S A L A R I E S ~ I

Section 14: Heads of Income

1. Salaries [Section 15 to17]
2. Income from house property (IHP) [Section 22 to 27]
3. Profit & gains of business profession (PGBP) [Section 28 to 44 DB]
4. Capital gains [Section 45 to 55]
5. Income from other source (IOS) [Section 56 to 59]

Important concepts relating to Salaries

1) Employer & Employee relationship :

- If relationship dose not exist – Income is assessable under the head "IOS".
- If a relationship exists – Income is assessable under the head "Salaries".
- The relation is said to exist if relation between employer & employee is that of master and servants. A Master is one who not only directs what and when a thing is to be done but how it is to be done, and the servant is one who is bound to carry out the instruction given to him by his Master.
- Remuneration received from part-time employment is also taxable as salaries.
- If salaries are received from more than one employer then salaries from all employers will be aggregated.

2) Place of Accrual [Section 9(1)] :

Salary will be deemed to accrue or arise at a place where services are rendered

Exception :

If employee is Citizen of India + Government employee + renders service outside India then :
- Salary = Treated as income accrued in India
- Perquisites / allowances "received outside India" = Exempt U/S 10 (7)

3) Surrender of salary :

Any salary surrendered by the employee to the Central Government, under the ***Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961***, will not be included while computing his taxable income, whether he is a private sector or public sector or Government employee.

4) Foregoing of salary :

Once salary has been earned by an employee, it becomes taxable in his hands. Therefore any waiver of salary from employer would be treated as an application of the income and would be taxable in the hands of employee because "As and when the right arises there is corresponding obligation to pay".

5) Salary and wages not distinct :

Ordinarily expression :

"Salary" is used in connection with ***non- manual*** type of service whereas
"Wages" is used in connection with ***manual*** type of service.

However, conceptually, there is no difference between salary and wages as per Income Tax Act, 1961.

Section 15: Basis of Charge

Following income shall be changeable to income –tax under the head "salaries" :

a) Any salary "due" in the previous year, whether received by employee in the previous year or not [i.e. outstanding salary & salary received].

b) Any salary received by employee in the P.Y. though not due in P.Y. [i.e. advance salary].

c) Any amount received by employee against arrears of salary in the P.Y. if not charged to income tax in any earlier P.Y. [i.e. outstanding salary of earlier year (s)].

In other words :

Although salary is taxable on 'due' or 'receipt' basis whichever is earlier, but if there are any arrears of salary which have not been taxed in the past, such arrears will be taxed in the year in which these arrears are received by the employee.

Computation of income from Salaries

		Rs.
Basic Salary & other form of salary		********
Allowances		********
Perquisites		********

Gross Salary		********
Less : Deductions u/s 16 :		
Entertainment Allowance u/s 16 (ii)	********	
Professional Tax u/s 16 (iii)	********	********
	-----------	-----------
Income from Salaries		********
		=======

Treatment of various incomes to be included in Gross Salary

1) Wages

Wages are taxable on the same basis as salary

2) Annuity [Section 17(1)(ii)]

Annuity is an annual grant

Nature of Annuity	Taxability
Made by present employer	"Salaries".
Made by former employer	"Profit in lieu of salary"
Annuity received from a person other than employer under an insurance policy or under a will or under a contract	"IOS"

3) <u>Death-Cum-Retirement gratuity</u>

Gratuity is a payment made by the employer to an employee in appreciation of past services rendered by the employee. Gratuity if received by :

- ❖ The employee himself at the time of his retirement ----> Taxable as "Salaries".
- ❖ The legal heir on the event of the death of the employee ----> Taxable as "IOS".

However is both of the above cases gratuity is exempt up to certain limit under Section 10 (10).

Gratuity

Received from Govt./ Local Authorities	Received under Payment of Gratuity Act, 1972	Others (i.e. Private Sector Employees)

<u>Received from Govt. / Local Authorities</u> :

Fully exempt U/S 10 (10) (i).

<u>Received under Payment of Gratuity Act</u> :

Least of the following is exempt U/S 10 (10) (ii) :

i) Actual amount.
ii) 15 days (7 days in case of seasonal establishments) ***salary*** for every ***completed year of service*** <u>or part thereof in excess of 6 months</u>.
iii) Rs. 3,50,000/- (Rs. 10,00,000 if retire/become incapacitated before retirement/expire/terminated, on or after the 24th May, 2010).

<u>Notes</u> :

1. For the purpose of calculating ***completed year of service***:
   Period ≤ 6 Months -------> Ignore.
   Period > 6 Months -------> Take as a completed year.
2. ***"Salary"*** for this purpose means salary last drawn by employee.
3. **"Salary"** = Basic Salary + Dearness Allowance (D.A.)
4. The no. of days in a month will be taken as 26 working days. Therefore the monthly salary will be divided by 26 and multiplied by 15.
5. In case of employees of seasonal establishments 7 days wages will be multiplied by no. of seasons (instead of no. of completed years).
6. In case of piece rated employees, for calculating 15 days salary, daily wages shall be computed on the basis of average of total wages received during last 3 months. However wages paid for any overtime work will not be included.

<u>Others employees</u> :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount.
ii) 1/2 month's ***Average salary*** for every completed year of service.
iii) Rs. 3,50,000/- (Rs. 10,00,000 if retire/become incapacitated before retirement/expire/terminated, on or after the 24th May, 2010).

Notes :

1. ***Average salary*** = Average of salary of last 10 months.
2. Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee [***Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)***].

   In other words D.A. will be included only to the extent it is part of the salary for this purpose.
3. While calculating completed year of service any fraction of a year will be ignored.
4. Where gratuities are received by an employee from more than one employer in the same previous year, the aggregate maximum amount of gratuity exempt from tax u/s 10 (10) (iii) cannot exceed Rs. 3,50,000/10,00,000. If an employee, who has received gratuity in any earlier year(s) from his former employer(s), receives gratuity from another employer in a later year, the aforesaid limit of Rs. 3,50,000/10,00,000 will be reduced by the amount(s) of gratuity exempt from tax u/s 10 (10) (iii) in any earlier year(s). This provision is not applicable for the employees getting exemption /s 10 (10) (ii) [i.e. employees covered under Payment of Gratuity Act].

4) Pension

Pension is a payment made by the employer after the retirement / death of the employee as a reward for past service. Pension is normally paid as a periodical payment on monthly basis but certain employers also allow the pension to be fully or partly commuted i.e. in lieu of the pension, a lump sum payment is made to the employee. The treatment of these two kinds of pension is as under :

i) Uncommuted pension i.e. the periodical pension :

Fully taxable in the hands of Government as well as Non-Government employees.

ii) Commuted pension :

❖ Exemption in case of employees of Government [Section 10 (10A) (i)] :

Entire commuted pension is exempt.

❖ Exemption in case of Non-Government employees [Section 10 (10A) (ii)] :

Commuted pension is exempt to the following extent :

A. Where employee receives gratuity also : 1/3 of ***Commuted value of full pension***.

B. Where the employee does not receive gratuity : 1/2 of ***Commuted value of full pension.***

Notes :

1. Government employee means an employee of Central Government, State Government, Local Authority and Statutory Corporation.
2. Family pension received by legal heirs after the death of employee is taxable as IOS because in this case no relationship of employer and employee exists.

5) Leave Salary

i) Encashment of leave during the tenure of service :

Fully taxable.

ii) Encashment of leave at the time of retirement :

Central / State Government Employees [Section 10 (10AA) (i)] :

Fully exempt.

Other employees (including employees of Local Authorities & Public Sector Undertaking [Section 10 (10AA) (ii)] :

Least of the following is exempt :

a) Actual amount
b) 10 Months Average Salary
c) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary
d) Rs. 3,00,000/-

Notes :

1. Salary = Basic salary + D.A. if terms of employment so provide. + Commission based on fixed % of turnover received by the employee [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)].
2. Average Salary = Average of salary drawn during the period of last 10 months.
3. Leave Salary received by the legal heirs of the employee is not taxable as salary. It is an ex-gratia payment on compassionate grounds in the nature of gift.
4. If the employee had received leave encashment in any one or more earlier previous year(s) also and had availed of the exemption in respect of such amount, then the limit specified in clause(d) above [i.e. Rs. 3,00,000] shall be reduced by the amount of exemption(s) availed earlier.
5. Where the leave encashment is received by the employee from more than one employer in the same previous year, the maximum amount exempt from tax will not exceed the limit specified in clause (d) above.

6) Retrenchment Compensation [Section 10 (10B)]

Least of the following is exempt :

i) Actual amount received
ii) 15 days' ***Average Pay*** for every completed year of service or part thereof in excess of 6 months
iii) Rs. 5,00,000/-

Notes :

1. Under the Industrial Dispute Act, 1947 a workman is entitled to retrenchment compensation equal to 15 days ***'average pay'*** for every completed year of service or part thereof in excess of 6 months.

   'average pay' for this purpose means the average of wages payable to a workman :
   a) In case of monthly paid workmen, in the 3 complete calendar months;
   b) In case of weekly paid workmen, in the 4 complete weeks;
   c) In case of daily paid workmen, in the 12 full working days
   preceding the date on which the average pay becomes payable.

   For income tax purpose mentioned above same ***'average pay'*** will be considered.

2. Compensation received by a workman at the time of the closing down of the undertaking is treated as retrenchment compensation.

3. Compensation received by a workman at the time of transfer of ownership / management of the undertaking in which he is employed is treated as retrenchment compensation.

4. Where retrenchment compensation is received by a workman in accordance with any scheme approved by the Central Government, the entire amount of compensation so received shall be exempt.

7) Compensation received on Voluntary Retirement Scheme (VRS) [Section 10 (10C) read with Rule 2BA]

This scheme is also known as **'Golden Handshake Scheme'**.

- VRS is exempt subject to least of the following :

  1) The amount equivalent to 3 months salary for each completed year of service
  2) Salary at the time of retirement x No. of months service left before retirement
  3) Rs. 5,00,000/-

  Note : ***Salary*** means Basic salary + D.A. if terms of employment so provide + Commission based on fixed % of turnover received by the employee [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)].

- Exemption is available only once in lifetime.

- **Rule 2BA :**

  Exemption U/S 10 (10C) is available only if it is in accordance with the following requirements namely :

  1) Employee has completed 10 years of service or completed 40 years of age.
  2) Vacancy caused under VRS is not to be filled up.
  3) Retiring employee of a ***company*** shall not be employed in another company or concern under the same management.

8) Bonus

Taxable on ***receipt*** basis and not on due or receipt basis whichever is earlier.

Note : It is a rule of interpretation that specific provision prevails over general provision.

9) Fee & Commission

Any fee/commission paid or payable is fully taxable.

10) Overtime Payments

Fully taxable.

S A L A R I E S ~ I

PRACTICAL PROBLEMS

Question No. 1 :

R retires on 4-1-2011 after serving XY Company Ltd. for a period of 16 years and 11 months. At the time of retirement his basic salary was Rs. 4,400/- per month and he was also entitled to Dearness Allowances of Rs. 800/- per month. On his retirement, he received Rs. 60,000/- as gratuity. Compute the amount of gratuity exempt from tax and the amount to be included in gross salary. He is covered under the Payment of Gratuity Act.

Question No. 2 :

X is a piece-rated employee. He retires on June 20, 2010. During the period March 21, 2010 to June 20, 2010, he has been paid total wages of Rs. 32,780, which includes overtime payment of Rs. 8,200. Calculate his 15 days' salary for the purpose of Section 10(10)(ii).

Question No. 3 :

R, who was employed with P Company Ltd. Retired on 21-10-2010, received Rs. 1,20,000/- as gratuity. He served the company for 26 years and 8 months. At the time of retirement, his salary was Rs. 5,000 per month. However, the average salary for 10 months preceding the month of retirement is Rs. 4,800/- per month. He is not covered under the Payment of Gratuity Act, 1972. Compute the taxable gratuity.

Question No. 4 :

Determine the taxable amount of pension for the A.Y. 2011-12 in the following cases :

a) X retires from the Central Government services on May 31, 2010. He gets pension of Rs. 900 per month up to January 31, 2011. With effect from February 1, 2011, he gets one-third of his pension commuted for Rs. 62,000.

b) X retires from B Ltd. On July 31, 2010. He gets pension of Rs. 1,000 per month up to December 31, 2010. With effect from January 1, 2011 he gets 60% of pension commuted for Rs. 1,70,000. Does it make any difference if he also receives gratuity of Rs. 3,000 at the time of retirement ?

Question No. 5 :

X retires on March 16, 2011 from a private sector company. According to the service rules, he is entitled for 24 days leave for each year of completed service. The following information is available from the records of the employer-company :

Duration of service	32 years
Gross leave entitlement (32 years x 24)	768 days
Less : Leave actually availed while in service	108 days
Balance	660 days
Less : Leave encashment taken during 1999-00	390 days
Balance	270 days
Less : Leave encashment taken on May 10, 2010 [@ Rs. 5,000 per month]	60 days
Leave standing to the credit of X at the time of retirement	210 days

Salary and dearness allowance paid to X prior to retirement are as follows :

Period	Basic salary per month (Rs.)	Dearness allowance per month (62% is part of salary for determining retirement benefit) (Rs.)
January 1, 2010 to October 31, 2010	4,000	1,000
November 1, 2010 to March 16, 2011	5,000	1,250

Accordingly, he has been paid Rs. 43,750 (i.e. Rs. 6,250 x 210/30) at the time of retirement on March 16, 2011. Find out the amount of leave salary chargeable to tax for the Assessment Year 2011-12.

Question No. 6 :

X is servicing in ABB Ltd. He was retrenched on 31.03.2011. Calculate amount exempt from the following information :

Actual amount received = Rs. 6,50,000

15 days' ***Average Pay*** for every completed year of service or part thereof in excess of 6 months = Rs. 4,12,500

Question No. 7 :

R is employed in a public company and is paid a sum of Rs. 7,00,000 on voluntary retirement from service. The normal age of retirement in the company is 60 years and R who was 46 years at the time of retirement has completed 22 years of service. His monthly salary at the time of retirement was as follows :

	Rs.
Basic Pay	10,000
D. A. (40% includible for pension)	7,000
House Rent Allowances	4,000
Conveyance Allowance	1,000

What is the amount of compensation taxable under the Income Tax Act, 1961 ?

Question No. 8 :

(a) Mr. X is in employment of A Ltd. till June 30, 2010 (salary being Rs. 25,000 per month which becomes "due" on the first day of next month). On July 1, 2010, X joins B Ltd. (salary being Rs. 30,000 per month which becomes "due" on the last day of each month). Salary is actually paid on the seventh day of the next month in both cases.

(b) Assume in the above problem that salary becomes "due" on the last day of each month in the case of A Ltd. and on the first day of the next month in case of B Ltd.

Find out the amount of salary chargeable to tax for the Assessment Year 2011-12 in the above two cases.

S A L A R I E S ~ I

SOLUTIONS TO PRACTICAL PROBLEMS

Answer to Question No. 1 :

Least of the following is exempt U/S 10 (10) (ii) :

i) Actual amount = Rs. 60,000

ii) 15 days (7 days in case of seasonal establishments) ***salary*** for every ***completed year of service*** or part thereof in excess of 6 months = 5,200 (i.e. 4,400+800) x 15/26 x 17 = Rs. 51,000

iii) Rs. 3,50,000/- (Rs. 10,00,000 if retire/become incapacitated before retirement/expire/terminated, on or after the 24th May, 2010) = Rs. 10,00,000

Therefore, gratuity exempt from tax = Rs. 51,000

Amount to be included in gross salary = Rs. 60,000 – Rs. 51,000 = Rs. 9,000/-

Answer to Question No. 2 :

	Rs.
Wages of 3 months ending on the date of retirement	32,780
Less : Payment for overtime	8,200
Balance	24,580
One month's salary (Rs. 24,580/3)	8,193
15 days salary (8,193 x 15/26)	4,727

Answer to Question No. 3 :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount = Rs. 1,20,000

ii) 1/2 month's ***Average salary*** for every completed year of service = 4,800/2 x 26 = Rs. 62,400

iii) Rs. 3,50,000/- (Rs. 10,00,000 if retire/become incapacitated before retirement/expire/terminated, on or after the 24th May, 2010) = Rs. 10,00,000

Therefore, gratuity exempt from tax = Rs. 62,400

Amount to be included in gross salary = Rs. 1,20,000 – Rs. 62,400 = Rs. 57,600/-

Answer to Question No. 4 (a) :

In case of Govt. employee commuted pension is fully exempt while uncommuted pension is fully taxable.

