BSE Market prices:

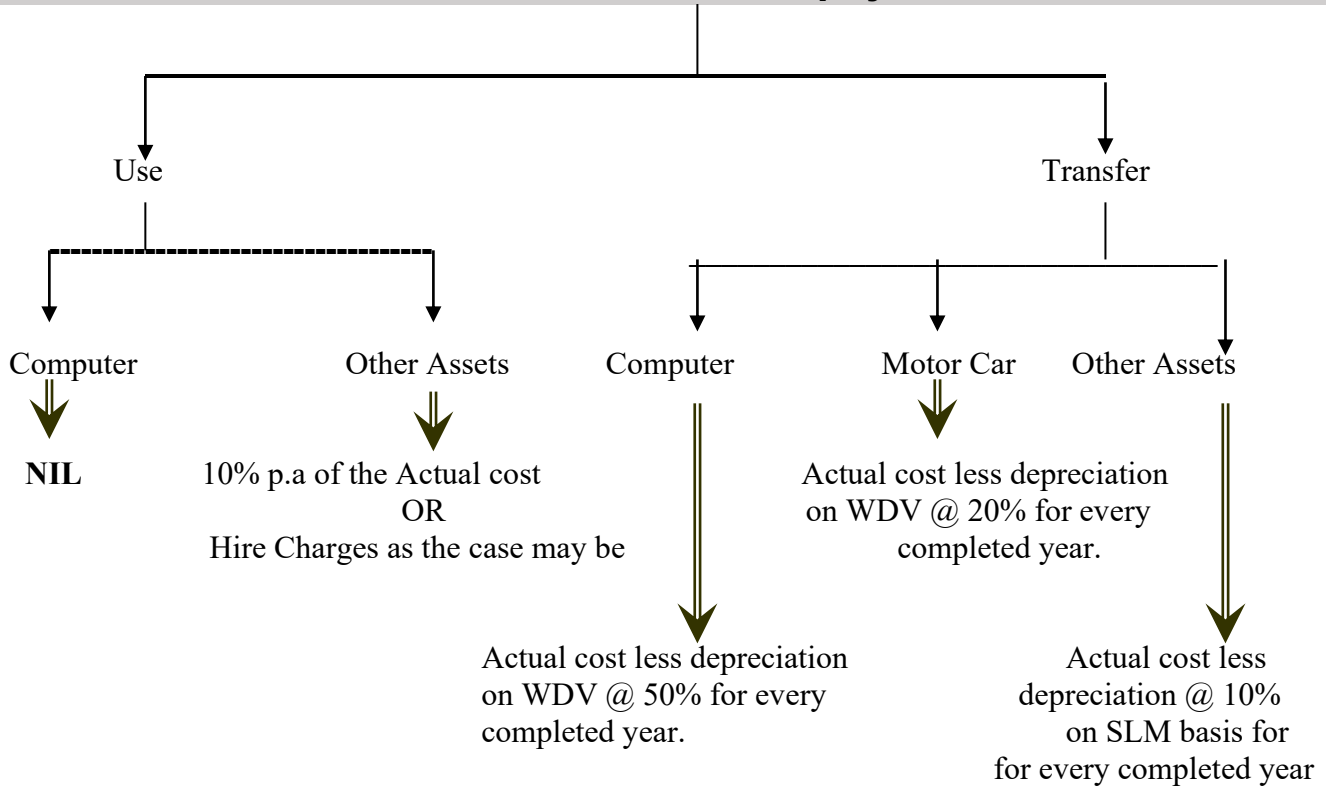
	Opening	Closing
1/5/2019:	₹ 800	₹ 900
1/1/2020:	₹ 990	₹ 1,010

NSE Market prices:

	Opening	Closing
1/5/2019:	₹ 805	₹ 902
1/1/2020:	₹ 996	₹ 1,012

The trading volume of shares of X Ltd. were higher at BSE. Compute perquisite Value under ESOP.

7. Use and Transfer of Moveable Assets to employee or member of household



Question 14: Compute the perquisite value in each of the following cases:

1. Employer purchases a computer for ₹ 4,00,000 on 15/9/2016 and the same is sold to the employee for ₹ 22,000 on 12/9/2019.

✍

2. Employer purchases a Motor car for ₹ 5,00,000 on 15/12/2016 and the same is sold to the employee for ₹ 35,000 on 12/11/2019.

✍

3. A Computer costing ₹ 75,000 was given to employee for personal use on 1/4/2019.

8. INTEREST FREE LOAN OR LOAN AT CONCESSIONAL RATE OF INTEREST TO EMPLOYEE

(i) Interest shall be calculated at the rate charged by the State Bank of India p.a. as on the 1st day of the previous year in respect of the loans advanced by it for the same purpose.

(ii) But perquisite shall not be taxable if :

(A) if original loan does not exceed ₹ 20000 or

(B) loan is taken for medical treatment of specified diseases

(iii) Further interest shall be calculated on the balance outstanding on the last day of each month

(iv) The amount of perquisite shall be reduced by the amount of expenses reimbursed by the employee. For instance, An employer gives loan to employee of ₹ 1,00,000 charging interest 4% and SBI rate of interest is 10%. Now the perquisite Value shall be $₹ 1,00,000 \times (10 - 4)\% = ₹ 6,000$.