Commuted pension : Rs. 62,000 = Fully exempt

Uncommuted pension :

Uncommuted pension up to January 31, 2011 (i.e. Rs. 900 x 8)	7,200
Uncommuted pension from February 1, 2011 to March 31, 2011 (i.e. Rs. 900 x 2/3 x 2)	1,200
Total Uncommuted pension chargeable to tax as salary	8,400

Total pension chargeable to tax as salary :	
Commuted pension (fully exempt)	Nil
Uncommuted pension	8,400
	8,400

Answer to Question No. 4 (b) :

If X does not receive Gratuity :

Commuted pension :

Commuted value of 60% of pension	1,70,000
Commuted value of full pension (i.e. 100% of pension) [1,70,000 x 100/60]	2,83,333
Amount exempt (1/2 of commuted value of full pension i.e. 2,83,333 x ½)	1,41,667
Commuted pension chargeable to tax as salary (i.e. Rs. 1,70,000 – Rs. 1,41,667)	28,333

Uncommuted pension :

Uncommuted pension from July 31, 2010 to December 31, 2010 (i.e. Rs. 1,000 x 5)	5,000
Uncommuted pension from January 1, 2011 to March 31, 2011 (i.e. Rs. 1,000 x 40% x 3)	1,200
Total Uncommuted pension chargeable to tax as salary	6,200
Total pension chargeable to tax as salary :	
Commuted pension	28,333
Uncommuted pension	6,200
	34,533

If X receives Gratuity :

Commuted pension :

Commuted value of 60% of pension	1,70,000
Commuted value of full pension (i.e. 100% of pension) [1,70,000 x 100/60]	2,83,333
Amount exempt (1/3 of commuted value of full pension i.e. 2,83,333 x 1/3)	94,444
Commuted pension chargeable to tax as salary (i.e. Rs. 1,70,000 – Rs. 94,444)	75,556

Uncommuted pension :

Uncommuted pension from July 31, 2010 to December 31, 2010 (i.e. Rs. 1,000 x 5)	5,000
Uncommuted pension from January 1, 2011 to March 31, 2011 (i.e. Rs. 1,000 x 40% x 3)	1,200
Total Uncommuted pension chargeable to tax as salary	6,200
Total pension chargeable to tax as salary :	
Commuted pension	75,556
Uncommuted pension	6,200
	81,756

Answer to Question No. 5 :

Least of the following is exempt :

a) Actual amount = Rs. 43,750

b) 10 Months Average Salary = Rs. 51,590 ***(Note 1)***

c) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary = Rs. 36,113 ***(Note 2)***

d) Rs. 3,00,000/-

Therefore amount exempt from tax u/s 10(10AA)(ii) = Rs. 36,113

Amount of Leave Salary chargeable to tax for the A.Y. 2011-12 :

Leave encashment taken on May 10, 2010 (i.e. Rs. 5,000 x 60/30) (Fully taxable because taken during tenure of service)		10,000
Leave encashment received at the time of retirement	43,750	
Less : Exempt u/s 10(10AA)(ii)	36,113	7,637
		17,637

Notes :

1. 10 Months' Average Salary :

Period	Basic salary	Dearness allowance (Basic Salary x 25% x 62%)
17.05.2010 to 31.10.2010 (5 months and 15 days)	22,000 [(4,000 x 5) + (4,000 x 15/30)]	3,410
01.11.2010 to 16.03.2011 (4 months and 16 days)	22,667 [(5,000 x 4) + (5,000 x 16/30)]	3,513
	44,667	6,923
Total of 10 Months	51,590 (i.e. 44,667 + 6,923)	
Average monthly salary	5,159 (i.e. 51,590/10)	
10 Months' Average Salary	51,590 (i.e. 5,159 x 10)	

2. Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary :

   Period of earned leave (in no. of months) to the credit of the employee at the time of retirement = 210/30 = 7 months

   Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary = 7 months x Rs. 5,159 = 36,113

Answer to Question No. 6 :

Least of the following is exempt :

i) Actual amount received = Rs. 6,50,000

ii) 15 days' ***Average Pay*** for every completed year of service or part thereof in excess of 6 months = Rs. 4,12,500

iii) Rs. 5,00,000/-

Therefore amount exempt from tax = Rs. 4,12,500 &

Amount taxable = Rs. 2,37,500 (i.e. Rs. 6,50,000 – Rs. 4,12,500)

Answer to Question No. 7 :

As per Section 10 (10C) read with Rule 2BA the exemption allowed shall be minimum of the following 3 limits :

1) The amount equivalent to 3 months salary for each completed year of service = Rs. 8,44,800 ***(Note 1)***

2) Salary at the time of retirement x No. of months service left before retirement = Rs. 21,50,400 ***(Note 2)***

3) Rs. 5,00,000/-

Therefore Rs. 5,00,000 will be exempt and Rs. 2,00,000 will be taxable.

Note :

1) The amount equivalent to 3 months salary for each completed year of service :

   Salary means Basic salary + D.A. if terms of employment so provide + Commission based on fixed % of turnover received by the employee [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)] = Rs. 10,000 + 2,800 (i.e. 7,000 x 40%) = Rs. 12,800

   The amount equivalent to 3 months salary for each completed year of service = Rs. 12,800 x 3 x 22 = Rs. 8,44,800

2) Salary at the time of retirement x No. of months service left before retirement :

   = Rs. 12,800 x 168 months (14 years x 12) = Rs. 21,50,400

Answer to Question No. 8 (a) :

Months	Due Date	Receipt Date	"Due" date or "receipt" date whichever is earlier	Amount (Rs.)
1. March, 2010	01.04.2010	07.04.2010	01.04.2010	25,000
2. April, 2010	01.05.2010	07.05.2010	01.05.2010	25,000
3. May, 2010	01.06.2010	07.06.2010	01.06.2010	25,000
4. June, 2010	01.07.2010	07.07.2010	01.07.2010	25,000
5. July, 2010	31.07.2010	07.08.2010	31.07.2010	30,000
6. August, 2010	31.08.2010	07.09.2010	31.08.2010	30,000
7. September, 2010	31.09.2010	07.10.2010	31.09.2010	30,000
8. October, 2010	31.10.2010	07.11.2010	31.10.2010	30,000
9. November, 2010	30.11.2010	07.12.2010	30.11.2010	30,000
10. December, 2010	31.12.2010	07.01.2011	31.12.2010	30,000
11. January, 2011	31.01.2011	07.02.2011	31.01.2011	30,000
12. February, 2011	28.02.2011	07.03.2011	28.02.2011	30,000
13. March, 2011	31.03.2011	07.04.2011	31.03.2011	30,000
Salary chargeable to tax				**3,70,000**

Answer to Question No. 8 (b) :

Months	Due Date	Receipt Date	"Due" date or "receipt" date whichever is earlier	Amount (Rs.)
1. April, 2010	30.04.2010	07.05.2010	30.04.2010	25,000
2. May, 2010	31.05.2010	07.06.2010	31.05.2010	25,000
3. June, 2010	30.06.2010	07.07.2010	30.06.2010	25,000
4. July, 2010	01.08.2010	07.08.2010	01.08.2010	30,000
5. August, 2010	01.09.2010	07.09.2010	01.09.2010	30,000
6. September, 2010	01.10.2010	07.10.2010	01.10.2010	30,000
7. October, 2010	01.11.2010	07.11.2010	01.11.2010	30,000
8. November, 2010	01.12.2010	07.12.2010	01.12.2010	30,000
9. December, 2010	01.01.2011	07.01.2011	01.01.2011	30,000
10. January, 2011	01.02.2011	07.02.2011	01.02.2011	30,000
11. February, 2011	01.03.2011	07.03.2011	01.03.2011	30,000
Salary chargeable to tax				**3,15,000**

SALARIES ~ II

ALLOWANCES

Allowance is a fixed monetary amount paid by the employer to the employee for meeting some particular expenses, whether personal or for the performance of his duties.

Type of Allowances

- HRA
- Special Allowances
- Entertainment Allowance
- Allowances Exempt in case of certain persons
- Fully Taxable Allowances

A. House rent allowance (HRA) [Section 10 (13A) & Rule 2A]

Least of the following is exempt :

i) Actual amount received

ii) Rent paid – 10 % of ***Salary***

iii) 50 % of ***Salary*** if rented house is situated in any one of the 4 metropolitan cities & 40 % of ***Salary*** in other cases.

Notes :

1. ***Salary*** means Basic salary + D.A. if terms of employment so provide. + Commission based on fixed % of turnover received by the employee [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)].
2. Where employee has not actually incurred expenditure on payment of rent or stays in his own accommodation, no exemption of HRA available.
3. Salary is to be taken on ***due*** basis in respect of the period during which the rented house is occupied by the employee. The salary of any other period is not to be included even though it may be received and taxed during the P.Y. (e.g. arrears of salary received during the P.Y.).

B. Special allowances [Section 10 (14) & Rule 2BB]

I. Some allowances are exempt to the extent of least of the following :

1. Actual amount ***received*** from employer
2. Amount spent for the purpose for which allowance received.

These allowances are as follows :

i) Travelling allowance (includes any sum paid in connection with transfer e.g. packing and transportation of personal effects)

ii) Daily allowance

iii) Conveyance allowance

iv) Helper/Assistant allowance

v) Academic allowance/Research allowance/Professional development allowance

vi) Uniform allowances

II. Some allowances are exempt to the extent of least of the following :

1. Actual amount ***received*** from employer
2. Limit Specified

These allowances are as follows :

Name of allowance	Limit specified
a) Children education allowance	**a) Rs. 100 per month per child up to a maximum of 2 children**
b) Hostel expenditure allowance	**b) Rs. 300 per month per child up to a maximum of 2 children**
c) Tribal area allowance	**c) Rs. 200 per month**
d) Transport allowance	**d) Blind or orthopedically handicapped with disability of lower extremities : Rs. 1,600 per month** **Other employees : Rs. 800 per month**
e) Underground allowance	**e) Rs. 800 per month**
f) Compensatory field area allowance	f) Rs. 2,600 per month
g) Compensatory, modified field area allowance	g) Rs. 1,000 per month
h) Special compensatory highly active field area allowance.	h) Rs. 4,200 per month
i) Counter insurgency allowance to members of armed forces operating in areas away from their permanent locations	i) Rs. 3,900 per month
j) Special compensatory hilly area allowance or high altitude allowance	j) Rs. 300 to Rs. 7,000 per month
k) Border area / remote area / disturbed area allowance	k) Rs. 200 to Rs. 1,300 per month
l) High altitude (uncongenial climate) allowance	l) Available to members of armed forces only. <u>Altitude of 9,000 ft. to 15,000 ft.</u> : Rs. 1,060 per month <u>Altitude above 15,000 ft.</u> : Rs. 1,600 per month
m) Island (duty) allowance	m) Given to the members of armed forces in the Andaman & Nicobar and Lakshadweep Group of island. Limit Specified : Rs. 3,250 per month

Note : Since above allowances are exempt to the extent of amount received or limit specified, whichever is less, ***actual*** expenditure in this case has no relevance.

III. Allowances where exemption is allowed up to certain % of amount *received* :

Allowance allowed to transport employees :

If any fixed allowance is given to meet personal expenditure during duty then least of the following shall be exempt :

a) 70 % of the amount received
b) Rs. 10,000/- per month

Note : Exemption will be allowed to transport employees only when they are not in receipt of ***daily allowance***.

C. Entertainment Allowance [Section 16(ii)]

- In case of Government employees : Deduction available.
- In case of Non-Government employees : No deduction.
- Deduction is available to the extent of least of the following :
  - i) Actual amount received
  - ii) 20 % of ***Salary***
  - iii) Rs. 5,000/-

Notes :

1. Sumptuary allowance has to be treated as an entertainment allowance.
2. Salary for this purpose means basic salary.

D. Allowances which are exempt in case of certain persons

1. Any allowance paid to a Citizen of India, who is a Government employee, rendering services outside India provided allowance is "received outside India" by employee [Section 10 (7)].
2. Any allowance paid to a judge of High Court U/S 22A (2) of the High Court Judges (Conditions of Services) Act, 1954.
3. Sumptuary allowance paid to a judge of High Court or Supreme Court.
4. Any allowance paid to an employee of United Nations Organization (UNO).

E. Allowances which are fully taxable

All other allowances, except those discussed above, are fully taxable. Some of these are as follows :

i) Dearness Allowance (DA)

ii) City Compensatory Allowance (CCA)

iii) Medical allowance

iv) Lunch allowance / Tiffin allowance

v) Overtime allowance

vi) Servant allowance

vii) Family allowances

viii) Warden allowance.

DEDUCTIONS FROM SALARIES [SECTION 16]

From the ***Gross Salary*** following 2 deductions are allowed :

1. Entertainment Allowance [Section 16(ii)]

Already discussed.

2. Professional tax / Tax on employment [section 16(iii)]

- Deduction is available in the year in which professional tax is ***paid***.
- Since professional tax is deductible in P.Y. on ***payment basis***, any amount paid during the P.Y. is deductible [whether relating to preceding year (s) or succeeding year (s)].
- Any amount paid for professional tax is deductible because under Income Tax Act, 1961, no monetary ceiling has been prescribed for payment of professional tax.
- If the professional tax is paid by the employer on behalf of the employee, it is first included in the salary of the employee as a "perquisite" (since it is an obligation of the employee discharged by the employer) and then the same amount is allowed as deduction on account of "professional tax" from gross salary.
- If the professional tax is paid by the employer on behalf of the employee, it becomes taxable whether the employee is a 'specified employee' or not.

S A L A R I E S ~ I I

PRACTICAL PROBLEMS

Question No. 1 :

A is entitled to a basic salary of Rs. 5,000/- p.m. and dearness allowance of Rs. 1,000/- per month, 40% of which forms part of retirement benefits. He is also entitled to HRA of Rs. 2,000 p.m. he actually pays Rs. 2,000/- p.m. as rent for a house in Delhi. Compute the taxable HRA.

Question No. 2 :

Mr. X is employed with ABC Ltd. on a basic salary of Rs. 6,000/- per month. He is also entitled to dearness allowance of 20% of basic salary. 70% of the dearness allowance is included in salary for retirement benefit. The company gives him HRA of Rs. 3,000/- p.m.

With effect from 1-1-2011 he receives an increment of Rs. 1,000/- in his basic salary.

During the P.Y. 2010-11 he has received arrears of salary pertaining to earlier years amounting to Rs. 8,000/-.

X was staying with his parents till 31-10-2010. From 1-11-2010 he takes an accommodation on rent in Delhi and pays Rs. 2,500/- per month as rent for the accommodation.

Compute his Gross Salary for the A.Y. 2011-12.

Question No. 3 :

Calculate the amount of exemption u/s 10 (14) for the A.Y. 2011-12 from the following particulars :

1. X is employed in Indore (Madhya Pradesh). He has been allowed the following allowances :

Allowances	Amount of allowance (Rs.)	Expenses incurred during P.Y. 2010-11 for the purpose for which allowance is paid (Rs.)
Tribal area allowance	6,000	Nil
Education allowance for first child	2,000	200
Education allowance for second child	240	600
Education allowance for third child	780	50
Helper allowance for office purposes	3,000	3,600
Uniform allowance for purchase and maintenance of uniform for official purposes	6,400	2,000
Research allowance	9,000	10,000
Conveyance allowance for office purposes	15,000	8,500
Transport allowance for commuting between office and residence	10,000	Nil
Medical allowance	4,800	4,800

2. Y is employed as a driver in a transport undertaking. During the P.Y. 2010-11, he has been paid Rs. 84,000 being allowance to meet his personal expenditure in course of running trucks from one place to another. He is not in receipt of any daily allowance. The expenditure incurred is, however, Rs. 30,000.

Question No. 4 :

X, an employee of Central Government, gets Rs. 6,000/- p.m. as basic salary and is entitled to Rs. 1,500 p.m. as entertainment allowance. Compute the deduction under Section 16(ii) from gross salary in respect of entertainment allowance.

S A L A R I E S ~ I I

SOLUTIONS TO PRACTICAL PROBLEMS

Answer to Question No. 1 :

Least of the following is exempt u/s 10 (13A) :

		Rs.
i)	Actual amount received (Rs. 2,000 x 12)	24,000
ii)	Rent paid – 10 % of ***Salary*** [(Rs. 2,000 x 12) – (10% of 64,800)]	17,520
iii)	50 % of ***Salary*** (50% of Rs. 64,800)	32,400

HRA exempt from tax = Rs. 17,520.

Taxable HRA = Rs. 24,000 – Rs. 17,520 = Rs. 6,480

Working Note :

Salary for the above purpose is calculated as under :

Basic Salary (Rs. 5,000 x 12)	60,000
DA [40% of (Rs. 1,000 x 12)]	4,800
	64,800

Answer to Question No. 2 :

Computation of Gross Salary

Name of assessee : Mr. X
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	Rs.
Basic Salary [Rs. 6,000 x 9) + (Rs. 7,000 x 3)]		75,000
Dearness allowance (20% of Rs. 75,000)		15,000
Arrears of Salary		8,000
HRA received (Rs. 3,000 x 12)	36,000	
Less : Exemption u/s 10 (13A) ***[Refer Note]***	8,738	27,262
Gross Salary		1,25,262

Note :

a) Exemption in respect of HRA for the period 1-4-2010 to 31-10-2010 shall not be available because Mr. X has not actually incurred expenditure on payment of rent during this period.

b) Exemption in respect of HRA for the period 1-11-2010 to 31-12-2010 shall be available as under :

Least of the following is exempt u/s 10 (13A) :

		Rs.
i)	Actual amount received (Rs. 3,000 x 2)	6,000
ii)	Rent paid – 10 % of ***Salary*** [(Rs. 2,500 x 2) – (10% of Rs. 13,680)]	3,632
iii)	50 % of ***Salary*** (50% of Rs. 13,680)	6,840

HRA exempt from tax = Rs. 3,632

Salary for the above purpose is calculated as under :

Basic Salary (Rs. 6,000 x 2)	12,000
DA [70% of (Rs. 12,000 x 20%]	1,680
	13,680

c) Exemption in respect of HRA for the period 1-01-2011 to 31-03-2011 shall be available as under :

Least of the following is exempt u/s 10 (13A) :

		Rs.
i)	Actual amount received (Rs. 3,000 x 3)	9,000
ii)	Rent paid – 10 % of ***Salary*** [(Rs. 2,500 x 3) – (10% of Rs. 23,940)]	5,106
iii)	50 % of ***Salary*** (50% of Rs. 23,940)	11,970

HRA exempt from tax = Rs. 5,106

Salary for the above purpose is calculated as under :

Basic Salary (Rs. 7,000 x 3)	21,000
DA [70% of (Rs. 21,000 x 20%]	2,940
	23,940

Total exemption u/s 10 (13A) available for A.Y. 2011-12 = Rs. Nil + Rs. 3,632 + Rs. 5,106 = Rs. 8,738.