(v) The perquisite value shall be computed whether loan is given to employee or member of household. For this purpose member of household includes:

(a) Spouse; (b) Children and their spouses ; (c) Parents ; (d) Servants and dependents

Question 15: From the following information compute the perquisite value of loan. In all the following cases assume SBI rate of interest on first day of P.Y. to be 11%

1. Employer gives loan to employee on 1-7-2019 ₹ 2,00,000 (SBI Rate 12%);

✎

Taxable amount:

2. Employer gives loan to employee ₹ 30,000 on 1-4-2019. Employee repays ₹ 12000 on 1-7-2019.

✎

Taxable amount:

April 2019 to June 2019:

July 2019 to March 2020:

3. Employer gives loan to employee ₹ 2,00,000 on 1-1-2020. Employees repays as follows-

On 21-1-2020 ₹ 40,000

On 20-2-2020 ₹ 40,000

On 20-3-2020 ₹ 40,000

9. Perquisite for valuation of motor Car [Rule 3(2)]

(a) Perquisites in case of use of motor car for exclusively business purpose : Nothing Taxable

(b) Perquisites in case of use of motor car for exclusively personal purpose amount of expenditure incurred by the employer on maintenance and running of motor car (+) amount paid to driver (chauffeur) (+) 10% p.a. of actual cost of motor car. (-) any amount reimbursed by the employee.

(c) Where the motor car is used partly for performance of duties and partly for private or personal purpose of his own or any member of his household

Motor car owned by or taken on hire by	Expenses by	Value of perquisite , where Cubic capacity of car upto 1.6 Liters.	Value of perquisite , where Cubic capacity of car exceeds 1.6 Liters.
Employer	Employer	1800 p.m	2400 p.m
Employer	Employee	600 p.m	900 p.m
Employee	Employer	If documents maintained = Total expenses – expenses for official purpose If documents not maintained: Total Expenses – 1800 p.m.	If documents maintained = Total expenses – expenses for official purpose If documents not maintained: Total Expenses – 2400 p.m.

(1) In the above cases all the amounts shall be increased by 900 p.m. for Chauffeur, if any.

(2) If more than car is provided by the employer for partly personal and partly official use, then one car shall be treated as for partly personal partly official purpose and all other cars for fully personal use.

(3) In this connection it is to be noted that while calculating perquisite value for motor car purposes only completed months shall be taken into account and a part of the month shall be left out of consideration.

Question 16: Compute the value of perquisite in each of the following cases:

1. The employer provided car to X for his personal use. The cost of car is ₹400000 and running and maintenance expenses borne by X ₹20000

✎

2. The employer provides his own car of 2.0 ltrs for private and official use. Cost of the car ₹500000. The employer spends ₹50000 on running and maintenance of car and pays ₹18000 as salary to driver. X paid ₹5000 to his employer for this facility.

✎

3. The employer provides a 1.4 ltrs car to X for his private and official use. Cost of the car is ₹300000. Normal tear and wear could not be worked out. X incurred ₹5000 on running and maintenance of car.

✎

4. The employer provides two motor cars for partly personal partly official purpose:

	Car 1	Car 2
Cubic capacity	1.4 ltrs	1.8 ltrs
Cost of the car	4,00,000	6,00,000
Expenses incurred	30,000	40,000
Salary of the driver	24,000	24,000

✎ Solution:

Where more than one car is for partly personal and partly official purpose then one car shall be regarded as for partly personal partly official and all other cars are for fully personal purpose. Let us compute perquisite value under following two options:

Particulars	Amount (₹)
Option 1: Car 1 is for partly personal partly official purpose and car 2 is for fully personal purpose: Perquisite Value of use of Car 1: Perquisite Value of use of Car 2: Total Taxable Amount	
Option 2: Car 1 is for fully personal and car 2 is for partly official and partly personal purpose: Perquisite Value of use of Car 1: Perquisite Value of use of Car 2: Total Taxable Amount	
<u>Conclusion:</u>	

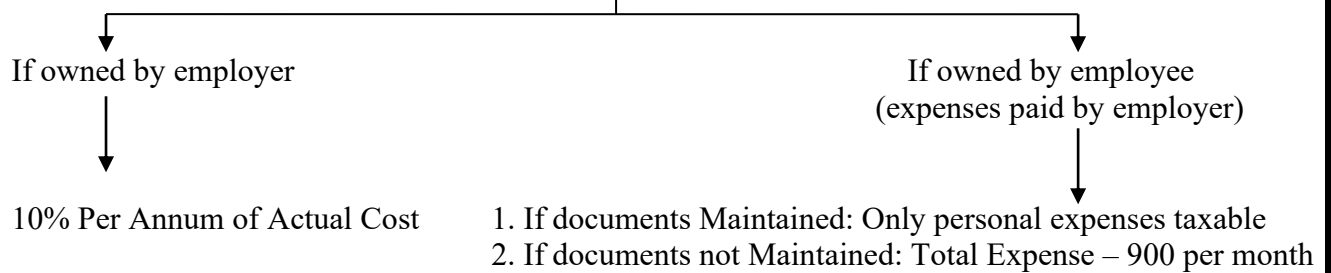
5. Employee owns a car which is used for partly personal and partly official purpose. Expenses incurred by employer for this car of 1.4ltr. (including driver) is 80,000.

Situation 1: Documents are maintained as per which official expenses amounted to ₹ 30,000.

✎

Situation 2: No documents maintained.

✎

10. Valuation of Perquisite in respect of Vehicle other than Motor Car**Vehicle other than Motor Cars****Question 17:**

Employee owns a motor-cycle used for both personal and official purpose. Expenses are incurred by employer ₹ 3,000 p.m. What is the taxable amount of perquisite in the following cases:

Situation 1: No documents maintained

$$\begin{aligned}\text{Taxable amount} &= (3,000 - 900) \times 12 \\ &= ₹ 25,200\end{aligned}$$

Situation 2: Documents maintained and as per the documents expenses for official purpose p.m. is ₹1,800.

$$\begin{aligned}\text{Taxable amount} &= (3,000 - 1,800) \times 12 \\ &= ₹ 14,400\end{aligned}$$

(B)**PERQUISITES ALWAYS EXEMPTED IN THE HANDS OF EMPLOYEES**

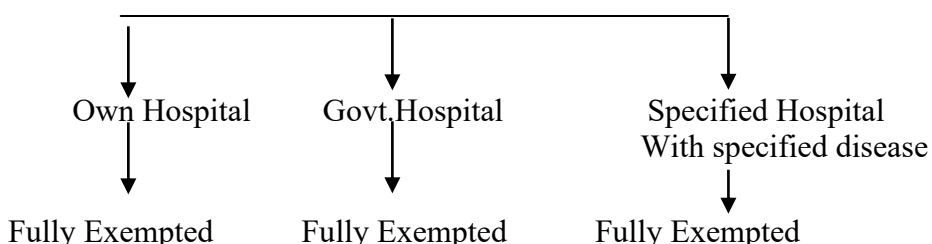
(1) Following expenses incurred or paid by employer:

- (a) Telephone (including a mobile phone) expenses
- (b) Medical Insurance Premium of employee or family member
- (c) Accident Insurance Premium.
- (d) Employer's contribution to Staff Group Insurance Scheme..

(2) Training or refresher course for employees

(3) Use of health club, sports and similar facilities provided uniformly to all employees by the employer.

(4) Tax paid by employer on non-monetary perquisite is exempted from tax U/s 10(10CC) [To be discussed in Business and Profession]

PERQUISITES IN RESPECT OF MEDICAL TREATMENT

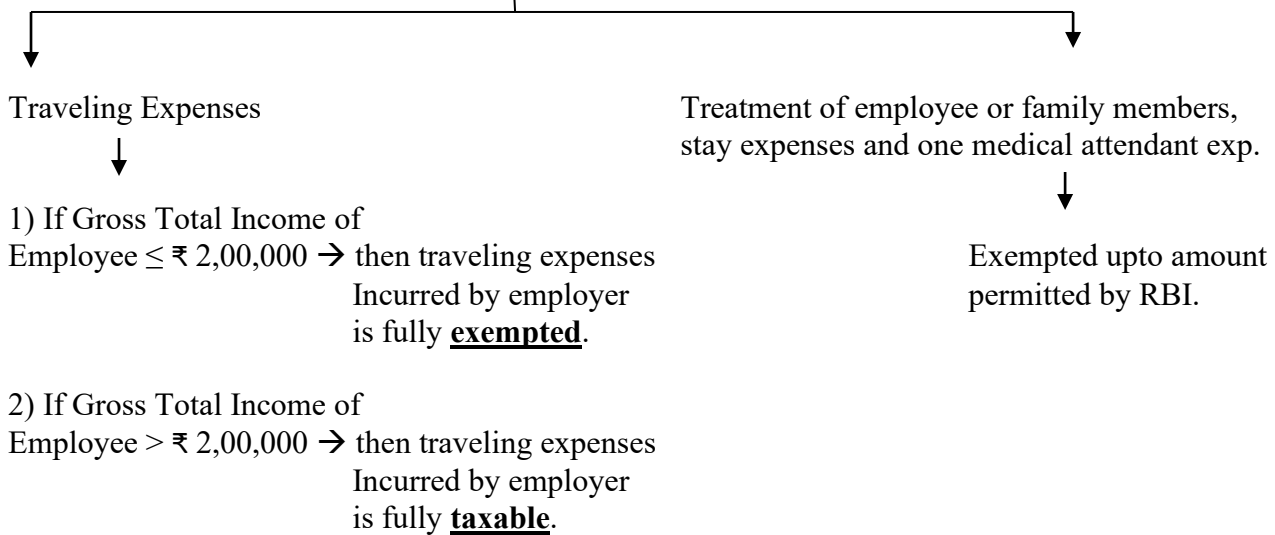
For this purpose family means: a. the spouse and children of the individual b. the parents, brothers and sisters of the individual who are wholly or mainly dependent on him

Question 18:

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer:

Medical premium paid for insuring health of Mr. G	₹ 7,000	
Treatment of Mr. G by his family doctor	₹ 5,000	
Treatment of Mrs. G in a Government hospital	₹ 25,000	
Treatment of Mr. G's grandfather in a private clinic	₹ 12,000	
Treatment of Mr. G's mother (68 years and dependent) by family doctor	₹ 8,000	
Treatment of Mr. G's sister (dependent) in a nursing home	₹ 3,000	
Treatment of Mr. G's brother (independent)	₹ 6,000	

Medical Treatment in foreign country



Question 19: Mr. Healthy is working in Wealthy Ltd. at a Basic Salary of ₹ 1,00,000 p.a. . During the year he suffered from Bird flu and accordingly was taken to USA for medical treatment. The traveling expenses amounted to ₹ 75,000. The expenses in respect of treatment, stay expenses and cost of medical attendant amounted to ₹ 90,000 (amounted permitted by RBI ₹ 80,000)

Solution:

<u>Particulars</u>	<u>₹</u>
Basic Salary	
Perquisite Value of treatment	
Perquisite Value of traveling expenses	
Income from Salaries →	