Answer to Question No. 3 :

Allowances	Amount of allowance (Rs.)	Exemption u/s 10 (14) (Rs.)	Amount chargeable to tax (Rs.)
1. X :			
Tribal area allowance	6,000	2,400 (Rs. 200 x 12)	3,600
Education allowance for first child	2,000	1,200 (Rs. 100 x 12)	800
Education allowance for second child	240	------	240
Education allowance for third child	780	780	------
Helper allowance for office purposes	3,000	3,000	------
Uniform allowance	6,400	2,000	4,400
Research allowance	9,000	9,000	------
Conveyance allowance	15,000	8,500	6,500
Transport allowance	10,000	9,600 (Rs. 800 x 12)	400
Medical allowance	4,800	------	4,800
2. Y :			
Allowance to meet personal expenditure in course of running trucks [70% of Rs. 84,000 or Rs. 10,000 per month whichever is lower]	84,000	58,800	25,200

Answer to Question No. 4 :

Deduction u/s 16 (ii) shall be allowed to the extent of the least of the following :

i)	Actual amount received (Rs. 1,500 x 12)	18,000
ii)	20 % of ***Salary*** (Rs. 6,000 x 12 x 20%)	14,400
iii)	Rs. 5,000/-	

Therefore, Deduction u/s 16 (ii) = Rs. 5,000.

S A L A R I E S ~ I I I A

Section 17 (2) : Definition of Perquisite

'Perquisite' includes :

i) the value of rent free accommodation ***provided*** by the employer;

ii) the value of any concession in the matter of rent respecting any accommodation ***provided*** by the employer;

iii) the value of any benefit ***provided*** free of cost or at concessional rate in any of the following cases :

(a) by a ***company*** to an employee, who is a director;

(b) by a ***company*** to employee being a person who has a substantial interest in the company;

(c) by ***any person*** (i.e. including a company) to employee to whom :

- the provisions of Clause a) and b) do not apply &
- whose income under the head salaries (excluding value of benefits not provided by way of monetary payment) exceeds Rs. 50,000;

iv) employee's obligation met by the employer (i.e. any sum ***paid*** by the employer in respect of any obligation which, but for such payment, would have been payable by the employee);

v) any sum ***payable*** by the employer whether directly or through a fund (except a RPF / an approved Superannuation Fund / Deposit Linked Insurance Fund) to effect an assurance on the life of the employee or to effect a contract for an annuity; and

vi) *the **value** of any **specified security** or **sweat equity shares** allotted or transferred, by the employer, or former employer, free of cost or at concessional rate to the employee.*

Notes :

*(a) **"specified security"** means the securities as defined in Section 2(h) of the Securities Contracts (Regulation) Act, 1956 and, where employees' stock option has been granted under any plan or scheme therefor, includes the securities offered under such plan or scheme.*

*(b) **"sweat equity shares"** means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.*

*(c) the **"value"** of any specified security or sweat equity shares shall be the fair market value of the specified security or sweat equity shares, as the case may be, on the date on which the **option** is exercised by the assessee as reduced by the amount actually paid by, or recovered from the assessee in respect of such security or shares.*

*(d) **"fair market value"** means the value determined in accordance with the method as may be prescribed **[Refer Notification No. 94/2009 dated 18-12-2009 on Page No.9].***

*(e) **"option"** means a right but not an obligation granted to an employee to apply for the specified security or sweat equity shares at a predetermined price.*

vii) *the amount of any contribution to an **approved superannuation fund** by the employer in respect of the assessee, to the extent it exceeds Rs. 1,00,000; and*

viii) *the value of any other fringe benefit or amenity as may be prescribed.*

Taxability of Perquisites (Perks)

For income tax purposes, perks may be divided into 3 categories :

A. Perks taxable in the hands of all employees.

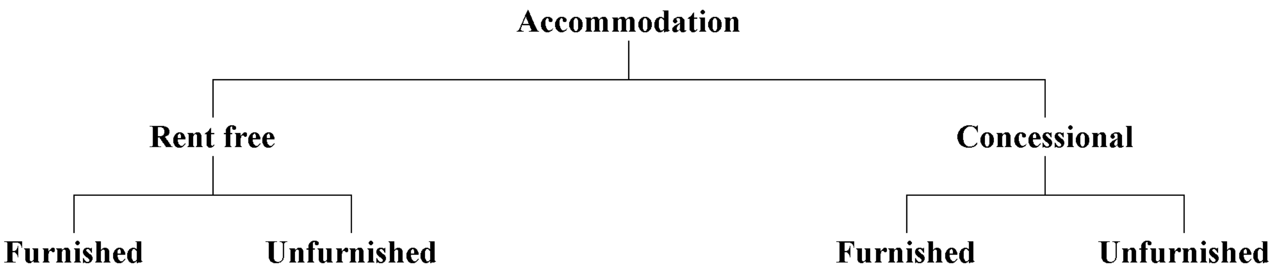
B. Perks taxable in the hands of specified employees only.

C. Tax-free perks.

VALUATION OF PERKS

A. Perks taxable in the hands of all employees

Rent-free/concessional accommodation [Section 17(2)(i)/17(2)(ii)]



Rule 3 (1) : Valuation of rent-free/concessional accommodation :

I. Unfurnished accommodation :

For State / Union Government employees :

Licence fee (i.e. rent) fixed by the State / Union Government – Rent ***actually paid*** by the employee (if accommodation provided at concessional rate).

For other employees :

Accommodation	Place where the accommodation is situated	Value of perk
Owned by the employer	City having population exceeding 25 Lacs as per 2001 census	15 % of ***Salary***
	City having population exceeding 10 Lacs but not exceeding 25 Lacs as per 2001 census	10 % of ***Salary***
	Other cities	7.5 % of ***Salary***
Taken on lease or rent by the employer	Any city	Least of the following : i) Lease rent ***paid / payable*** ii) 15 % of ***Salary***

Note : In all the above cases, the taxable value of perk will be the value of perk as computed above less rent actually paid by the employee (if accommodation provided at concessional rate).

II. <u>Furnished accommodation</u> :

The value of unfurnished accommodation is first to be determined in the above manner and thereafter an addition towards cost of furnishing should be made as follows :

Furniture	Addition for Furniture
Owned by the employer	10 % of the original cost of furniture.
Hired by the employer	Actual hire charges ***paid / payable*** by the employer

<u>Note</u> : In all the above cases, the taxable value of perk will be the value of perk as computed above less any amount ***paid / payable*** by the employee ***for the furniture***.

III. <u>Where the accommodation is provided by any employer in a hotel</u> :

The value of accommodation (for State/Union Govt. as well as other employees) shall be :

i) 24 % of salary paid / payable or;

ii) Actual charges paid / payable to such hotel

Whichever is less, for the period during which the accommodation is provided

Less

Amount recovered from the employee.

However, there will be no perquisite value if the following **<u>two</u>** conditions are fulfilled :

i) Such accommodation is provided for a period not exceeding 15 days; **<u>and</u>**

ii) It has been provided on the transfer of employee from one place to another.

<u>Rule 3 (1) does not apply in certain cases</u> :

1. <u>Accommodation provided in remote area [Proviso 1 to Rule 3 (1)]</u> :

Rule 3 (1) shall not apply to any accommodation provided to an employee working at a mining site / an on-shore oil exploration site / a project execution site / a dam site / a power generation site / an off-shore site which is :

(i) of a temporary nature and having plinth area not exceeding 800 square feet, is located not less than eight kilometers away from the local limits of any municipality or a cantonment board; or

(ii) located in a remote area

<u>Note</u> :

'Remote area' means an area that is located at least 40 kilometers away from a town having a population not exceeding 20,000 based on latest census.

2. <u>Accommodation provided at new place of posting on transfer while retaining the accommodation at the other place [Proviso 2 to Rule 3 (1)]</u> :

The value of perk shall be determined with reference to only one such accommodation which has the lower value (as determined according to the above provisions) for a period not exceeding 90 days and thereafter the value of perk shall be charged for both such accommodation.

Notification No. 94/2009, dated 18-12-2009

❖ Explanation to Rule 3(1)

An explanation has been inserted to Rule 3(1) by the aforesaid notification which provides as under :

For the purposes of Rule 3(1), where the accommodation is provided by the Central Government or any State Government to an employee who is serving on deputation with any ***body or undertaking*** under the control of such Government :

(i) the employer of such an employee shall be deemed to be that ***body or undertaking*** where the employee is serving on deputation; and

(ii) the accommodation shall be deemed to be owned by the employer and the value of perquisite of such an accommodation shall be the amount calculated as under :

Accommodation	Place where the accommodation is situated	Value of perk
Owned by the employer	City having population exceeding 25 Lacs as per 2001 census	15 % of ***Salary***
	City having population exceeding 10 Lacs but not exceeding 25 Lacs as per 2001 census	10 % of ***Salary***
	Other cities	7.5 % of ***Salary***

General Notes on valuation of accommodation :

1. ***"Salary"*** for the purpose of valuation of accommodation means :
   i) Basic salary +
   ii) D.A. (if enters into retirement benefit) +
   iii) Bonus +
   iv) Commission +
   v) Fees +
   vi) Taxable Allowances +
   vii) Any monetary payment which is chargeable to tax [excluding value of perks u/s 17(2)] (e.g. encashment of leave salary of the ***current year*** is a monetary payment chargeable to tax and therefore will be taken while payment of gas, electricity and water bills of the employee by the employer is a perk u/s 17(2)(iv) and therefore will not be taken).

   but does not include lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, retrenchment compensation, leave encashment, payment received under VRS, commutation of pension and similar payments;

2. Salary is to be computed on :
   i) Accrual basis and
   ii) For the period during which accommodation has been occupied by the employee.

3. "Accommodation" includes a house, flat, farm house, or accommodation in a hotel, motel, guest house, mobile home, caravan, ship or other floating structures.

4. "Furniture" includes radio sets, television sets, refrigerators, air conditioners and other household appliances.

5. If employee receives salary from more than one employer, the aggregate of salary received from both the employer has to be taken into account even though the accommodation has been provided only by one employer.

Value of monetary obligation of the employee discharged by the employer [Section 17(2)(iv)]

The value of perk is the ***actual amount paid*** by the employer in this regard. Few examples are :

i) Gas, electricity bills etc. paid or reimbursed;

ii) Children education expenses paid or reimbursed;

iii) Medical expenses reimbursed in excess of Rs. 15,000/-

iv) Income tax / professional tax paid by the employer.

Valuation of LIP/Deferred Annuity Premium paid/payable by the employer [Section 17(2)(v)]

The value of perk is the ***actual expenditure incurred*** by the employer in this regard.

Where the employer pays insurance premium under certain schemes such as ESI (Employees State Insurance) Schemes, Fidelity Guarantee Schemes, it shall not be regarded as perk because these schemes are generally for the benefit of the ***employer***.

Valuation of any other fringe benefits or amenities [Section 17(2)(viii) and Rule 3(7)]

Rule 3 (7) has prescribed the following fringe benefits or amenities and the value thereof :

(i) Interest free / concessional loans [Rule 3(7)(i)]

If an employer gives Interest free / concessional loan (or loans) to the employee (or any ***member of his household***), valuation of perk will be done as follows :

Step 1	Find out ***Maximum outstanding monthly balance. Maximum outstanding monthly balance*** means the aggregate outstanding balance for ***each loan*** as on the last day of each month.
Step 2	Find out ***Rate of interest charged by SBI*** as on the 1st day of the relevant P.Y.
Step 3	Calculate total interest of the P.Y. as follows : Total of ***Maximum outstanding monthly balance*** x ***Rate of interest charged by SBI*** as on the 1st day of the relevant P.Y x 1/12
Step 4	Value of perquisite = Total interest of the P.Y. according to Step 3 – Interest actually paid by employee (or any member of his household)

Member of household shall *include* :

- Spouse (s);
- Children and their spouses;
- Parents;
- Servants and dependents.

<u>Where perk in respect of loan (or loans) is not chargeable to tax</u> :

a) Where the amount of original loan (or loans) does not exceed in the aggregate Rs. 20,000/- **or**

b) Where the loan is for medical treatment in respect of diseases specified in Rule 3A. However, the exemption is not applicable to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.

(ii) The value of travelling, touring, accommodation and any other expenses paid or reimbursed by the employer for any holiday availed of by the employee (or any member of his household) [Rule 3(7)(ii)]

Circumstances	Value of Benefit
a) Facility is maintained by the employer + it is not available uniformly to all employees.	a) Value at which such facilities are offered by other agencies to the public.
b) Employee is on official tour and expenses are incurred in respect of any member of his household accompanying him.	b) The amount of expenditure so incurred.
c) Where any official tour is extended as a vacation.	c) Value will be limited to the expenses incurred in relation to such extended period of stay or vacation.
d) In any other case.	d) The amount of expenditure incurred.

However in all the above cases the amount determined above shall be reduced by the amount recovered from the employee.

(iii) Value of free food and non-alcoholic beverages [Rule 3(7)(iii)]

Circumstances	Value of Benefit
a) Tea or snacks provided during office hours.	a) NIL
b) Free food and non-alcoholic beverages during working hours provided in a remote area <u>or</u> an offshore installation.	b) NIL
c) Free food and non-alcoholic beverages provided during office hours : i) at office or business premises; or ii) through paid vouchers which are not transferable and usable only at eating joints.	c) NIL, if the cost* to the employer in either case is up to Rs. 50/- per meal – Amount recovered from employee *Only cost in excess of Rs. 50 is taxable.
d) In any other case	d) Actual amount incurred by employer – Amount recovered from employee.

(iv) Value of any gift, voucher or token [Rule 3(7)(iv)]

The value of any gift, or voucher or token in lieu of which such gift may be received by the employee (or by any member of his household), shall be determined as the sum equal to the amount of such gift.

However if the value is less than Rs. 5,000/- in the aggregate during the P.Y., the value of perk shall be taken as nil. If the value exceeds Rs. 5,000 in aggregate, amount in excess of Rs. 5,000 will be taxable.

If gift is given in cash or by way of gift cheque / voucher which can be converted into cash, the ***entire amount*** shall be taxable even if such gift in aggregate is below Rs. 5,000/-.

(v) Expenses on credit cards [Rule 3(7)(v)]

Value of perquisite will be calculated as follows :

Step 1	Expenditure incurred by the employer in respect of credit card
Step 2	Less : Expenditure on use for official purpose
Step 3	Less : Amount recovered from the employee

Expenditure incurred by the employer in respect of credit card :

Expenses including membership fees and annual fees incurred by the employee (or any member of his household), which is charged to a credit card, provided by the employer (or otherwise paid or reimbursed by the employer)

Expenditure on use for official purpose :

To claim deduction following conditions should be satisfied :

1. Complete details in respect of such expenditure are maintained by the employer which may, inter alia, include the date of expenditure and the nature of expenditure.
2. The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

(vi) Club membership and expenses incurred in a club [Rule 3(7)(vi)]

Value of perquisite will be calculated as follows :

Step 1	Expenditure incurred by the employer in respect of club facility used
Step 2	Less : Expenditure on use for official purpose
Step 3	Less : Amount recovered from the employee

Expenditure incurred by the employer in respect of club facility :

- It includes any expenditure on club facility used by the employee (or any member of his household).
- It includes amount of annual or periodical fees of club.
- Expenditure incurred on health club, sports facilities, and similar facilities, provided uniformly to all classes of employees are exempt.
- Where the employer has obtained corporate membership of the club and the facility is enjoyed by the employee (or any member of his household), the value of perquisite shall not include the ***initial fee*** paid for acquiring such membership.

Expenditure on use for official purpose :

To claim deduction following conditions should be satisfied :

1. Complete details in respect of such expenditure are maintained by the employer which may, inter alia, include the date of expenditure and the nature of expenditure and its ***business expediency***.
2. The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

(vii) Use of moveable assets [Rule 3(7)(vii)]

Circumstances	Value of Benefit
(a) Use of laptops and computers by employee (or any member of his household)	(a) Nil
(b) Use of moveable assets, other than laptops and computers (or any member of his household)	(b) 10% per annum of the actual cost of such asset (if owned), **or** the amount of rent paid/payable by the employer (if hired) – Amount recovered from the employee.

(viii) Transfer of any moveable asset [Rule 3(7)(viii)]

Asset transferred	Value of Benefit
(a) Computer and electronic items	(a) Actual cost to the employer – Normal wear and tear @ 50 % for each ***completed year*** during which such asset was put to use, on the basis of ***reducing balance method.***
(b) Motor car	(b) Actual cost to the employer – Normal wear and tear @ 20 % for each ***completed year*** during which such asset was put to use, on the basis of ***reducing balance method.***
(c) Any other asset	(c) Actual cost to the employer – Normal wear and tear @ 10 % for each ***completed year*** during which such asset was put to use, on the basis of ***straight line method.***

Note :

(1) The amount mentioned in clauses a), b) and c) above shall be reduced by the amount recovered from the employee being the consideration for such transfer.

(2) An electronic item in this case means computer software, data storage and handling devices like digital diaries, printers etc. and the similar items. They do not include household appliances like washing machines, microwave ovens, mixer, etc.