CHAPTER 5: PROVIDENT FUND

NATURE	OWN CONTRIBUTION	EMPLOYER'S CONTRIBUTION	INTEREST	AMOUNT RECEIVED ON TERMINATION
Statutory Provident Fund [Govt. employees]	Not an income [But deduction U/s 80C]	Exempted	Exempted	Exempted
Recognized Provident Fund (approved by Income Tax Department)	Not an income [But deduction U/s 80C]	Exempted up to 12% of Salary	Exempted up to 9.5%	Exempted [except in certain cases]
Unrecognized Provident Fund (not approved by Income Tax Department)	Not an income No deduction U/s 80C	Exempted	Exempted	Taxable as under: 1. Employer's Contribution: Salaries 2. Interest on Employer's contribution: Salaries 3. Employees Contribution: Not taxable 4. Interest on Employees Contribution: Other Sources

Meaning of Salary: Basic salary + D.A (if the term of employment so provide) + [commission based on fixed percentage of turnover achieved by the employee, as per Supreme Court decision in the case of Gestetner Duplicators Pvt. Ltd]

STATUTORY PROVIDENT FUND

Question 20A: Mr. Ram Pyare is a govt. employee. For the year 2019-20 his employer contributed ₹20,000 to his Provident Fund account. Interest earned on the same ₹8,000.

✎ Both Employer's contribution and interest earned there on shall be exempted in the hands of employee.

RECOGNIZED PROVIDENT FUND

Question 20B: Mr Shyam Pyare is working in Brindavan Pvt. Ltd. For the year 2019-20 his employer contributed ₹20,000 to his Recognized Provident Fund account. Interest earned on the same for the year 2019-20 ₹10,500 @ 10.5% p.a. [Basic Salary ₹1,00,000 p.a.]

✎ Employer's contribution shall be exempted till 12% of salary i.e. 12,000 and balance ₹8,000 shall be taxable in the hands of Ram Pyare. Further Interest up to 9.5% i.e. 9,500 shall be exempted and balance ₹1,000 shall be taxable in the hands of Ram Pyare.

UNRECOGNIZED PROVIDENT FUND

Question 20C: Mr. X retires from on December 1, 2019, after 15 years of service and received from the Unrecognized Provident Fund ₹ 5,00,000. Out of the amount received from the provident fund, the employers share was ₹ 1,70,000 and the interest thereon ₹ 50,000. The employee's share was ₹ 2,20,000 and the interest thereon ₹ 60,000.

What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. X for the assessment year 2020-21.

Solution: Computation of Taxable portion of the amount received from the Unrecognized Provident Fund in the hands of Mr. X

Income from Salaries

Employer's share in the payment received from the Unrecognized Provident Fund	₹ 1,70,000
Interest on the employer's share	₹ 50,000
Total	₹ 2,20,000

Income from Other Sources:

Interest on the employee's share	₹ 60,000
Total amount taxable from the amount received from the fund	₹ 2,80,000

Note: The employee's share received from the URPF is exempt from tax.

CHAPTER 6: TREATMENT OF SOME OTHER ITEMS

Profits in lieu of salary U/s 17(3) includes—

(i) compensation from employer or former employer in connection with the termination of his employment or the modification of the terms and conditions relating thereto;

(ii) any payment due to or received by an assessee from an employer or a former employer or from a provident or other fund, (excluding employees own contribution and interest on his contribution)

(iii) any sum received under a Keyman insurance policy. [TO BE DISCUSSED IN BUSINESS /PROFESSION]

(iv) any amount due to or received, whether in lump sum or otherwise, by any assessee from any person whether before joining or after cessation of his employment with that person. (Non- Compete Fees)

SUPERANNUATION FUND

NATURE	OWN CONTRIBUTION	EMPLOYER'S CONTRIBUTION	INTEREST	AMOUNT RECEIVED ON TERMINATION
Approved superannuation Fund	Not an income [But deduction U/s 80C]	Exempted upto ₹1,50,000 p.a	Exempted	Exempted
Unapproved superannuation Fund	Not an income No deduction U/s 80C	Exempted	Exempted	Taxable as under: Same as that of Unrecognized Provident Fund

CHAPTER 7: DEDUCTIONS FROM SALARY (Section 16)

From the Gross Salary arrived the following deductions are allowed to the assessee:

1. Standard Deduction [Section 16(ia)]

The employee shall be allowed a deduction of ₹ 50,000 or the amount of Gross Salary, whichever is lower.

2. Entertainment Allowance [Section 16(ii)]:

Deduction on account of entertainment allowance is allowed only to Govt. employees. The deduction is allowed to the extent of the least of the following:

- Actual amount received
- 20% of Basic salary
- ₹5000 p.a.

Question 21:

Case 1: X is a Govt. employee. He receives Entertainment Allowance of ₹400 p.m. His Basic Salary is ₹1,000 p.m. and D.A. is ₹500 p.m. Compute Deduction U/s 16(ii)

Deduction U/s 16(ii) – least of the following :

Entertainment Allowance received: ₹4,800

20% of Basic Salary : ₹2,400

Maximum Deduction Limit : ₹5,000

Deduction U/s 16(ii) : ₹2,400

Case 2: X is working in ABC Pvt. Ltd. He receives Entertainment Allowance of ₹800 p.m. His Basic Salary is ₹1,000 p.m. and D.A. is ₹500 p.m. He spent ₹200 p.m. during the year for entertainment of the clients. Discuss the treatment of Entertainment Allowance.

No deduction shall be allowed U/s 16(ii) as Mr. X is not a Govt. employee.

3. Professional Tax [Section 16(iii)]

As per Section 16(iii), a deduction of any sum paid by the assessee, on account of a tax paid on employment shall be allowed. This deduction is allowed on payment basis.

CHAPTER 8: MISCELLANEOUS

1. Application of income vs. Diversion of income

An obligation to apply the income in a particular way before it is received by the assessee or before it has accrued or arisen to the assessee results in the diversion of the income. On the other hand, an obligation to apply income which has accrued or arisen or has been received amounts merely to the apportionment of the income and not to its diversion.

Diversion of income is not regarded as income but when an assessee applies an income to discharge his obligation after the income reaches the hands of the assessee it would be an application of income and hence taxable.

Example: Mr. A and Mr. B jointly write an article for its publication in a Magazine on the understanding that the remuneration is to be shared equally. On its publication, Mr. A receives the entire amount say ₹ 5,000. Mr. A pays Mr. B ₹2,500 as per the agreement. The amount so paid by Mr. A is a diversion of income. Since the sum paid to Mr. B never accrued to Mr. A as income, it will not be regarded as his income and therefore not taxable. Out of ₹2,500, Mr. A pays ₹2,000 towards rent. This ₹2,000 is an application of income – as it is a discharge of obligation out of the income of the assessee.

2. Foregoing Vs. Surrender Of Salary

Section 15 taxes salary on due basis even if it is not received. If, therefore, an employee foregoes his salary, it does not mean that salary so foregone is not taxable. Once salary has accrued to an employee its subsequent waiver does not make it exempt from tax liability. Such voluntary waiver or foregoing by an employee of salary due to him is merely an application of income and is nonetheless chargeable to tax.

If an employee opts to surrender his salary to the Central Government under Section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered would be excluded while computing his taxable income. Benefit of tax exemption in respect of salary so surrendered is available to all employees whether they are employed in private sector or public sector.

3. Advance Salary Vs. Advance Against Salary:

Advance Salary means salary received in advance. Salary is taxable on due or receipt basis whichever is earlier. Hence, advance salary is taxable. Advance against Salary means loan given to employee which is to be adjusted against his salary. In such cases, perquisite value is computed on the basis of SBI rate of interest prevailing on the first day of Previous Year.

4. Contract for Service and Contract of Service

In this connection a distinction must be made between *Contract for Service* and *Contract of Service*. A Contract for Service implies a contract whereby one part undertakes to render service e.g. professional or technical service undertaken by a person in which he is not subjected to detailed direction and control, but exercises professional skill and uses his knowledge or skill. Thus Income from a Contract for Service is chargeable under the head Business or Profession.

Contract of Service implies a relationship of master and servant and involves direction and control over the work. The income in a Contract of Service is chargeable under the head Salaries.

5. Leave Travel Concession [Section 10(5) read with Rule 2B]

The exemption is available where the employee receives any amount as leave travel concession from his employer or former employer in connection with his proceeding on leave to any place in **India**.

Besides this, the following points must be borne in mind:

1. The exemption is only limited to the **traveling cost** on rail/bus/air fare at the **shortest route**. Taxi charges, lodging/boarding expenses are not included i.e. taxable.

Maximum exemption :-

In case of Air fare: fare of **economy class** of any National carrier.

In case of Rail fare: AC First class

In case of Buses: First class or deluxe class fare.

2. The exemption is available in respect of **two journeys** performed in a block of **4 calendar years** commencing from 2010-2013 ; 2014-17; 2018-21. This means that the assessee shall be entitled to claim exemption on two occasions in every block of 4 years.

3. Where an assessee has not availed any travel concession in any specified block of 4 years or availed only one leave travel concession, then he can carryover leave travel concession in respect of one journey in the first calendar year of the next block.

4. For this purpose family means: (a) the spouse and children of the individual and (b) the parents, brother and sisters of the individual who are wholly or mainly dependent on him.

5. Further, the exemption shall be available up to a maximum two children.

Question 22: Employee goes on a holiday leave with family. The total expenses comprising of traveling cost ₹ 60,000 and hotel expenses ₹ 50000 was met by employer as leave travel concession.

Determine the taxable amount in following situations –

Situation 1: The travel is within India.

Situation 2: The travel is outside India.

Question 23: Employee goes on holiday leave with the family. The travel charge cost per child ₹ 10000. Determine the taxable amount in following situations –

Situation 1: Employee has 3 children aged 10yrs, 7yrs, 3yrs.

Situation 2: Employee has 3 children. 1st child 10yrs, and other two are twins.

Situation 3: Employee has 3 children. 1st two are twins and then he has 3rd child.

Question 24: Examine the following situations with respect to leave travel concessions:

Situation 1: There are 3 journeys in 2018-21

Situation 2: – There is either no journey or 1 journey in 2018-21

6. PERQUISITES – TRAVELLING, TOURING AND ACCOMODATION

Travelling, touring, accommodation and other expenses paid/reimbursed/ borne by employer for holiday of employee or member of household

(i) If such facility is maintained by the employer -value at which such facilities are provided by other agencies to the public. (ii) Where employee is on official tour and expenses are incurred for any member of household – amount of expenditure incurred.(iii) Where any official tour is extended as vacation – expenditure incurred during extended period. (iv) In other cases – amount of expenditure incurred by employer.

CLASS DISCUSSION

In case of leave travel concession employer gives re-imbursement to the employee. However in case of traveling and touring accommodation there is no actual re-imbursement but instead employer directly gives the facility to the employee.

Question 25: Employer arranges for travelling, touring and accommodation for the employee in a holiday resort owned by the employer. The total stay at the holiday resort is 5 days and market rate is 10000 per day.



Question 26: The employee goes on an official tour for 10 days which is later on extended for further 5 days as a vacation. The employee has gone on tour along with his wife. An expenditure per person per day amounted to ₹ 1000.