Notification No. 94/2009, dated 18-12-2009

❖ Determination of FMV for the purposes of Section 17(2)(vi) : Rule 3(8)

(I) For the purposes of Section 17(2)(vi), the ***FMV*** of any ***equity share*** in a company, on the date on which the option is exercised by the employee, shall be determined as follows :

(a) If share of the company is listed only on one recognized stock exchange :

Average of the ***opening price*** and ***closing price*** of the share on the date on which the option is exercised by the employee.

(b) If share of the company is listed on more than one recognized stock exchange :

Average of opening price and closing price of the share on the recognised stock exchange which records the highest volume of trading in the share on the date on which the option is exercised by the employee.

(c) If share of the company is listed only on one recognized stock exchange and there is no trading in the share :

The closing price of the share on a date closest and immediately preceding to the date of exercising of the option by the employee.

(d) If share of the company is listed on more than one recognized stock exchange and there is no trading in the share :

The closing price of the share on a recognised stock exchange, which records the highest volume of trading in such share, on a date closest and immediately preceding to the date of exercising of the option by the employee.

Notes :

(1) ***Opening price*** of a share on a recognised stock exchange on a date shall be the price of the first settlement on such date on such stock exchange. However, if the stock exchange quotes both buy and sell prices, the opening price shall be the sell price of the first settlement.

(2) ***Closing price*** of a share on a recognised stock exchange on a date shall be the price of the last settlement on such date on such stock exchange. However, if the stock exchange quotes both buy and sell prices, the closing price shall be the sell price of the last settlement.

(e) If share in the company is not listed on a recognised stock exchange :

The FMV shall be such value of the share in the company as determined by a ***merchant banker*** on the ***specified date***.

(II) For the purposes of Section 17(2)(vi), the ***FMV*** of any specified security, ***not being an equity share*** in a company, on the date on which the option is exercised by the employee, shall be such value as determined by a ***merchant banker*** on the ***specified date***.

Notes :

(1) ***Merchant banker*** means Category I merchant banker registered with Security and Exchange Board of India established under Section 3 of the Securities and Exchange Board of India Act, 1992.

(2) ***Specified date*** means :

i) the date of exercising of the option; or

ii) any date earlier than the date of the exercising of the option, not being a date which is more than 180 days earlier than the date of the exercising.

S A L A R I E S ~ I I I A

PRACTICAL PROBLEMS

Question No. 1 :

R, furnishes the following particulars of his remuneration ***per month*** for the previous year 2010-11 :

	Rs.
Basic salary	12,000
Dearness allowance (40% of which forms part of the salary for retirement benefits)	1,000
Lunch Allowance	200
Medical allowance	500
City compensatory allowance	300
Children education allowance (per child for two children)	230

He is provided with a rent-free accommodation in Delhi. The cost of the furniture provided is Rs. 1,00,000 and two air-conditioners, which have been taken on hire by the employer, have also been provided in the accommodation. The hire charge of each air-conditioner is Rs. 2,000 per annum.

Compute the value of rent-free accommodation if the accommodation is provided by :

a) The Government and the value of accommodation as per Government rules is Rs. 500 per month.
b) RBI and the accommodation has been taken on rent by RBI at Rs. 5,000 per month.
c) XYZ Ltd. and the accommodation has been taken on rent by the company at Rs. 5,000 per month.

Question No. 2 :

i) R submits following information regarding his salary income for the year 2010-11 :

Basic salary	Rs. 15,000 (per month)
Dearness allowance (forms part of the salary)	40% of basic salary
CCA	Rs. 300 per month
Children education allowance	Rs. 200 per month per child for 2 children
Transport allowance	Rs. 1,000 per month

He is provided with a rent-free unfurnished accommodation which is owned by the employer. The fair rental value of the house is Rs. 24,000 per annum.

Compute the income from salaries assuming accommodation is provided in a city having population :

A. 4 Lacs as per 2001 census.
B. 12 Lacs as per 2001 census.
C. 27 Lacs as per 2001 census.

ii) What will be the value of rent-free accommodation if house is not owned by the employer but taken on rent @ 24,000 per annum.

Question No. 3 :

M submits the following information regarding his salary income which he gets from ABC Company Limited :

	Rs.
Basic salary	11,000 per month
City compensatory allowance	150 per month
Children education allowance (for 3 children)	400 per month
Medical allowance	10,000 per annum

He was entitled to HRA of Rs. 6,000 per month from 1-4-2010 to 31-8-2010. He was paying a rent of Rs. 7,000 per month for a house in Delhi. W.e.f. 1-9-2010 he was provided with an accommodation by the company for which the company was paying the rent of Rs. 5,000 per month. The company charged him Rs. 1,000 per month as rent for the accommodation.

Compute the income from salary of M for the A.Y. 2011-12.

Question No. 4 :

X Ltd. has advanced loan of Rs. 5,00,000 to R for purchase of car on 1-5-2010. What will be the taxable value of perquisite in the following cases assuming the interest charged by SBI as on 1-4-2010 is 8% per annum :

A. Loan is interest-free and R has been regularly repaying the loan in instalments of Rs. 20,000 per month at the end of each month.

B. Loan is interest-free and R has been regularly repaying the loan in instalments of Rs. 20,000 per month on the 1st day of next month.

C. What will be your answer in the abovementioned two cases if X Ltd. is recovering interest @ 6% per annum from R?

D. What will be your answer if instead of car loan, two types of loans are given : for marriage of R's daughter – Rs. 15,000 and for repair of house of R - Rs. 5,000 and R has been regularly repaying the loan in instalments of Rs. 500 per month at the end of each month?

E. What will be your answer if such loan is given for treatment of cancer, a disease specified in Rule 3A and R has been regularly repaying the loan in instalments of Rs. 20,000 per month at the end of each month?

F. What will be your answer if such loan is given for treatment of cancer and R has recovered a sum of Rs. 3,00,000 from insurance company on 1-11-2010 and R has been regularly repaying the loan in instalments of Rs. 20,000 per month at the end of each month. Assume rate of interest of SBI = 11%.

Question No. 5 :

R is employed with ABC Ltd. on a monthly salary of Rs. 25,000 per month. The company provides him with the following benefits :

a) An accommodation owned by company is provided to him in Delhi.

b) The company has given him a housing loan of Rs. 5,00,000 on which company charges interest @ 3% per annum. The entire loan is still outstanding (assume rate of SBI – 7% per annum).

c) He is allowed to use the refrigerator belonging to the company. The company had purchased this refrigerator for Rs. 60,000 on 1-5-2007. This refrigerator was sold to him on 1-8-2010 for Rs. 30,000.

d) The company had purchased a car on 16-7-2007 for Rs. 2,50,000. This car is sold to R on 14-7-2010 for Rs. 80,000.

Compute the Gross Salary of R for the A.Y. 2011-12.

Question No. 6 :

R is provided free meals in the office, during office hours, for 300 days during the previous year. The cost of meals to the employer is Rs. 65 per meal.

(a) Determine the value of perquisite in respect of meals.

(b) What shall be the value if cost per meal is Rs. 50 ?

Question No. 7 :

R, who is working in a remote area, is provided free meal during office hours for 300 days during the previous year. The cost to the employer per meal is Rs. 60. Determine the value of perquisite.

Question No. 8 :

(a) R an employee receives a gift of watch from his employer whose value is Rs. 4,500. Is this gift taxable ?

(b) What shall be the value of perquisite if the value of watch is Rs. 6,500 instead of Rs. 4,500 ?

(c) What shall be taxable value of perquisite if instead of watch, R is given a cash gift of Rs. 4,500 ?

S A L A R I E S ~ I I I A

Answer to Question No. 1 :

a) Accommodation provided by Government :

	Rs.	Rs.
Value of unfurnished accommodation :		
Licence fee fixed by the Government (Rs. 500 x 12)		6,000
Value of furniture :		
10% of original cost of furniture (10% of Rs. 1,00,000)	10,000	
Actual Hire charges of two air-conditioners (Rs. 2,000 x 2)	4,000	14,000
Value of furnished accommodation		20,000

b) Accommodation provided by RBI or XYZ Ltd. :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic Salary (12,000 x 12)	1,44,000
D.A. (1,000 x 40% x 12)	4,800
Lunch allowance (200 x 12)	2,400
Medical allowances (500 x 12)	6,000
City compensatory allowance (300 x 12)	3,600
Children education allowance [{460 - (100 x 2)} x 12]	3,120
Salary	1,63,920

	Rs.	Rs.
Value of unfurnished accommodation :		
Least of the following :		
i) Lease rent ***paid / payable*** (Rs. 5,000 x 12)	60,000	
ii) 15 % of ***Salary*** (15% of Rs. 1,63,920)	24,588	24,588
Value of furniture :		
10% of original cost of furniture (10% of Rs. 1,00,000)	10,000	
Actual Hire charges of two air-conditioners (Rs. 2,000 x 2)	4,000	14,000
Value of furnished accommodation		38,588

Answer to Question No. 2 (i) :

Computation of income from Salaries

Name of assessee : Mr. R
Previous Year : 2010-11
Assessment Year : 2011-12

	Situation A	Situation B	Situation C
Basic Salary (15,000 x 12)	1,80,000	1,80,000	1,80,000
D.A. (40% of Rs. 1,80,000)	72,000	72,000	72,000
CCA (300 x 12)	3,600	3,600	3,600
Children education allowance [(200 x 2 x 12) – (100 x 2 x 12)]	2,400	2,400	2,400
Transport allowance [(1,000 x 12) – (800 x 12)	2,400	2,400	2,400
Value of rent free unfurnished accommodation ***(Note 1)***	19,530	26,040	39,060
Gross Salary	**2,79,930**	**2,86,440**	**2,99,460**
Less : Deductions u/s 16 :			
Entertainment Allowance u/s 16 (ii)	-----	-----	-----
Professional Tax u/s 16 (iii)	-----	-----	-----
Income from Salaries	**2,79,930**	**2,86,440**	**2,99,460**

Note 1 :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic Salary	1,80,000
D.A.	72,000
CCA	3,600
Children education allowance	2,400
Transport allowance	2,400
Salary	2,60,400

Value of rent free unfurnished accommodation (owned by employer) :

	Rs.
A. When accommodation is situated in a city having population of 4 Lacs as per 2001 census : 7.5% of salary (i.e. 7.5% of Rs. 2,60,400)	19,530
B. When accommodation is situated in a city having population of 12 Lacs as per 2001 census : 10% of salary (i.e. 10% of Rs. 2,60,400)	26,040
C. When accommodation is situated in a city having population of 27 Lacs as per 2001 census : 15% of salary (i.e. 15% of Rs. 2,60,400)	39,060

Answer to Question No. 2 (ii) :

Value of rent free unfurnished accommodation (taken on rent by the employer) :

Since the accommodation has been taken on rent by the employer, the value of rent-free accommodation in all the three situation shall be least of the following :

(a) Rent paid/payable	24,000	
(b) 15% of Salary	39,060	24,000

Answer to Question No. 3 :

Computation of income from Salaries

Name of assessee : Mr. M
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	Rs.
Basic salary (11,000 x 12)		1,32,000
CCA (150 x 12)		1,800
Education allowance (400 x 12)	4,800	
Less : Exempt u/s 10 (14) [100 x 2 x 12]	2,400	2,400
Medical allowance		10,000
HRA (6,000 x 5)	30,000	
Less : Exempt u/s 10 (13A) ***(Note 1)***	27,500	2,500
Value of rent-free accommodation provided at concessional rate ***(Note 2)***	12,792	
Less : Rent paid by M (1,000 x 7)	7,000	5,792
Gross Salary		**1,54,492**
Less : Deductions u/s 16 :		
Entertainment Allowance u/s 16 (ii)		-----
Professional Tax u/s 16 (iii)		-----
Income from Salaries		**1,54,492**

Note 1 :

Least of the following is exempt u/s 10(13A) :

i)	Actual amount received (Rs. 6,000 x 5)	30,000
ii)	Rent paid – 10 % of ***Salary*** [(Rs. 7,000 x 5) – (10% of 55,000)]	29,500
iii)	50 % of ***Salary*** (50% of Rs. 55,000)	27,500

HRA exempt from tax = Rs. 27,500.

Salary for the above purpose is calculated as under :

Basic Salary (Rs. 11,000 x 5)	55,000

Note 2 :

Computation of salary for the purpose of valuation of accommodation :

	Rs.	Rs.
Basic Salary (11,000 x 7)		77,000
CCA (150 x 7)		1,050
Education allowance (400 x 7)	2,800	
Less : Exempt u/s 10 (14) [100 x 2 x 7]	1,400	1,400
Medical allowance (10,000 x 7/12)		5,833
Salary		85,283

Value of rent free unfurnished accommodation (taken on rent by the employer) :

Least of the following shall be the value of rent-free accommodation:

(a) Rent paid/payable (Rs. 5,000 x 7)	35,000	
(b) 15% of Salary (i.e. 15% of Rs. 85,283)	12,792	12,792

HRA will not come because after providing rent-free accommodation HRA was not given to M.

Answer to Question No. 4 :

A. Computation of taxable value of interest-free loan

Month	Maximum outstanding monthly balance (Rs.)
May 31, 2010	4,80,000 (i.e. 5,00,000 – 20,000)
June 30, 2010	4,60,000
July 31, 2010	4,40,000
August 31, 2010	4,20,000
September 30, 2010	4,00,000
October 31, 2010	3,80,000
November 30, 2010	3,60,000
December 31, 2010	3,40,000
January 31, 2011	3,20,000
February 28, 2011	3,00,000
March 31, 2011	2,80,000
Total	**41,80,000**

Value of perquisite = Total interest of the P.Y. = Rs. 41,80,000 x 8% x 1/12 = Rs. 27,867

B. Computation of taxable value of interest-free loan

Month	Maximum outstanding monthly balance (Rs.)
May 31, 2010	5,00,000 (i.e. 5,00,000 – Nil)
June 30, 2010	4,80,000
July 31, 2010	4,60,000
August 31, 2010	4,40,000
September 30, 2010	4,20,000
October 31, 2010	4,00,000
November 30, 2010	3,80,000
December 31, 2010	3,60,000
January 31, 2011	3,40,000
February 28, 2011	3,20,000
March 31, 2011	3,00,000
Total	**44,00,000**

Value of perquisite = Total interest of the P.Y. = Rs. 44,00,000 x 8% x 1/12 = Rs. 29,333

C. Computation of taxable value of concessional loan

In case of A :

Value of perquisite = Total interest of the P.Y. – Interest actually paid by employee (or any member of his household) = Rs. 27,867 - Rs. 20,900 (i.e. Rs. 41,80,000 x 6% x 1/12) = Rs. 6,967/-

In case of B :

Value of perquisite = Total interest of the P.Y. – Interest actually paid by employee (or any member of his household) = Rs. 29,333 - Rs. 22,000 (i.e. Rs. 44,00,000 x 6% x 1/12) = Rs. 7,333

D. Computation of taxable value of interest-free loan

Where the amount of original loan (or loans) does not exceed in the aggregate Rs. 20,000, value of perquisite in respect of loan (or loans) is not chargeable to tax. Therefore value of perquisite = Nil

E. Computation of taxable value of interest-free loan

Where the loan is for medical treatment in respect of diseases specified in Rule 3A, value of perquisite in respect of loan (or loans) is not chargeable to tax. Therefore value of perquisite = Nil

F. Computation of taxable value of interest-free loan

Value of perquisite will be nil up to 31-10-2010. From November, 2010, interest will be determined on the following amount :

Month	Maximum outstanding monthly balance (Rs.)
November 30, 2010	2,80,000
December 31, 2010	2,60,000
January 31, 2011	2,40,000
February 28, 2011	2,20,000
March 31, 2011	2,00,000
Total	**12,00,000**

Value of perquisite = Total interest of the P.Y. = Rs. 12,00,000 x 11% x 1/12 = Rs. 11,000

Answer to Question No. 5 :

Computation of Gross Salary

Name of assessee : R
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	Rs.
Basic salary (25,000 x 12)		3,00,000
Value of rent-free accommodation (15% of salary)		45,000
Value of housing loan [(7% of 5,00,000) - (3% of 5,00,000)]		20,000
Value of perk for use of refrigerator (60,000 x 10% x 4/12)		2,000
Value of perk in respect of refrigerator sold by employer :		
Balance as on 1-5-2010 ***(Note 1)***	42,000	
Less : Amount recovered	30,000	12,000
Value of perk in respect of car sold by employer :		
Balance as on 16-7-2009 ***(Note 2)***	1,60,000	
Less : Amount recovered	80,000	80,000
Gross Salary		**4,59,000**

Note 1 :

Cost of Refrigerator as on 1-5-2007		60,000
Less : Normal wear and tear for the first year ending 30-4-2008 (10% of Rs. 60,000)	6,000	
Less : Normal wear and tear for the second year ending 30-4-2009 (10% of Rs. 60,000)	6,000	
Less : Normal wear and tear for the third year ending 30-4-2010 (10% of Rs. 60,000)	6,000	18,000
Balance as on 1-5-2010		42,000

Note 2 :

Cost of car as on 16-7-2007	2,50,000
Less : Normal wear and tear for the first year ending 15-7-2008 (20% of Rs. 2,50,000)	50,000
Balance as on 16-7-2008	2,00,000
Less : Normal wear and tear for the second year ending 15-7-2009 (20% of Rs. 2,00,000)	40,000
Balance as on 16-7-2009	1,60,000

Solution to Question No. 6 :

(a) If free meal is provided during office hours in the office or business premises, it shall be exempt to the extent of Rs. 50 per meal and excess, if any, shall be taxable value of perquisite. Hence value of perk = 300 x Rs. 15 (i.e. Rs. 65 – Rs. 50) = Rs. 4,500.

(b) The value of perquisite in this case shall be nil.

Solution to Question No. 7 :

The value of perquisite in this case shall be nil as it is provided to an employee working in a remote area.

Solution to Question No. 8 :

(a) A gift given in kind shall be tax-free perquisite if the value of gift in aggregate is below Rs. 5,000 during the previous year. Hence gift of watch is not taxable.

(b) The value of perquisite = Rs. 6,500 – Rs. 5,000 = Rs. 1,500.

(c) If gift is given in cash or by way of gift cheque / voucher which can be converted into cash, the ***entire amount*** shall be taxable even if such gift in aggregate is below Rs. 5,000/-. Hence Rs. 4,500 shall be taxable value of perquisite.

S A L A R I E S ~ I I I B

PERQUISITES

VALUATION OF PERKS

B. Perks taxable in the hands of specified employees

Following perks are taxable in the hands of specified employees only :

i) Services of a sweeper / gardener / watchman / personal attendant.

ii) Free or concessional use of gas, electricity and water for household consumption.

iii) Free or concessional education facilities.

iv) Free or concessional personal or private journey.

v) Motor car / other vehicles

Section 17 (2) (iii) : Specified employee

An employee shall be specified employee if he falls under any of the following three categories :

a) In case of a ***company*** : an employee, who is a director;

b) In case of a ***company*** : an employee who has a ***substantial interest*** in the company;

c) In case of ***any person*** (i.e. including a company) **:** an employee to whom :

- The provisions of Clause a) and b) do not apply (i.e. he is neither a director nor he has substantial interest) &
- Whose income under the head ***salaries***** exceeds Rs. 50,000/-

<u>***Salary***** for the purpose of specified employees</u> :

	Rs.	Rs.
Basic Salary		*******
D.A.		*******
Bonus		*******
Commission		*******
Taxable allowances / perks (But shall not include value of any non-monetary benefit / perks)		*******

		*******
Less :		
Deduction U/S 16 (ii)	*******	
Deduction U/S 16 (iii)	*******	*******
	-----------	-----------
Salary		*******
		=======

"Substantial Interest" :

As per section 2 (32), a person, shall be deemed to have substantial interest in a company if he is ***beneficial owner*** of equity shares carrying 20% or more voting power in the company.

"Beneficial owner" :

Beneficial owner is one who exercises all power in respect of shares and also receives dividend irrespective of the fact that he may or may not be a registered holder of shares.

Note : ***An employee holding even 20% or more of equity shares in the employer-company will not fall under the term "Specified employee" if he has no beneficial interest in the shares. On the other hand, an employee, who is not registered shareholder, will fall under the term "Specified employee" if he has beneficial interest in 20% or more equity shares in the employer company.***

Rule 3 (3) : Provision by the employer of services of a sweeper, a gardener, a watchman or personal attendant

a) If servant (s) employed by the employee and pay of servant (s) are paid or reimbursed by the employer ------------> Taxable in the hands of all employees (Since it is an obligation of the employee met by the employer).

b) If servant (s) employed by the employer and the facility of such servant (s) are given to the employee ------------> Taxable in the hands of specified employees only.

Value of perk in both the case will be :

Salary of servant (s) paid / payable – Amount recovered from the employee.

Notes :

1. Servant allowance is taxable in the hands of all employees.
2. If an employer provides a rent-free house (owned by employer) to his employee, expenses (including salary of gardener) incurred by the employer on maintenance of garden and ground attached to the house, is not taxable separately as perquisite.

Rule 3 (4) : Value of benefit to the employee resulting from the supply of gas, electricity or water

Circumstances	Value of Benefit
a) Where such supply is made from resources owned by the employer without purchasing from the outside agency	a) Manufacturing cost per unit to the employer – Amount recovered from the employee
b) Where such supply is made by employer by purchasing from the outside agency	b) Amount paid/payable by the employer to outside agency – Amount recovered from the employee.

Note :

If the gas / electricity / water connections are in the name of the employee and bills are paid by the employer, it will be taxable in the hands of all employees since it is an obligation of the employee met by the employer.

Rule 3 (5) : Valuation in respect of free/concessional education facilities to any member of employee's household

Circumstances	Value of Benefit
Educational institution is owned and maintained by the employer ***OR*** Education facility is provided in a institute not owned or maintained by the employer but employer has made arrangement with the educational institution that his employees' children and other members of employees' household can have education in that institution and : **1.** ***Where education facility is provided to employee's children and :***	
(a) Where cost of education or value of such benefit does not exceed Rs. 1,000 per month per child (no restriction on number of children)	Nil
(b) Where cost of education or value of such benefit exceeds Rs. 1,000 per month per child	Cost of such education in a similar institution in or near the locality – Rs. 1,000 per month per child – Amount recovered from the employee
2. ***Where education facility is provided to other members of employee's household (i.e. other than children)***	Cost of such education in a similar institution in or near the locality – Amount recovered from the employee

Notes :

1. Amount spent for providing free education facilities or for training of the employee, is not taxable in the hands of employee as a perquisite.
2. School fees of the members of employee's household, paid by the employer directly to the school or reimbursed to the employee, is taxable as a perquisite in the hands of specified as well as non-specified employees u/s 17(2)(iv) because it is an employee's obligation which has been met by the employer.

Rule 3 (6) : Valuation of perquisite in respect of free transport or private journey provided by an undertaking engaged in carrying of passengers or goods to any employee (or to any member of his household)

If vehicle is owned / leased by the employer for carriage of ***passengers or goods*** and the same is provided to employee or any member of his household, the value of benefit shall be the value at which such benefit is offered by the employer to the public as reduced by the amount recovered from the employee.

Note :

Privilege passes and privilege tickets granted to employees of Railway and Airlines are still not taxable in the hands of the employees.

Rule 3 (2) : Valuation of motor car / other vehicles

I. Where car is owned or hired by employer & maintenance and running expenses are met or reimbursed by employer

Different situations	Value of the perquisite
1. Wholly used for official purposes	1. No value provided conditions mentioned in ***Note 1*** below are satisfied.
2. Wholly used for private purposes of employee (or any member of his household)	2. Actual running and maintenance expenses + Actual remuneration of chauffeur (if provided by the employer) + 10% of per annum of actual cost of car for normal wear and tear ***or*** Hire charges (if car taken on hire) – Amount recovered from employee
3. Partly used for official purposes and partly used for private purposes of employee (or any member of his household)	3. **Where cubic capacity of engine ≤ 1.6 Litres :** Rs. 1,800 per month + Rs. 900 per month for chauffeur (if provided by the employer) **Where cubic capacity of engine > 1.6 Litres :** Rs. 2,400 per month + Rs. 900 per month for chauffeur (if provided by the employer) ***(Nothing is deductible in respect of any amount recovered from the employee in both cases)***

II. Where car is owned or hired by employer & maintenance and running expenses are met by employee

Different situations	Value of the perquisite
1. Wholly used for official purposes	1. Question of perquisite does not arise
2. Wholly used for private purposes of employee (or any member of his household)	2. Actual remuneration of chauffeur (if provided by the employer) + 10% of per annum of actual cost of car for normal wear and tear ***or*** Hire charges (if car taken on hire) – Amount recovered from employee
3. Partly used for official purposes and partly used for private purposes of employee (or any member of his household)	3. **Where cubic capacity of engine ≤ 1.6 Litres:** Rs. 600 per month + Rs. 900 per month for chauffeur (if provided by the employer) **Where cubic capacity of engine > 1.6 Litres:** Rs. 900 per month + Rs. 900 per month for chauffeur (if provided by the employer) ***(Nothing is deductible in respect of any amount recovered from the employee in both cases)***

III. Where car is owned by employee & maintenance and running expenses are met or reimbursed by employer

Different situations	Value of the perquisite
1. Wholly used for official purposes	1. No value provided conditions mentioned in ***Note 1*** below are satisfied.
2. Wholly used for private purposes of employee (or any member of his household)	2. Actual running and maintenance expenses + Actual remuneration of chauffeur (if provided by the employer) – Amount recovered from employee
3. Partly used for official purposes and partly used for private purposes of employee (or any member of his household)	3. Actual running and maintenance expenses + Actual remuneration of chauffeur (if provided by the employer) – ***Amount used for official purpose**** – Amount recovered from employee ****Amount used for official purpose*** means : **Where cubic capacity of engine ≤ 1.6 Litres (i.e. 1600CC) :** Rs. 1,800 per month + Rs. 900 per month for chauffeur (if provided by the employer) **Where cubic capacity of engine > 1.6 Litres :** Rs. 2,400 per month + Rs. 900 per month for chauffeur (if provided by the employer) (It is to be noted that ***Amount used for official purpose*** may be a higher sum provided conditions mentioned in ***Note 1*** below are satisfied.)

IV. Where any automotive conveyance (other than car) i.e. motor cycle, scooter etc. is owned by employee & maintenance and running expenses are met or reimbursed by employer

Different situations	Value of the perquisite
1. Wholly used for official purposes	1. No value provided conditions mentioned in ***Note 1*** below are satisfied.
2. Wholly used for private purposes of employee (or any member of his household)	2. Actual running and maintenance expenses – Amount recovered from employee
3. Partly used for official purposes and partly used for private purposes of employee (or any member of his household)	3. Actual running and maintenance expenses – ***Amount used for official purpose**** – Amount recovered from employee ****Amount used for official purpose*** means : Rs. 900 per month (It is to be noted that ***Amount used for official purpose*** may be a higher sum provided conditions mentioned in ***Note 1*** below are satisfied.)

Note 1 : Conditions to be satisfied if car/any automotive conveyance (other than car) is used for official purposes :

a) The employer has maintained complete details of journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon [e.g. employer maintains a Logbook of the car/ any automotive conveyance (other than car)];

b) The employee gives a certificate that the expenditure was incurred wholly and exclusively for the performance of his official duty.

Note 2 : Meaning of "Month" :

The word "month" (in the above tables) means completed month according to English calendar and a part of the month is not considered.

Note 3 : Where more than one motor car is provided :

Where two or more motor cars are ***owned or hired*** by the employer, and the employee (or any member of his household) are allowed the use of such motor cars (otherwise than wholly and exclusively in the performance of his duties), the value of perquisite shall be calculated as follows :

a) In respect of one of such car (as selected by the employee) :

   The value of perquisite shall be the amount calculated in **Point No. 3 of Table I** as if car is *partly used for official purposes and partly used for private purposes* of employee (or any member of his household) and

b) In respect of other car or cars :

   The value of perquisite shall be the amount calculated in **Point No. 2 of Table I** as if car/cars was *wholly used for private purposes of employee* (or any member of his household)

Note 4 : Explanation to Section 17 (2) (iii) :

Any vehicle provided by the employer for journey from residence to office or other place of work or from such office or place of work to his residence --→ Not taxable.

Note 5 :

If car/any automotive conveyance is ***owned by the employee*** and running and maintenance expenses are met or reimbursed by the employer then it will be a perquisite taxable in the hands of all employees according to the provision of Section 17 (2) (iv) because it is an obligation of the employee to maintain his car/ any automotive conveyance (other than a car) but such obligation is met by the employer.

S A L A R I E S ~ I I I B

PRACTICAL PROBLEMS

Question No. 1 :

X is employed by two companies : A Co. and B Co. The following data is available in respect of expenditure incurred by the two companies on giving salary/allowances and providing different perquisites during P.Y. 2010-11 :

Office time ⟶	A Co. 9 A.M. to 1 P.M. Rs. (per annum)	B Co. 2 P.M. to 6 P.M. Rs. (per annum)
Basic salary	25,000	15,000
Education allowance for two children	2,800	Nil
Commission	Nil	2,000
Bonus	7,600	Nil
Free gas provided by the employer for personal purposes	Nil	4,000
Rent-free furnished house	24,000	Nil
Free domestic servant provided by the employer for personal purposes	6,000	Nil

Find out whether the perquisites in respect of free domestic servant and free gas are chargeable to tax in the hands of X in the following situations :

1. X is neither a shareholder nor a director in A Co. and B Co.

2. X is director in A Co. (not in B Co.). Moreover, he is not a shareholder in any company.

3. X is a director in B Co. (not in A Co.). He is not a shareholder in any company. Mrs. X is a director in A Co.

4. X is a director in the two companies, though he does not hold 20% equity share capital in any company.

5. X holds 35% and 19.5% share capital in A Co. and B Co. respectively (he is not a director in any company).

6. X holds 18% and 21% shareholding in A Co. and B Co. respectively. Mrs. X holds 5% share capital in A Co. X is not a director in any company.

7. X holds 15% and 18% shareholding in A Co. and B Co. respectively. He is a director in A Co. up to March 31, 2010. He becomes a director in B Co. w.e.f. April 1, 2011.

8. X is not a director/shareholder in any company, though Mrs. X is a director in A Co. and B Co. and holds 20% and 25% shares in A Co. and B Co. respectively.

9. X is not a director/shareholder in A Co. and B Co. However, the amount of commission given by B Co. is Rs. 2,001 (and not Rs. 2,000).

Question No. 2 :

Find out the taxable value of perquisite in respect of car in the following different situations for the A.Y. 2011-12 if X is :

(i) Specified employee &

(ii) Non-specified employee :

1. X is employed by Y. He has been provided a car (1200CC) owned by the employer, cost of the car is Rs. 4,26,000. The expenditure incurred by the employer on maintenance of car are – petrol : Rs. 46,000, driver : Rs. 36,000 and maintenance Rs. 10,000. The car can be used by X partly for official purposes and partly for private purposes. A sum of Rs. 12,000 is recovered from X.

2. Assume in Situation 1 that the car is used only for private purposes.

3. A car (1800CC) is owned by the employer (cost of the car being Rs. 4,80,000). The car can be used by X partly for official purposes and partly for private purposes. Expenses are, however, incurred by X. During the P.Y. 2010-11, the total expenditure incurred by X is Rs. 50,000 on car and Rs. 20,000 on driver.

4. Assume in Situation 3 that the car can be used only for private purposes.

5. X owns a car (1400CC). He uses it partly for official purposes and partly for private purposes. During the P.Y. 2010-11 he incurs a sum of Rs. 40,000 on running and maintenance of car. Besides, he has engaged a driver (salary Rs. 24,000). The employer reimburses the entire expenditure of Rs. 64,000. Logbook of the car is not maintained.

6. Assume that in Situation 5 that the logbook of the car is maintained and 70% of the expenditure is attributable towards the official user of the car. A certificate is given by the employer to this effect.

7. A car (1700CC) is owned by the employer. All expenses (Rs. 56,000) are incurred by the employer. The employer maintains logbook of the car. X uses the car only for official purposes. The employer gives a certificate that the car is used only for the official purposes.

Question No. 3 :

X is employed by Y Limited. He has been provided three cars for official and personal use. The company incurs the following expenses in respect of these cars :

	Car 1 (1800CC) Rs.	**Car 2 (1200CC) Rs.**	**Car 3 (1600CC) Rs.**
Petrol bills	40,500	60,600	38,500
Maintenance expenses	8,100	7,800	9,200
Insurance	6,700	6,300	4,900
Salary of driver	24,000	------	-----

Cost of cars to the employer is : Rs. 4,89,000, Rs. 5,10,000 and Rs. 3,50,000.

Find out the value of perquisite for the A.Y. 2011-12 in respect of the cars if X is (a) Non-specified employee, or (b) Specified employee.

Question No. 4 :

Find out the taxable value of the perquisite for the A.Y. 2011-12 in the following cases :

1. X is an employee in the Accounts Department of A Ltd. On November 27, 2010, he attends a seminar on "Value Added Tax". Seminar fee of Rs. 2,500 is paid by A Ltd.

2. Y's son is a student of ninth class of Delhi Public School. Rs. 17,800 being tuition fees of Y's son is paid/reimbursed by B Ltd. where Y is employed. There is no arrangement between B Ltd. and Delhi Public School.

3. Star Public School is owned and maintained by C Ltd., a manufacturing company. Books of accounts of the school and C Ltd. are maintained separately. Z is an employee of C Ltd. The following family members of Z are students in Star Public School :

	Cost of education in a similar institution	Amount charged from Z
A, daughter of Z	Rs. 5,500 per month	Rs. 800 per month
B, dependent brother of Z	Rs. 6,000 per month	Rs. 1,600 per month

4. Suppose in (3) (Supra) Star Public School is not owned/maintained by C Ltd. As per arrangement of C Ltd. with the school, family members of the employees of C Ltd. can have educational facility in the school. 100 seats are reserved for this purpose for which the company annually pays Rs. 40 lakhs to the school (no separate billing by the school to the employee of C Ltd.). Family members of Z are students of the school. Cost of education in a similar institute and amount charged from Z by C Ltd. are given in the table in (3) (supra).

X, Y and Z are specified employees.

S A L A R I E S ~ I I I B

Answer to Question No. 1 :

Statement showing taxability of domestic servant and free gas

Different situations	Whether taxable in hands of X	
	Free Domestic servant provided by A Co.	**Free gas provided by B Co.**
1. X is a non-specified employee of A Co. and B Co. because he is neither a director nor a shareholder in any company and his salaries does not exceed Rs. 50,000 ***(Refer Note)***	No	No
2. X is a specified employee of A Co. and not of B Co.	Yes	No
3. X is a specified employee of B Co. and not of A Co.	No	Yes
4. X is specified employee of both companies	Yes	Yes
5. X is a specified employee of A Co. and not of B Co.	Yes	No
6. X is a specified employee of B Co. and not of A Co.	No	Yes
7. X is non-specified employee of both companies	No	No
8. X is non-specified employee of both companies	No	No
9. X is neither a director nor a shareholder of both companies. However, his salary exceeds Rs. 50,000 [i.e. (50,000-2,000+2,001)]. Consequently he becomes specified employee of both companies	Yes	Yes

Note : Salary for the purpose of specified employees :

	Rs.	Rs.
Basic Salary (25,000 + 15,000)		40,000
Education Allowance	2,800	
Less : Exempt u/s 10 (14) [100 x 12 x 2]	2,400	400
Commission		2,000
Bonus		7,600
		50,000
Less : Deduction u/s 16 (ii)	Nil	
: Deduction u/s 16 (iii)	Nil	Nil
Salary		50,000

Free gas, rent-free furnished house and free domestic servants are not considered for computing salary for the purpose of specified employees because these are not monetary benefits/perks.