7. Retrenchment Compensation [Exempt u/s 10(10B)]

It is basically compensation received by a workman at the time of his retrenchment. The retrenchment compensation so received is exempted to the extent of least of the following:

- ➔ Actual Amount received
- ➔ $\frac{15}{26} \times \text{Average salary of last 3 months} \times \text{Completed years of service or part thereof in excess of 6 months}$
- ➔ ₹500000

However, where retrenchment compensation is received by a workman under any scheme which the Central Government has approved in this behalf, the entire amount of compensation so received shall be exempt U/s 10(10B).

Meaning of Average Pay: Average pay means the average of the wages payable to a workman in the three complete calendar months (or 4 complete weeks or 12 working days in the case of weekly or daily paid workman).

Wages includes all allowances, the value of rent free or concessional house accommodation or of supply of light, water, medical attendance or any other amenity or service and traveling concession but does not include bonus, P.F. contribution and gratuity.

Question 27: Mr. X received retrenchment compensation of ₹8,00,000 after 29 years 10 months of service. At the time of retrenchment, he was drawing basic salary ₹ 20,000 p.m.; dearness allowance ₹ 5,000 p.m. Compute his taxable retrenchment compensation.

Solution:

Retrenchment compensation received	₹ 8,00,000
Less: Exempt u/s 10(10B) [Note 1]	₹ 4,32,692
∴ Taxable retrenchment compensation	₹ 3,67,308

Note 1: Exemption is to the extent of least of the following:

- (i) Compensation actually received = ₹ 8,00,000
(ii) Statutory Limit = ₹ 5,00,000
(iii) Amount calculated in accordance with provisions of the Industrial Disputes Act, 1947
 $\frac{15}{26} \times \text{Avg salary of last 3 months} \times \text{Completed yrs of service and part thereof in excess of 6 months}$
i.e = $\frac{15}{26} \times 25,000 \times 30 \text{ years} = ₹ 4,32,692$

Concept of Specified employees under salaries

Specified employees means an employee who satisfies one of the following conditions –

- (i) He is director in the employer company
(ii) He holds substantial interest i.e, 20% equity shares in the employer company at any time during previous year.
(iii) His gross annual salary exceeds ₹ 50,000 p.a

Following perquisites are taxable in the hands of specified employee only –

- (a) Sweeper, Gardener, watchman or personal attendant provided by employer
(b) Education facility
(c) Supply of Gas, Electricity or water for household purpose.
(d) Motor car facility
(e) vehicle other than motor car.
(f) Leave travel concession.
(g) Medical facility

Some miscellaneous points under Salaries

(1) Meaning of Government Employees:

Employees of -	Government Employees for the purpose of -			
	Gratuity	Commuted Pension	Leave Salary	RFA
Central Government	✓	✓	✓	✓
State Government	✓	✓	✓	✓
Local Authority	✓	✓	×	×
Public Sector Undertaking (PSU)/Statutory Corporations	×	✓	×	×
Other employees	×	×	×	×

(2) Salary, allowances, Perquisites, pension etc. received from UNO are fully exempt by virtue of section 2 of the United Nations (Privileges and Immunities) Act, 1947

(3) Following allowances are also fully exempt: -

- (i) Sumptuary Allowances granted to judges of HC/SC
- (ii) Allowances to HC Judges
- (iii) Compensatory allowances received by a judge

(4) **Allowances partly exempted** (upto a fixed amount):

(i) **Special Compensatory Allowances such as:**

- (a) Allowances for Hilly areas, High Altitude allowances, Uncongenial climate allowances, Snow Bound Area Allowances/avalanche allowances: Upto ₹ 300/800 p.m as per location. For Siachen ₹ 7000p.m
- (ii) Allowances for - Border areas, remote locality, difficult area, disturbed areas: ₹ 200/300/750/1050/1100/1300 p.m as per location.
- (iii) Allowances for – Tribal areas, Schedule areas, agency areas: ₹ 200 p.m
- (iv) Field area allowances- ₹ 2600p.m
- (v) modified field area allowances - ₹ 1000 p.m
- (vi) Underground allowances - ₹ 800 p.m
- (iii) **Allowances to member of armed forces-**
 - (a) Counter insurgency allowances- ₹ 3900 p.m
 - (b) High altitude allowances– For altitude 9000 to 15000 feet ₹ 1060 p,m, for above 15000 feet-₹1600 p.m
 - (c) highly active filed area allowances -₹ 4200 p.m
 - (d) Island (duty) allowances to work in Andaman & Nicobar and Lakshadweep: ₹ 3250 p.m

(5) **Following allowances and perquisites received by chairman/other member (working/retired) of the UPSC (Union Public Service Commission) are exempted u/s. 10(45)–**

- (a) Conveyance facilities including transport allowances
- (b) RFA
- (c) leave travel concession
- (d) sumptuary allowances

Further, retired chairman/member of UPSC will get exemption of – (ii) upto ₹ 14000 p.m for defraying the service of an orderly and for meeting expenses incurred towards secretarial assistance on contract basis and (ii) additional free telephone calls of upto ₹ 1500 p.m

(6) any commuted pension received by Judges of HC/SC is fully exempt.

(7) Commuted pension received from annuity plan of LIC by an Individual is exempt.

(8) Value of Hotel Accommodation (hotel charges or 24% of salary, lower) shall be applicable for both Govt. and non-govt. employees.

(9) **Case Laws:**

(i) **Shankar Krishnan (2012) (Bom.)**: Employee gives his property on rent to employer and received it back as rent free accommodation. Perquisite value of RFA shall be computed as rent paid by employer or 15% salary, lower.

However, notional interest on security deposit given to the landlord in respect of such premises shall not be included in the perquisite value of rent-free accommodation.