Answer to Question No. 2 :

1 (a) : If X is Specified employee :

	Rs.
Car (Rs. 1800 x 12)	21,600
Driver (Rs. 900 x 12)	10,800
Value of the perquisite (amount recovered from X is not deductible)	32,400

1 (b) : If X is Non-specified employee : Nothing is taxable.

2 (a) : If X is Specified employee :

	Rs.
Actual running and maintenance expenses (Rs. 46,000 + Rs. 10,000)	56,000
Actual remuneration of chauffeur	36,000
Normal wear and tear (@ 10% of Rs. 4,26,000)	42,600
	1,34,600
Less : Amount recovered from X	12,000
Value of the perquisite	1,22,600

2 (b) : If X is Non-specified employee : Nothing is taxable.

3 (a) : If X is Specified employee :

	Rs.
Car (Rs. 900 x 12)	10,800
Driver (not provided by the employer)	Nil
Value of the perquisite	10,800

3 (b) : If X is Non-specified employee : Nothing is taxable.

4 (a) : If X is Specified employee :

	Rs.
Actual remuneration of chauffeur (not provided by the employer)	Nil
Normal wear and tear (@ 10% of Rs. 4,80,000)	48,000
	48,000
Less : Amount recovered from X	Nil
Value of the perquisite	48,000

4 (b) : If X is Non-specified employee : Nothing is taxable.

5 (a) : If X is Specified employee :

	Rs.
Actual running and maintenance expenses	40,000
Actual remuneration of chauffeur	24,000
	64,000
Less : Amount used for official purpose [(Rs. 1,800 x 12) + (Rs. 900 x 12)]	32,400
Value of the perquisite	31,600

5 (b) : If X is Non-specified employee : Since X owns car and running and maintenance expenses are reimbursed by the employer, Rs. 64,000 will be taxable in his hands according to the provision of Section 17(2)(iv) (even though he is a non-specified employee) because it is an obligation of the employee to maintain his car but such obligation has been met by the employer.

6 (a) : If X is Specified employee :

	Rs.
Actual running and maintenance expenses	40,000
Actual remuneration of chauffeur	24,000
	64,000
Less : Amount used for official purpose [(Rs. 64,000 x 70%]	44,800
Value of the perquisite	19,200

6 (b) : If X is Non-specified employee : Since X owns car and running and maintenance expenses are reimbursed by the employer, Rs. 19,200 will be taxable in his hands according to the provision of Section 17(2)(iv) (even though he is a non-specified employee) because it is an obligation of the employee to maintain his car but such obligation has been met by the employer.

7 (a) : If X is Specified employee : Value of perquisite in this case will be Nil

7 (b) : If X is Non-specified employee : Nothing is taxable.

Answer to Question No. 3 :

(a) If X is Non-specified employee : Nothing is taxable

(b) If X is Specified employee : Since X has been provided three cars, only one car (at the option of X) will be taxed as if the car is partly used for official purposes and partly used for private purposes and the other two cars will be taxed as if they are used only for private purposes. Accordingly, X has following three options :

	Option 1 (If Car 1 is opted by X)	**Option 2 (If Car 2 is opted by X)**	**Option 3 (If Car 3 is opted by X)**
Car 1	**39,600**	1,28,200	1,28,200
Car 2	1,25,700	**21,600**	1,25,700
Car 3	87,600	87,600	**21,600**
Total	2,52,900	**2,37,400**	2,75,500

Taxable value of car if used partly for official and partly for private purposes :

	Car 1 (Rs.)	**Car 2 (Rs.)**	**Car 3 (Rs.)**
Car	28,800 (Rs. 2,400 x 12)	21,600 (Rs. 1,800 x 12)	21,600 (Rs. 1,800 x 12)
Driver	10,800 (Rs. 900 x 12)	-------	-------
Total	39,600	21,600	21,600

Taxable value of car if used wholly for private purposes :
3

	Car 1 (Rs.)	**Car 2 (Rs.)**	**Car 3 (Rs.)**
Actual running and maintenance expenses (Petrol bills + Maintenance expenses + Insurance)	55,300	74,700	52,600
Actual remuneration of Driver	24,000	-------	-------
Normal wear and tear (10% of actual cost)	48,900	51,000	35,000
Total	1,28,200	1,25,700	87,600

Conclusion : X should opt for Option 2 (i.e. Car 2 is partly used for official purposes and partly used for private purposes) because value of perquisite under this option is minimum.

Answer to Question No. 4 :

1. Amount spent for providing free education facilities or for training of the employee (whether specified or non-specified), is not taxable in the hands of employee as a perquisite. Seminar fee of Rs. 2,500/- is, therefore, not taxable in the hands of X.
2. School fees of the members of employee's household, paid by the employer directly to the school or reimbursed to the employee, is taxable as a perquisite in the hands of specified as well as non-specified employees u/s 17(2)(iv) because it is an employee's obligation which has been met by the employer. Therefore Rs. 17,800 is taxable in the hands of Y. Rs. 17,800 will be taxable in the hands of Y even if he is a non-specified employee
3. School is maintained by the employer. Amount taxable in the hands of Z will be as follows:

	Rs.
A (daughter of Z [(Rs. 5,500 – Rs. 1,000 – Rs. 800) x 12]	44,400
B (brother of Z) [(Rs. 6,000 – Rs. 1,600) x 12]	52,800
	97,200

4. School is not maintained by the employer but taxable amount will be same as in 3) above i.e. Rs. 97,200.

Note : If Z is non-specified employee in 3) and 4) above : Value of perk = Nil.

S A L A R I E S ~ I I I C

PERQUISITES

VALUATION OF PERKS

C. Tax – Free Perks (For all employees)

The following are some examples of perquisites which are tax- free perquisites in the hands of ***all employees*** :

1. Any expenditure incurred by the employer, for providing ***training*** to the employees or by way of payment of fees of ***refresher courses*** attended by the employees. Such expenses may include boarding and lodging expenses of the employees for such purposes.

2. Rent-free ***official*** residence and conveyance facilities provided to a judge of the Supreme Court/High Court.

3. Rent-free furnished residence (including maintenance thereof) provided to an officer of the Parliament, a Union Minister or Leader of Opposition in Parliament.

4. Perquisites received outside India, provided by the Government to its employees, who are citizens of India for rendering services outside India [Section 10 (7)].

5. Expenses on telephone, including a mobile phone, actually incurred on behalf of the employee by the employer [Proviso to Rule 3 (7) (ix)].

6. Periodicals and journals required for discharge of work provided by the employer.

S A L A R I E S ~ I V

MISCELLANEOUS ISSUES

Valuation of Leave Travel Concession/Assistance (LTC/LTA) [Section 10(5) & Rule 2B]

The employee is entitled to exemption in respect of the value of travel concession or assistance received by or due to him from his employer or former employer, as the case may be, for himself and his ***family***, in connection with his proceeding :

(i) on *leave* to any place in India, or

(ii) to any place in India after the *retirement* from service, or

(iii) to any place in India after the *termination* of his service.

"Family" for this purpose means :

(a) The spouse and children;

(b) Parents, brothers and sisters who are wholly or mainly dependent upon him.

The exemption shall be allowed subject to the following conditions :

Different situations	Amount of exemption
1. Where journey is performed by Air	Least of the following is exempt : a) Amount of economy class air fare of the National Carrier by the shortest possible route b) The amount spent
2. Where journey is performed by Rail	Least of the following is exempt : a) Amount of air-conditioned first class rail fare by the shortest possible route b) The amount spent
3. Where places of origin of journey and destination are connected by rail and the journey is performed by any other mode of transport	Least of the following is exempt : a) Amount of air-conditioned first class rail fare by the shortest possible route b) The amount spent
4. Where places of origin of journey and destination are not connected by rail ***and*** :	
i) Where a recognized public transport system exists	Least of the following is exempt : a) Amount of first class or deluxe class fare by the shortest possible route b) The amount spent
ii) Where a recognized public transport system does not exist	Least of the following is exempt : a) Amount of air-conditioned first class rail fare by the shortest possible route (as if the journey has been performed by rail) b) The amount spent

Notes :

1. The assessee can claim exemption in respect of any two journeys ***performed*** in a block of 4 ***calendar*** years commencing from 1986. The different blocks are :

   a) 1986-1989 (i.e. January 1, 1986 to December 31, 1989);

   b) 1990-1993 (i.e. January 1, 1990 to December 31, 1993);

   c) 1994-1997 (i.e. January 1, 1994 to December 31, 1997);

   d) 1998-2001 (i.e. January 1, 1998 to December 31, 2001);

   e) 2002-2005 (i.e. January 1, 2002 to December 31, 2005);

   f) 2006-2009 (i.e. January 1, 2006 to December 31, 2009);

   g) 2010-2013 (i.e. January 1, 2010 to December 31, 2013);

2. **"Carry-over" concession :**

   If an assessee has not availed LTC during any of the specified four year block periods on one of the two permitted occasions (or on both occasions), exemption can be claimed in the first calendar year of the next block (but in respect of only one journey). In such case, the exemption so available will not be counted for the purpose of claiming the future exemptions allowable in respect of 2 journeys in the subsequent block.

   For example for the block 2006-2009, employee can claim exemption in respect of LTC u/s 10(5) on two occasions. If the employee has availed the exemption only on one occasion (or not availed exemption on both occasions) during 2006-2009, then he can avail exemption in respect of LTC in the first calendar year of the next block (i.e. during calendar year 2010). In addition he can claim exemption on two more occasions during 2010-13.

3. The exemption is strictly restricted to expenses on air fare or rail fare or bus fare only. Expenditure, like taxi charges, lodging or boarding expenses will not qualify for exemption.

Valuation of Medical Facilities

(A) Medical facilities in India

Hospital (including clinic, dispensary or nursing home)	Nature of medical facility made available to employee or any member of his ***family***	Expenditure	Is it chargeable to tax
⏩ Maintained by employer	Any	Incurred by the employer	Not chargeable to tax (no monetary ceiling)
⏩ Maintained by : Central Government ***or*** State Government ***or*** Local Authority ***or*** Any other person (but approved by the Central or State Government)	Any	Incurred or reimbursed by the employer	Not chargeable to tax (no monetary ceiling).
⏩ Maintained by any person but approved by the Chief Commissioner of Income Tax	For treatment of prescribed diseases given in Rule 3A (2) [for example Cancer]	Incurred or reimbursed by the employer	Not chargeable to tax (no monetary ceiling). However employee should attach with return of income a certificate from hospital, which specifies nature of disease as well as amount of expenditure.
⏩ Maintained by any other person (e.g. a private hospital or clinic)	Any	Incurred or reimbursed by the employer	Not chargeable to tax up to Rs. 15,000 in aggregate per A.Y.

(B) Medical facilities outside India

Following expenditure incurred or reimbursed by employer is not chargeable to tax subject to the conditions given below :

Perquisite not chargeable to tax	**Conditions to be satisfied**
⏩ Cost on medical treatment of employee (or any member of his ***family***)	Expenditure shall be exempt to the extent permitted by Reserve Bank of India.
⏩ Cost on stay of employee (or any member of his ***family***) + Cost on stay of one attendant who accompanies the patient	Expenditure shall be exempt to the extent permitted by Reserve Bank of India.
⏩ Cost on travel of employee (or any member of his ***family***) + Cost on travel of one attendant who accompanies the patient	Expenditure shall be exempt only in case of an employee whose Gross Total Income (as computed before including therein the said cost on travel) does not exceed Rs. 2,00,000/-

(C) Payment of insurance premium on health

Insurance premium paid or reimbursed by the employer in respect of any Health Insurance Policy of employee or any member of his family under any scheme approved by the Central Government or IRDA is not chargeable to tax as perquisite.

Example :

1. Group medical insurance premium for employees

2. Medical insurance premium for employee and his family members.

"Family" for this purpose means :

(a) The spouse and children;

(b) Parents, brothers and sisters who are wholly or mainly dependent upon him.

Treatment of Provident Fund

Particulars	SPF	RPF	URPF	PPF
⏩ Employee's contribution	Deduction u/s 80C available	Deduction u/s 80C available	Deduction u/s 80C ***not*** available	Deduction u/s 80C available
⏩ Employer's contribution	Fully exempt	Exempt up to 12% of ***salary***. Excess of 12% is included in Gross Salary.	Not exempt but also not taxable every year. ***(See note 1 below)***	Employer does not contribute.
⏩ Interest credited to PF	Fully exempt	Exempt up to 9.5%* per annum. Interest credited in excess of 9.5%* per annum is included in Gross Salary. ****8.5% with effect from 01.09.2010.***	Not exempt but also not taxable every year. ***(See note 1 below)***	Fully exempt
⏩ Repayment of lump sum amount on retirement ***or*** resignation ***or*** termination	Fully exempt	Fully exempt	1. Accumulated employee's contribution : Fully exempt 2. Interest on employee's contribution (till date) : Taxable as I/O/S. 3. Accumulated employer's contribution + Interest on employer's contribution (till date) : Taxable as ***profit in lieu of salary***.	Fully exempt

Notes :

1. Employer's contribution and interest on URPF are not taxable in the year of contribution or credit of interest. However, when the lump sum amount is received then it becomes taxable.

2. ***"Salary",*** for the purpose of PF = Basic + D.A. (If D.A. enters into retirement benefit) + Commission based on fixed % of turnover [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)].

3. **Types of provident funds :**

(a) Statutory Provident Fund (SPF) :

This fund is set up under the provisions of the ***Provident Fund Act, 1925***. This fund is maintained by Government and Semi-Government organisations, local authorities, railways, universities and recognised educational institutions.

(b) Recognised Provident Fund (RPF) :

Recognised Provident Fund scheme is a scheme to which the ***Employee's Provident Fund & Miscellaneous Provisions Act, 1952*** (hereinafter referred to as PF Act, 1952) applies.

As per PF Act, 1952 any person who employs 20 or more persons is under an obligation to register himself under the PF Act, 1952 and start a provident fund scheme for the employees in his organisation after three years of its establishment. However, there is no restriction if the employer and the employees of such establishment wish to start a scheme even if the number of employees is less than 20 or even before three years of its commencement.

An establishment covered by the PF Act, 1952 has the following two alternatives and may join any of the following two schemes :

Alternative available schemes	Additional formalities to get approval of the Provident Fund commissioner	Status for income-tax purpose
1. Scheme of the Government set under the PF Act, 1952	No	Such provident fund is RPF because such scheme is already recognised by the CIT.
2. Own scheme of provident fund	A trust has to be created by the employer and employees to start own provident fund scheme. Funds shall be invested in accordance with the rules given under PF Act, 1952. If the scheme satisfies certain rules given under PF Act, 1952, it will get approval of the Provident Fund Commissioner.	If it is recognised by the CIT in accordance with the rules contained under Part A of the Fourth Schedule to the Income Tax Act, it becomes RPF.

(c) Unrecognized Provident Fund (URPF) :

As stated in 2 *Supra* (third column), if a provident fund is not recognised by the CIT, it is known as URPF. In other words, a scheme started by the employer and the employees in an establishment, whether approved by Provident Fund Commissioner or not, but ***not approved by the CIT*** is called an URPF.

(d) Public Provident Fund (PPF) :

This scheme is covered under Public Provident Fund Act, 1968. This scheme is for the benefit of general public to encourage savings. Any member of the public, whether salaried employee or self-employed, may contribute to this fund. A salaried employee can simultaneously become a member of the employees' provident fund (whether SPF, RPF or URPF) and the PPF. Any amount (subject to minimum of Rs. 500 and maximum Rs. 70,000 per annum) may be deposited in this account. The contributions made to the PPF along with interest are repayable after 15 years (it may be extended). This fund, at present, carries compound interest (tax free) at the rate of 8% per annum. Interest is credited every year.

Treatment of Approved Superannuation Fund

"Approved Superannuation Fund" means a superannuation fund which has been and continues to be approved by the Chief Commissioner of Income Tax (CCIT) or Commissioner of Income Tax (CIT).

Like PF, Superannuation fund is also another scheme of retirement benefits for the employee. These are funds, usually established under trusts by an undertaking, for the purpose of providing annuities, etc., to the employees of the undertaking on their retirement, or on their becoming incapacitated prior to such retirement, or for the widows, children or dependents in case of any employee's earlier death. The trust invests the money contributed to the fund in the form and mode prescribed.

Tax treatment :

(a) Employee's contribution : Deduction is available u/s 80C.

(b) Employer's contribution : Exempt upto Rs. 1,00,000.

(c) Interest on accumulated balance : Exempt.

(d) Payment from the fund : Exempt if it is made [Section 10 (13)] :

- i) on the death of the beneficiary to the legal heirs; or
- ii) to any employee on his retirement at or after a specified age or on becoming incapacitated prior to such retirement; or
- iii) on his leaving the service (otherwise than by retirement at or after a specified age or on becoming incapacitated prior to such retirement) to the extent to which such payment does not exceed the contributions made prior to the commencement of Income Tax Act (i.e. 1-4-1962) [For instance, where the amount received by an employee does not include any contribution made prior to April 1, 1962, the whole amount is taxable].

Approved Gratuity Fund

"Approved Gratuity Fund" means a Gratuity Fund which has been and continues to be approved by the Chief Commissioner of Income Tax (CCIT) or Commissioner of Income Tax (CIT).

Tax treatment :

- Employer's contribution : Exempt.
- Payment from the fund : Exempt to the extent as provided u/s 10 (10).

Profits in Lieu of Salary [Section 17(3)]

The employee in lieu of (i.e. in place of) or in addition to salary or wages receives these payments. Following are "Profits in Lieu of Salary":

1. **Compensation for loss of employment or modification of terms of employment** :

   It is taxable on due or receipt basis whichever is earlier.

2. **Payment from an *unrecognized* provident fund or an *unapproved* superannuation fund :**

   The accumulated balance of an unrecognized provident fund and unapproved superannuation fund consists of the following :

   (a) Employee's own contribution;

   (b) Interest on employee's own contribution;

   (c) Employer's contribution;

   (d) Interest on employer's contribution.

   Employer's contribution and Interest on employer's contribution [i.e. (c) and (d)] are not taxed during the period of employment. When the accumulated balance of such a fund is paid to the employee either on retirement or on termination of services the employer's contribution and Interest on employer's contribution [i.e. (c) and (d)] is taxed as 'profit in lieu of salary'.

3. **Payment under Keyman Insurance Policy :**

   Any sum due to or received by an assessee including the sum allocated by way of bonus on such policy, will also be regarded as 'profit in lieu of salary'.

4. **Payment before joining and after retirement :**

   Any amount due to or received in lump sum or other wise by any assessee from ***any person*** :

   a) Before his joining any employment with that person; or

   b) After cessation of his employment with that person.

5. **Any other sum received by the employee from the employer :**

   This is a comprehensive provision by virtue of which all other payments [other than what is exempt under different clauses of Section 10] made by an employer (or former employer) to an employee whether made in pursuance of a legal obligation or voluntarily are brought under the head "Profit in lieu of salary". For example, Medical allowance is taxable as "Profits in Lieu of Salary".

   However, the following receipts, will not be termed as "Profits in lieu of salary" :

   1. Death-cum-retirement gratuity – Section 10 (10)
   2. Commuted value of pension – Section 10 (10A)
   3. Retrenchment compensation – section 10 (10B)
   4. Payment received from a statutory provident fund – Section 10 (11)
   5. Payment received from a recognized provident fund – Section 10 (12)
   6. Any payment from an approved superannuation fund – Section 10 (13)
   7. House rent allowance – Section 10 (13A)

   In short, except for the terminal and other payments specifically exempted under Sections 10 (10) to 10 (13A), all other payments received are liable to tax under this head.

Money embezzled by employee would constitute his income

Money embezzled will constitute the income of the employee and therefore liable to be taxed.

Valuation of other perquisites, benefits, amenities etc. [Rule 3(7)(ix)]

Other perquisites, benefits, amenities etc. provided by the employer which are not covered under Salaries – IIIA, Salaries – IIIB, Salaries – IIIC & Miscellaneous Issues (discussed above) shall be determined on the basis of cost to the employer under an arm's length transaction as reduced by the employee's contribution, if any.

Meaning of salary for different computations

Different Computation	Meaning of Salary
1. Gratuity received under Payment of Gratuity Act, 1972	⏩ Basic Salary + D.A.
2. Entertainment Allowance	⏩ Basic Salary
3. Gratuity received by other employees **4. Leave Salary** **5. VRS** **6. HRA** **7. Employer's contribution to RPF**	⏩ Basic + D.A. (If D.A. enters into retirement benefit) + Commission based on fixed % of turnover [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)].
8. Accommodation	⏩ Basic salary + D.A. (if enters into retirement benefit) + Bonus + Commission (any type) + Fees + Taxable Allowances + Any monetary payment which is chargeable to tax [excluding value of perks u/s 17(2)]
9. Specified Employees	⏩ Basic Salary + D.A. + Bonus + Commission (any type) + Taxable allowances / perks (But shall not include value of any non-monetary benefit / perks) – Deductions under sections 16 (ii) & 16 (iii)

Salary structure of an employee

S.L. No.	Name of employee	Basic salary	D. A.	HRA	Other allowances	Commission	Gross salary	Deductions					Net salary
								Loan	Income tax	Professional tax	P. F.	Total	
1.	Mr. R	5,000	2,000	500	200	300	8,000	300	400	100	500	1,300	6,700

SALARIES ~ IV

PRACTICAL PROBLEMS

Question No. 1 :

Compute the taxable value of perquisite in respect of medical facilities in the following situations :

(a) The employer reimburses the following medical expenses of X :

		Rs.
i)	Treatment of X by his family physician	4,200
ii)	Treatment of Mrs. X in a private nursing home	3,600
iii)	Treatment of X's mother (dependent upon him) by a private doctor	1,200
iv)	Treatment of X's brother (not dependent upon him)	400
v)	Treatment of X's grandfather (dependent upon him)	1,500

(b) The employer pays an insurance premium of Rs. 3,000 under a health insurance scheme on the health of Y.

(c) The employer maintains a hospital for the employees where they and their family members are provided free treatment. The expenses on treatment of Z and his family members during the P.Y. 2010-11 were as under :

		Rs.
i)	Treatment of Z's major son (dependent upon him)	2,200
ii)	Treatment of Z	5,200
iii)	Treatment of Z's uncle	4,600
iv)	Treatment of Mrs. Z	8,000
v)	Treatment of Z's widow sister (dependent upon him)	4,100
vi)	Treatment of Z's handicapped nephew	2,500

(d) Expenses on cancer treatment of married daughter of P at Tata Memorial Hospital, Bombay (approved by Chief Commissioner of Income Tax) paid by the employer Rs. 50,000 and reimbursement of expenses for medical treatment of himself amounting to Rs. 20,000.

(e) The following expenses on treatment of Q's major son outside India were paid by the employer :

		Actual Expenses (Rs.)	Expenses permitted by RBI (Rs.)
i)	Actual medical expenses	75,000	60,000
ii)	Expenses on stay abroad of Q's son and Q's brother who accompanied the patient	65,000	45,000
iii)	Travelling expenses of Q's son and Q's brother	1,20,000	--------

Assume that Gross Total Income of Q (as computed before including therein the taxable amount of all the above expenses) is (I) Rs. 1,50,000 (II) Rs. 1,80,000.

Question No. 2 :

Mr. Chandrakant is working in Sindoori Ltd. and has given the details of his income for the P.Y. 2010-11. You are required to compute his gross salary from the details given below :

Basic Salary	Rs. 10,000 p.m.
D.A. (50% is for retirement benefits)	Rs. 8,000 p.m.
Commission	1% of turnover
Turnover during the year	Rs. 5,00,000
Bonus	Rs. 40,000
Gratuity	Rs. 25,000
Own contribution to the RPF	Rs. 20,000
Employer's contribution to RPF	20% of basic salary
Interest accrued in the RPF @ 13% p.a.	Rs. 13,000

Question No. 3 :

X retires on June 30, 2010. He submits the following information :

		Rs.
Basic salary per month		20,000
D.A. per month (1/3 of which is part of the salary for retirement benefit)		6,000
Employer contribution towards PF per month (X makes a matching contribution)		3,000
Interest credited to PF @ 15% on April 30, 2010		7,500
Pension after retirement (per month)		10,000
Payment of PF at the time of retirement :		
Employer's contribution	3,30,000	
Interest on employer's contribution	44,000	
Employee's contribution (i.e. X's contribution)	3,40,000	
Interest on employee's contribution	46,000	7,60,000

Find out the Gross Total Income of X for the A.Y. 2011-12 on the assumption that the PF is : (a) SPF; (b) RPF; (c) URPF.

S A L A R I E S ~ I V

Answer to Question No. 1 :

(a) Expenses on medical treatment paid or reimbursed by employer in this case are not chargeable to tax as perquisite up to Rs. 15,000.

	Expenses Exempt (up to Rs. 15,000)	Expenses Taxable as perquisite
i) Treatment of X	4,200	-------
ii) Treatment of Mrs. X	3,600	-------
iii) Treatment of X's mother	1,200	-------
iv) Treatment of X's brother	-------	400
v) Treatment of X's grandfather	-------	1,500
Total	**9,000**	**1,900**

(b) Insurance premium paid or reimbursed by the employer in respect of any Health Insurance Policy is not chargeable to tax as perquisite in the hands of Y.

(c) The expenses of medical treatment of the employee or his family members in a hospital maintained by the employer are not taxable as a perquisite. Family members for this purpose means :

i) The spouse and children;

ii) Parents, brothers and sisters who are wholly or mainly dependent upon him.

Hence taxable value of perquisite in this case will be calculated as follows :

	Expenses Exempt	Expenses Taxable as perquisite
i) Treatment of Z's major son	2,200	
ii) Treatment of Z	5,200	
iii) Treatment of Z's uncle		4,600
iv) Treatment of Mrs. Z	8,000	
v) Treatment of Z's widow sister	4,100	
vi) Treatment of Z's handicapped nephew		2,500
Total	**19,500**	**7,100**

(d) Expenses on medical treatment of the employee or his family members in respect of prescribed diseases in a hospital approved by the CCIT is not chargeable to tax.

Hence Rs. 50,000 in not chargeable to tax in the hands of P.

However, reimbursement of expenses of Rs. 20,000 is exempt up to Rs. 15,000 only and therefore Rs. 5,000 (20,000-15,000) is taxable in the hands of P.

(e) Amount taxable as perquisite in the hands of Q will be as follows :

	Situation I		Situation II	
	Expenses Exempt	**Expenses Taxable as perquisite**	**Expenses Exempt**	**Expenses Taxable as perquisite**
i) Actual medical expenses (Exempt to the extent permitted by RBI)	60,000	15,000	60,000	15,000
ii) Expenses on stay abroad (Exempt to the extent permitted by RBI)	45,000	20,000	45,000	20,000
iii) Travelling expenses ***(Note 1)***	1,20,000	--------	--------	1,20,000
Total	**2,25,000**	**35,000**	**1,05,000**	**1,55,000**

Note 1 :

Travelling expenses for the treatment abroad are exempt only in case of an employee whose GTI (as computed before including therein the said cost on travel) does not exceed Rs. 2,00,000/-

	Situation I	**Situation II**
Gross Total Income (as given)	1,50,000	1,80,000
Add : Taxable portion of Medical expenses	15,000	15,000
Add : Taxable portion of expenses on stay	20,000	20,000
Gross Total Income for the purpose of exemption	**1,85,000**	**2,15,000**

Hence Travelling expenses are :

- Fully exempt in situation I
- Fully taxable in Situation II

Answer to Question No. 2 :

Computation of Gross Salary of Mr. Chandrakant (A.Y. 2011-12)

	Rs.
Basic Salary [Rs. 10,000 × 12]	1,20,000
Dearness Allowance [Rs. 8,000 × 12]	96,000
Commission on turnover [1% × Rs. 5,00,000]	5,000
Bonus	40,000
Gratuity (Gratuity received during tenure of service is fully taxable)	25,000
Own contribution to the RPF (Eligible for deduction u/s 80C)	-------
Employers contribution to RPF [{20% of Rs. 1,20,000} - 12% of {Rs. 1,20,000 + (50% × Rs. 96,000) + Rs. 5,000}]	3,240
Interest accrued to the RPF [Rs. 13,000 – (Rs. 13,000 x 9.5/13 x 5/12) – (Rs. 13,000 x 8.5/13 x 7/12)]	4,083
Gross Salary	**2,93,323**

Answer to Question No. 3 :

Computation of Gross Total Income of X (A.Y. 2011-12)

	SPF (Rs.)	RPF (Rs.)	URPF (Rs.)
I. Income from Salaries :			
Basic salary (Rs. 20,000 x 3)	60,000	60,000	60,000
D. A. (Rs. 6,000 x 3)	18,000	18,000	18,000
Pension (Rs. 10,000 x 9)	90,000	90,000	90,000
Employer contribution towards PF ***(Note 1)***	--------	1,080	--------
Interest credited to PF ***(Note 2)***	--------	2,750	--------
Payment for PF at the time of retirement :			
Employer's contribution	--------	--------	3,30,000
Interest on employer's contribution	--------	--------	44,000
Gross Salary	1,68,000	1,71,830	5,42,000
Less : Deductions U/S 16 (ii) & 16 (iii)	Nil	Nil	Nil
Income from Salaries	1,68,000	1,71,830	5,42,000
II. Income from other sources :			
Interest on X's contribution	--------	--------	46,000
Gross Total Income	**1,68,000**	**1,71,830**	**5,88,000**

Note :

1. **Taxability of Employer contribution towards PF :**

   Employer's contribution to SPF & URPF is exempt.

   Employer contribution towards RPF is exempt up to 12% of ***salary***. Excess of 12% is included in Gross Salary.

   Salary for this purpose = Basic + D.A. (If D.A. enters into retirement benefit) + Commission based on fixed % of turnover [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)].

   Therefore Salary = 60,000 + 6,000 (i.e. 1/3 of 18,000) + Nil = Rs. 66,000

   Therefore amount includible in Gross Salary = Employer's contribution – 12% of salary = Rs. 9,000 (i.e. 3,000 x 3) – 12% of 66,000 = Rs. 1,080/-

2. **Taxability of Interest credited to PF :**

   Interest credited to SPF & URPF is exempt.

   Interest credited to RPF is exempt up to 9.5% per annum. Interest credited in excess of 9.5% per annum is included in Gross Salary.

   Therefore interest includible in Gross Salary = Rs. 7,500 x 5.5 (i.e. 15 – 9.5) / 15 = Rs. 2,750/-

RELIEF UNDER SECTION 89(1)

Illustration :

Mr. Sai an employee furnished the following particulars for the previous year ending 31.3.2011 :

		Rs.
(a)	Salary income for the year	5,85,000
(b)	During the year arrears of salary were received relate to financial year 2006-07 (not included in the above)	40,000
(c)	Assessed income of financial year 2006-07	1,40,000
(d)	Amount deposited in PPF on 25.03.2011	50,000

You are requested to compute relief under Section 89(1) in respect of tax payable.

The rates for the assessment year 2007-08 are :

Income (Rs.)	Income-Tax Rates	Education Cess
Upto Rs. 1,00,000	Nil	Nil
Above Rs. 1,00,000 and upto Rs. 1,50,000	10%	2 % of income-tax
Above 1,50,000 and upto Rs. 2,50,000	20%	2 % of income-tax
Above Rs. 2,50,000	30%	2 % of income-tax

Solution :

Computation of relief under Section 89(1)

	Assessment Year 2011-12		**Assessment Year 2007-08**	
	Without including arrear	**Including arrear**	**Without including arrear**	**Including arrear**
Salary Income	5,85,000	6,25,000	1,40,000	1,80,000
Less : Deduction for PPF u/s 80C	50,000	50,000	----------	----------
Total Income	5,35,000	5,75,000	1,40,000	1,80,000
Tax on Total Income	41,000	49,000	4,000	11,000
Add : EC	820	980	80	220
Add : SHEC	410	490	----------	----------
Total Tax Liability	42,230	50,470	4,080	11,220
Increase in Tax Liability	8,240 (50,470-42,230)		7,140 (11,200-4,080)	
Relief under Section 89(1)	1,100 (8,240-7,140)			

S A L A R I E S

Do yourself

PRACTICAL PROBLEMS

Problem No. 1 :

R an employee of XYZ Ltd, retired from service w.e.f. 1-1-2011 after serving for 16 years and 7 months. At the time of retirement he received a sum of Rs. 50,000 as leave encashment of unavailed leave of 300 days. He was entitled to 40 days leave for each year of completed service. He was getting a salary of Rs. 5,000 per month at the time of the retirement. He received increment of Rs. 500 w.e.f. 1-7-2010. Compute the amount of leave encashment exempt from tax.

Problem No. 2 :

X was employed by PQR Ltd. up to March 15,1995, at the time of leaving PQR Ltd. he was paid Rs. 3,50,000 as leave salary out of which Rs. 57,000 was exempt from tax under Section 10(10AA)(ii). Thereafter he joined ABC (P) Ltd. and received Rs. 4,14,000 as leave salary at the time of his retirement on December 31, 2010. Determine the amount of taxable leave salary from the following information :

Salary at the time of retirement (per month)	Rs. 23,000
Average salary received during 10 months ending on December 31, 2010 :	
From March 1, 2010 to July 31, 2010 (per month)	Rs. 22,600
From August 1, 2010 to December 31, 2010 (per month)	Rs. 22,900
Duration of service	14 ¾ years
Leave entitlement every year of service	45 days
Leave availed while in service	90 days
Leave at the credit of employee at the time of retirement [(14 x 45-90) / 30]	18 months
Leave salary paid at the time of retirement at the rate of Rs. 23,000 per month	
(i.e. Rs. 23,000 x 18)	Rs. 4,14,000

Problem No. 3 :

X, who is not covered by the Payment of Gratuity Act, 1972, retires on November 20, 2010 from ABC Ltd. and receives Rs. 1,86,000 as gratuity after service of 38 years and 10 months. His salary is Rs. 8,000 per month up to July 31, 2010 and Rs. 9,000 per month from August 1, 2010. Besides, he gets Rs. 500 per month as dearness allowance (69% of which is part of salary for computing retirement benefits). What amount of gratuity will be exempt from tax ?