(ii) **Delhi Public School (2011)(P&H)**: If the employer provides education facility to employee's children and cost of education facility in similar institution does not exceed ₹ 1,000 p.m. then nothing shall be taxable. If it exceeds ₹ 1,000 p.m. then entire amount shall be taxable.

THE QUESTION BANK

RETIREMENT BENEFITS

(A) ON GRATUITY

Question 28: Mr. Bahadur retires from Weak Ltd. on 18/2/2020 after rendering a service of 24 years and 10 months. At the time of retirement his basic salary was ₹12,000 p.m. and dearness allowance was ₹6,000 p.m. He received ₹2,50,000 as gratuity on retirement. Compute the taxable amount of gratuity if he is covered under The Payment of Gratuity Act, 1972.

Answer: Taxable amount NIL; Exempted – Least of (i) ₹ 2,50,000 (ii) ₹ 2,59,615 (iii) ₹ 20,00,000.

Question 29: Mr. X retired on 25.01.2020 after rendering a service of 25 years and 10 months. His last drawn salary was ₹ 10000 plus dearness allowance of ₹ 5000 plus bonus 20% plus Overtime allowance of 500 per hour of overtime. During last month he worked 5 hours overtime and accordingly earned 2500/-. Calculate the taxable amount of gratuity if he received ₹ 250000 as gratuity assuming that Mr. X is covered under the payment of Gratuity Act, 1972.

Question 30: Mr. X retired on 25.01.2020 after rendering a service of 25 years and 10 months. He earned a salary of ₹ 10000 from 1.1.2019 to 30.6.2019 and his salary was increased w.e.f. 1.7.2019 to ₹ 15000 p.m. He received a dearness allowance of ₹ 1000 p.m. But the terms of employment did not provide for inclusion of D.A. for the purposes of Gratuity. Calculate the taxable amount of gratuity if he received ₹ 275000 as gratuity assuming that Mr. X is not covered under the payment of Gratuity Act, 1972.

Question 31: Mr. A retired on 31/7/2019 after completing 30 years and 10 months. At the time of retirement he was drawing a basic salary of ₹8000 p.m. (annual increment of ₹150 due on 1/1 every year) and D.A. ₹1,500 p.m. He received ₹1,50,000 as gratuity on retirement. Compute taxable amount of Gratuity if the assessee is not covered under Gratuity Act. [Assume DA forms part of Salary]

Answer: Taxable ₹ 8,400; Exempted – Least of (i) 1,50,000 (ii) 1,41,600 (iii) ₹ 20,00,000

(B) ON LEAVE SALARY

Question 32: Sri Swapan, an employee of XYZ Ltd. retired from the company on 30.11.2019. At the time of his retirement he received ₹150000 as leave salary from his employer. From the following particulars calculate the taxable amount of leave encashment:

(i) Salary at the time of retirement p.m.	₹9000
(ii) Period of service	20 Years and 10 months
(iii) Leave availed while in service	14 months
(iv) Unavailed leave at the time of retirement	16 months
(v) Average salary for the last 10 months till November	₹8800
(vi) Leave entitlement as per service rule 1½ months for every completed year of service.	

Answer: Taxable ₹ 97,200; Exempted – Least of ₹ 1,50,000; 52,800; 88,000; 3,00,000

(C) PENSION

Question 33: K retired from H.L. Ltd. on 31.5.2019 and was granted a pension of ₹3000 p.m. w.e.f. 1.6.2019. Out of his monthly pension he commuted ₹1800 w.e.f. 1.8.2019 and received ₹360000 being

commuted value. He also received gratuity of ₹150000 from the company. Compute the taxable amount of pension.

Answer: 1,75,600

(D) HOUSE RENT ALLOWANCE

Question 34: Mr. H is working in ABC Ltd. on a Basic Salary of ₹5,000 p.m. He is also entitled to a Dearness Allowance (forming part of Salary) of ₹3,000 p.m. Besides this he also receives a fixed commission of ₹1,000 p.m. for Sales irrespective of the amount of sales effected by him. He is also entitled to a House Rent Allowance of ₹5,000 p.m. The rent of the House is ₹4,000 p.m. Compute his taxable HRA.

Answer: 21,600

(E) RENT FREE ACCOMMODATION

Question 35: Mr. X provides you the following information for computation of Income from Salaries:

Basic Salary	₹10,000 p.m
Dearness Allowance	₹ 5,000 p.m.
Children Education Allowance	₹ 1,000 p.m. [He has 2 children]
Transport Allowance	₹ 2,000 p.m.
Bonus	₹10,000 p.a.
Commission	₹ 2,000 p.m.

His employer provided him with a rent free accommodation for which the employer pays a rent of ₹4,000 p.m. **Compute his income from Salaries.**

Question 36: Mr. X provides you the following information:

- Basic Salary ₹12,000 p.m.
- D.A. ₹ 1,000 p.m. (40% forms part of salary)
- Lunch Allowance ₹ 200 p.m.
- Medical Allowance ₹ 500 p.m.
- Children Education Allowance ₹230 p.m. per child for 3 children

He is provided with a rent- free accommodation in Kolkata. The cost of furniture provided is ₹1,00,000 and two air-conditioners, which have been taken on hire by the company, have also been provided in the accommodation. The hire charges of each air conditioner is ₹2,000 p.a. Compute the value of rent free accommodation has been taken on rent by the company at ₹5,000 p.m. and also Income from Salaries.

Answer: ₹ 38,462; ₹ 1,68,742

Question 37: Mr. Sonu gets an accommodation from his employer on 1.4.2019. Such accommodation is taken on hire by the employer at a monthly rent of ₹10,000. Mr. Sonu has actually occupied the property on 1.8.2019. ₹2,000 has been deducted from his salary for such accommodation. Determine the taxable value of perquisites in the hands of Mr. Sonu. [Salary of the employee ₹ 50,000 p.m.]

(F) PROBLEMS ON COMPUTATION OF SALARIES

Question 38: Mr. X working in A Ltd. have a basic salary of ₹5,000 p.m. He also received Dearness Allowance ₹4,000 p.m. [of which 40% forms part of salary] and Children Education Allowance 400 p.m. per child (He has two children and spends ₹50 p.m. on their education). He also received Conveyance Allowance ₹1,000 p.m. (Mr. X spent ₹800 p.m. on Conveyance for Official use) and ₹1,000 p.m. as Medical Allowance and spent ₹750 p.m. towards Medical expenses. Compute his Taxable Salaries.

Question 39: The Basic Salary of an employee is ₹1,00,000 p.m. Gifts from employer received during the year – one camera valued at ₹ 15,000. Meals provided by employer at office premises for 300 days valued at ₹ 80 per meal. Amount recovered from employee ₹ 20 per meal. Initial corporate membership fees ₹ 50,000. Loan given by employer interest free ₹ 1,00,000. [SBI rate of interest 10 % p.a.] Compute Taxable Salaries.

Question 40: The Basic Salary of an employee is ₹ 50,000 p.m. Bonus equal to 1 month Basic salary. Dearness allowance (not forming part of retirement benefits) ₹ 10,000 p.m. Both employer and employee contributed 15 % of Salary to Recognised Provident Fund. Professional tax ₹ 2,000 paid by employer and ₹ 500 paid by employee. Compute Taxable Salaries.

Question 41: Mr. Rahul is an employee of ABC Pvt. Ltd. His basic salary for the year 2019-20 was ₹ 20,000 per month. He also received House rent allowances of ₹ 4,000 p.m. although he resides in his own house. Further, Furnitures costing ₹ 1,50,000 (Purchased by the company on 15.08.2015) was given at his house for use from 01.04.2019. Later, on 1.8.2019 those furniture were sold to him at ₹ 30,000. Compute His Taxable salaries for the financial year 2019-20.

Question 42: Mr. Yogesh, working as a Govt. Employee Since 01.11.1991 in Kolkata. During the financial year 2019-20 he has received ₹ 40,000 per month as basic Salary and Dearness allowances of ₹ 10,000 per month. DA is not forming part of salary. He retired from his service on 31.12.2019. At retirement, he had received Gratuity of ₹ 4,00,000 and His pension was fixed at ₹ 15,000 per month. On 01.02.2019 he had one half of his pension commuted for ₹ 3,00,000. He also received accumulated balance of ₹ 6,00,000 from his Provident Fund Account. Compute his Taxable income under the head salaries for the Year 2019-20.

Question 43: Mrs. S, an Indian Citizen, who was working in the CU as a reader is deputed to Indian High Commission of UK for a period of 3 years from 1.4.2019. She will get a salary of ₹ 7500 p.m. Overseas Allowance ₹ 1500 p.m., a rent free accommodation in London of the fair rental value of ₹ 2500 p.m. a fiat car for use in UK at free of cost and actual air fare from Kolkata to London ₹ 60000. She left Kolkata on 25th March, 2019 for London and was paid her air fare there in London. Throughout the year she remained in London. Compute Income from Salaries.

Solution to Question 43: Section 10(7) provides exemption to an individual being an Indian citizen who has been deputed outside India for services outside India by Government in respect of all allowances and perquisites. Therefore, in the given case only Basic Salary of ₹90,000 shall be taxable. Further, Mrs. S shall be entitled to get a standard deduction of ₹ 40,000. Hence, taxable Salaries shall be ₹ 50,000.

Question 44: Compute Income from Salaries in each of the following cases

Situation 1: Basic Salary from X Ltd. from 1/4/2019 to 31/3/2020 @ ₹10,000 p.m.
 Basic Salary from Y Ltd. from 1/4/2019 to 31/3/2020 @ ₹15,000 p.m.
 X Ltd. has provided a rent free Accommodation owned by it to the employee.

Situation 2: Basic Salary from X Ltd. @ ₹10,000 p.m. The employee received salary for 15 months including advance salary from 1/4/2020 to 30/6/2020. The employer provided a rent free accommodation to the employee.

Question 45: Basic Salary of Suresh (an employee working in ABC Ltd.) amounted to ₹ 12,00,000 p.a. Suresh owns a House Property which he let out to his employer @ 25,000 p.m. The employer gave the same house to him as a rent free Accommodation. Medical insurance premium paid by employer ₹ 10,000. The employer also provided a Motor Car of 1.6 ltr engine capacity used by him for both partly personal and partly official use. Compute Total Income.

SOLUTIONS

Solution to Question 30:

Assessee: Mr. X
Status: Individual

Previous Year : 2019-20
Assessment Year: 2020-21

**Computation of Taxable amount of Gratuity
(When not covered under The Payment of Gratuity Act)**

PARTICULARS	AMOUNT	AMOUNT
Gratuity Received		₹275000
<u>Less: Exempted U/s 10(10) – Least of the following</u>		
(i) Amount of Gratuity actually received	₹ 275000	
(ii) ½ month salary for every completed year of service (13000 X 1/2 X 25)	₹ 162500	
(iii) Maximum Exemption Limit	<u>₹ 2000000</u>	<u>₹162500</u>
Taxable amount of Gratuity		<u>₹ 112500</u>

Note 1: Calculation of 10 months average salary: $(10000 \times 4 + 15000 \times 6)/10 = (40000 + 90000)/10 = 13000$