Problem No. 4 :

X, a marketing specialist of Bombay, is working with two companies, i.e. A Co. and B Co. He retires from A Co. on November 30, 2002 (salary at the time of retirement Rs. 2,600) and receives Rs. 22,000 as gratuity out of which Rs. 20,000 is exempt under Section 10(10)(iii). He also retires from B Co. on December 10, 2010 after 28 years and 8 months of service and receives Rs. 2,90,000 as death-cum-retirement gratuity.

His average basic salary drawn from B Co. for the preceding 10 months ending on November 30, 2010 is Rs. 18,200 per month. Besides, he has received Rs. 1,000 per month as dearness allowance, 80 percent of which forms part of salary for the purpose of computation of retirement benefits and 6 percent commission on turnover achieved by him. Total turnover achieved by him during 10 months ending on November 30, 2010 is Rs. 2,00,000.

Determine the amount of gratuity exempt under Section 10(10)(iii) for the Assessment Year 2011-12.

Problem No. 5 :

Shri Vinod who was in part-time employment with A Limited and B Limited furnishes the following information :

	A Limited	B Limited
Basic salary per month (last drawn)	10,000	6,000
Dearness allowance	30 % (Forming part of salary for retirement benefits)	30% (40% part of salary for retirement benefits)
Date of retirement	1-12-2010	15-1-2011
Period of service	22 years 11 months	20 years 4 months
Amount of gratuity received	1,43,000	1,20,000
Date of last increment in basic salary	1-4-2010	1-8-2010
Amount of last increment	1,000 per month	500 per month

Compute the gross salary of Shri Vinod for the Assessment Year 2011-12.

Problem No. 6 :

Shri Rajesh was employed since 1-9-1978 in a commercial establishment. His salary was fixed at Rs. 14,800, in the grade of Rs. 14,000 – 400 – 22,000 with effect from 1-7-2008. He got 15% of his salary as dearness allowance which is treated as salary for computation of retirement benefits. He retired from service on 1-2-2011. He received Rs. 3,40,000 as gratuity from his employer. Calculate his gross income under the head 'Salaries' for the Assessment Year 2011-12 if :

(i) Payment of gratuity Act, 1972 applies.
(ii) Payment of Gratuity Act, 1972 does not apply.

Problem No. 7 :

A joined a service in the grade of Rs. 10,400 – 400 – 16,000 – 500 – 20,000 on 1-7-1994 and resigned from the service on 15-9-2010. He was also entitled to dearness allowance @ 50%, which forms part of salary for retirement benefits. On retirement, he received a gratuity of Rs. 2,40,000. He was entitled to a pension of Rs. 8,000 per month w.e.f. 16-9-2010. He got 75% of his pension commuted w.e.f. 1-1-2011 and received a sum of Rs. 6,00,000 as commuted pension. Compute his gross salary for Assessment Year 2011-12.

Problem No. 8 :

Shri A.K. Gupta was employed in a factory in Faridabad. He retired on 1-1-2011 after completing a service of 26 years and 5 months. He had been getting a salary of Rs. 23,000 per month and a dearness allowance of Rs. 2,000 per month (forming part of retirement benefits) for the last four years. His pension was determined @ Rs. 9,000 p.m. and ¾ portion of it was commuted for Rs. 2,70,000. In addition to this he received a gratuity of Rs. 4,00,000 and as per entitlement of 30 days earned leave for each year of service, he also received Rs. 3,00,000 for encashment of earned leave of 12 months during the previous year. Compute gross income from salaries of Shri Gupta for the Assessment Year 2011-12, assuming he is not covered under payment of Gratuity Act.

Problem No. 9 :

X was employed in ABC Ltd. He retired w.e.f. 1-2-2011 after completing a service of 24 years and 4 months. He submits the following information :
Basic salary : Rs. 5,000 per month (at the time of retirement)
D.A. : 100% of basic salary (40% of which forms part of salary for retirement benefits)
Last increment : Rs. 500 w.e.f. 1-7-2010
His pension was determined at Rs. 3,000 per month. He got 50% of the pension commuted w.e.f. 01-03-2011 and received a sum of Rs. 1,00,000 as commuted pension. In addition to this, he received a gratuity of Rs. 1,20,000 and leave encashment amounting to Rs. 56,000 on account of accumulated leave of 240

days. He was entitled to 40 days leave for every year of service. Compute his gross salary for Assessment Year 2011-12 assuming that he is not covered under Payment of Gratuity Act.

Problem No. 10 :

X, who resides in Pune, receives Rs. 42,000 per annum as basic pay during the previous year 2010-11. He stays in his father's house up to October 31, 2010 for which he does not pays any rent and thereafter he takes an accommodation on monthly rent of Rs. 2,000. The employer, however, pays Rs. 250 per month as house rent allowance throughout the previous year. As the sum of house rent allowance paid is the least of three sums [i.e. (a) Rs. 16,800 i.e. 40% of salary, (b) Rs. 3,000, i.e. house rent allowance, and (c) Rs. 5,800, i.e. excess of rent paid over 10% of salary], he claims that the entire house rent allowance is exempt from tax under section 10 (13A) read with Rule 2A. Is he legally correct?

Problem No. 11 :

X is employed by A Ltd. up to November 30, 2010 on the following monthly salary (place of posting : Delhi) :

	Up to May 31, 2010	From June 1, 2010
Basic salary	4,000	5,000
Dearness allowance @ 30% of basic salary (60% of dearness allowance is part of salary for computing retirement benefits)	1,200	1,500
Medical allowance	600	600
Commission	1,000	1,000
House rent allowance	2,000	3,500

With effect from December 1, 2010, he joins B Ltd. on monthly salary of 10,000 (place of posting Amritsar). Besides, he gets dearness allowance @ Rs. 4,000 per month (10% of which is considered for provident fund contribution) and house rent allowance @ Rs. 6,000 per month.

Rent paid per month by X :

	Delhi	Amritsar
From January 1, 2010 to July 31, 2010	500	----
August 1, 2010 to December 31, 2010	2,900	----
January 2011	----	1,000
February 1, 2011 to June 30, 2011	----	6,000

Determine the amount of chargeable house rent allowance for the Assessment Year 2011-12.

Problem No. 12 :

X, who lives in Meerut, gets Rs. 80,000 per annum as basic salary and Rs. 30,000 per annum as dearness allowance (one-third of which is part of salary for computation of retirement benefits). During the previous year 2010-11, X has received salary of 11 months; salary of March 2011 is received in April 2011. Besides, basic salary, he receives Rs. 12,000 as house rent allowance, though he pays Rs. 20,000 as house rent to the landlord. He claims that the entire house rent allowance is exempt from tax. Is he legally correct? If not, find out the amount of house rent allowance exempt from tax.

Problem No. 13 :

A joined an employer in 1972. He got Rs. 400 p.m. as entertainment in that year which was increase to Rs. 500 p.m. from 1-2-75. For Assessment Year 2011-12 he received salary as follows :

Basic salary	85,000
DA (forming part of retirement benefit)	10% of basic
Commission based on fixed percentage of turnover	5,500
Entertainment allowance	6,000 (spent Rs. 3,000)

Compute the deduction for entertainment allowance if he is a :

(i) Government employee

(ii) Non-Government employee

Problem No. 14 :

X is employed by A Limited (basic salary being Rs. 38,750 per month). Besides, he gets Rs. 3,000 per month as entertainment allowance. He pays professional tax of Rs. 1,000. Find out the salary chargeable to tax for the Assessment Year 2011-12.

Does it make any difference if the professional tax is paid by A Limited ?

Problem No. 15 :

X, a ***director-employee*** of a private sector company based at Indore, draws Rs. 9,000 per month as basic salary.

Other allowance and benefits attached to his office are : dearness allowance (forming part of salary) : 20% of basic salary; bonus : 30% of basic salary; commission : Rs. 800 per month; transport allowance : Rs. 1,100 per month for commuting between office and residence (actual expenditure : Rs. 170 per month); tribal area allowance : Rs. 8,400 and rent-free house (lease rent paid by the employer : Rs. 8,000 per month).

Income-tax paid by the company on behalf of X is Rs. 6,000.

During the previous year 2010-11, X draws salary of April and May 2011 (i.e. Rs. 18,000) in advance.

Determine the value of the perquisite in respect of rent-free house for the Assessment Year 2011-12.

Problem No. 16 :

X received during the previous year ending March 31, 2011, emoluments consisting of basic pay : Rs. 1,62,000; special allowance : Rs. 17,000 and reimbursement of medical expenditure : Rs. 3,800. His employer has also provided a rent-free furnished flat in Bombay. Lease rent of the unfurnished flat is Rs. 50,000. Some of the household appliances provided to X (w.e.f. from June 1, 2010) are owned by the employer (cost price of which is Rs. 36,000, date of purchase is April 1, 1993 and written down value, as on April 1, 2010 is Rs. 620). Employer pays Rs. 10,000 annually as hire charges for three air-conditioners installed throughout the previous year in rent-free flat.

Compute the value of the perquisite if :

(a) X is a Secretary in the Ministry of Law and Rs. 4,000 is the license fee of unfurnished flat as per the Central Government rules;

(b) X is the Managing Director of ABC (P) Ltd.

Does it make any difference if, X has been provided a hotel accommodation throughout the year (tariff being Rs. 1,20,000 per annum) ?

Problem No. 17 :

X a regular employee of A Ltd., gets the following emoluments during the previous year 2010-11 :

Basic salary : Rs. 6,000 per month (which has been increased to Rs. 7,000 per month from January 1, 2011); dearness allowance Rs. 4,000 per month (72% of which is part of salary for computing retirement benefits); education allowance : Rs. 550 per month per child for 4 children; medical allowance : Rs. 400 per month; transport allowance : Rs. 1,150 per month (out of which Rs. 100 per month is used for covering the journey between office and residence and Rs. 250 per month is used for other purposes).

Besides, he gets Rs. 4,500 per month as hose rent allowance up to November 30, 2010 (rent paid at Ghaziabad : Rs. 5,500 per month). W.e.f. December 1, 2010 he has been provided a furnished flat by the employer at Delhi (Rent paid by the employer : Rs. 7,500 p.m. ; rent of furniture provided Rs. 500; rent recovered from X : Rs. 900 per month).

Find out the salary chargeable to tax for the Assessment Year 2011-12 on the assumption that with effect from January 1, 2011, he joins a part-time employment with B Ltd. (salary Rs. 2,000 per month) with the permission of A Ltd. (without leaving the job of A Ltd.).

<u>Problem No. 18</u> :

R was appointed as sales manager of a company at Ghaziabad on 1-1-2007 in the scale of Rs. 18,000-400-22,000 at Rs. 18,000 per month. His other emoluments are :

	Rs.
➢ Dearness allowance	40% of salary
➢ Conveyance allowance (upto 30-9-2010 and his actual expenses on conveyance for employment purposes were Rs. 800 p.m.)	1,200 p.m.
➢ House rent allowance upto 31-7-2010 (Rent paid was Rs. 3,000 p.m.)	2,500 p.m.
➢ Fixed medical allowance	600 p.m.

- Rent free house from 1-8-2010 onwards FRV Rs. 45,000 p.a. and ***<u>cost</u>*** of furnishing amounts to Rs. 90,000. Employer also paid Rs. 20,000 towards maintenance of house and Rs. 1,000 p.m. as electricity bill from 1-8-2010 to 31-3-2011.
- Free use of 1.8 litre engine capacity car with driver for personal and employment purposes from 1-10-2010 onwards.
- He and his employer both contributed 15% of salary each towards RPF.
- Interest credited on RPF balance @ 15% amounts to Rs. 7,500.
- Club bill paid by employer during the previous year were Rs. 5,708.

Compute his salary income.

<u>Problem No. 19</u> :

R was appointed as the Branch Manager of a company at Jaipur on 1-2-2009 in the pay scale of Rs. 6,000-100-7,000. He also receives 10% of his pay as D.A., Rs. 150 p.m. as medical allowance and Rs. 300 p.m. as conveyance allowance. The company has given him a rent-free residential house since 1-7-2010. The fair rental value is Rs. 10,000 p.a. The company has incurred the following expenses in respect of this house from July, 2010 to March, 2011 : Repairs Rs. 2,000, Electricity Bills Rs. 292, Water Bills Rs. 200, Telephone Bills Rs. 800. The electricity and water bills are in the name of employer but telephone bill was in the name of employee.

On 1-10-2010 his conveyance allowance was stopped and he was given a motor car of 1.4 litre engine capacity for both official and personal use. All the expenses of running and maintenance of car including salary of driver are paid by the company. He, as well as the company, contributes 14.5% of his pay to a recognised provident fund. Interest credited during the previous year to his provident fund account @ 12.5% p.a. amounts to Rs. 1,250.

Compute his taxable income under the head Salaries for the Assessment Year 2011-12 assuming that he has not spent any amount of conveyance allowance for official duties.

<u>Problem No. 20</u> :

A is employed as a project manager of XYZ Ltd. He has furnished the following particulars in respect of his income for the year ending on 31-3-2011 :

(a) Salary including DA : Rs. 1,40,000.
(b) He has been provided a rent-free furnished bungalow in the factory premises at Pune. Fair Rental Value : Rs. 3,000 p.m.
(c) The company pays in respect of his son, fees of Rs. 2,400 during the year directly to the college.
(d) The company employs a watchman and pays Rs. 300 per month for looking after the bungalow of A.

(e) He availed of 15 days leave out of 30 days to which he was entitled. He encashed the unavailed leave (for 15 days) and received Rs. 6,000 which he claims as exempt.
(f) The company pays Rs. 1,000 p.a. as premium for an accident insurance policy for the benefit of A.

Compute income under the head 'Salaries' for the Assessment Year 2011-12.

Problem No. 21 :

Find out the taxable value of the perquisite in the following cases for the Assessment Year 2011-12 :

(a) X is given a laptop by the employer-company for using it for office and private purpose (ownership not transferred). Cost of the laptop to the employer company is Rs. 96,000.

(b) On October 16, 2010, the company gives its music system to Y for domestic use. Ownership is not transferred. Cost of music system (in 2002) to the employer is Rs. 15,000.

(c) The employer sells the following assets to the employees on January 1, 2011 :

Name of the employee **Asset sold**	**Z** **Car**	**A** **Computer**	**B** **Fridge**
Cost of the asset to the employer	Rs. 6,96,000	Rs. 1,17,000	Rs. 40,000
Date of purchase (put to use on the same day)	May 15, 2008	May 15, 2008	May15, 2008
Sale price	Rs. 2,10,000	Rs. 24,270	Rs. 1,000

Before sale on January 1, 2011, these assets were used for business purpose by the employer.

Problem No. 22 :

Mr. Lal is employed in Bharat Textiles Ltd. Bombay on a monthly salary of Rs. 20,000. In addition to this fixed salary, he is entitled to a commission @ 5% on the sales made by him. During the previous year 2010-11, he had received following allowances and amenities from his employer :

(a) Dearness allowance @ Rs. 2,000 per month which is granted to him under the terms of employment and counted for retirement benefits.
(b) Bonus equal to two months salary.
(c) House rent allowance @ Rs. 5,000 per month.
(d) Entertainment allowance @ Rs. 250 per month.
(e) The company paid Rs. 1,000 as his income tax penalty.
(f) In September, 2010 during leave he went on a visit to Kashmir with his family. The expenditure amounting to Rs. 16,000 as passage money were paid to him by employer as leave travel assistance. Had he traveled by air-conditioned first class compartment by train the expenditure in this regard would have been only Rs. 14,000. Before this he was allowed travel concession during 1999, 2003 and 2007.
(g) He had been provided with the amenities of gas, electricity and water, the expenses of which amounting to Rs. 10,833 were paid by the company.
(h) Commission on sale of Rs. 10,00,000 @ 5%.
(i) He was given free cloth worth Rs. 4,000 by his employer.
(j) He and his employer each contributed 12.5% of his salary to recognised provident fund. The interest credited to this fund for the previous year at 13.5% rate of interest amounted to Rs. 27,000.

Compute the taxable income from salary of Mr. Lal for the Assessment Year 2011-12 keeping in mind that he spent Rs. 6,000 p.m. as rent of the house hired by him.

Problem No. 23 :

Mrs. X (age 62 years) an employee-director of XYZ Ltd., submits the following information relevant for the A.Y. 2011-12 :

	Rs.
Salary	56,000
Entertainment allowance	6,000
Bonus	11,200
Education allowance (for his grandchildren)	2,000
Income-tax penalty paid by the employer	1,500
Medical expenses reimbursed by the employer	2,100
Leave travel concession (actual expenditure on fare is more than Rs. 1,300)	1,300
Free residential telephone	1,000
Payment of electricity bills by employer	1,000
Reimbursement of gas bills	1,500
Professional tax paid by Mrs. X	1,650
Furnished flat provided by the employer at concessional rate :	
Lease rent of the house	60,800
Cost of maintenance of ground (including salary of gardener)	2,000
Salary of two watchmen	1,000
Salary of sweeper	1,200
Rent of air-conditioner	2,000
Cost of furniture	18,000
Car (1900cc) owned by the employer :	
Cost of the car	3,70,000
Maintenance of the car	48,000
Salary of the driver	24,000
Arrears of bonus of 2006-07 (not taxed earlier)	2,000
Payment of delegation fee to FICCI for attending 30th All India Conference of executives	3,000
Employer's contribution towards RPF	7,920
Interest credited to RPF account @ 14% (credited on August 10, 2010)	14,000
Employer's contribution to superannuation fund	7,200
Employer's contribution to approved gratuity fund on accrual basis	2,700
Dividend from XYZ Ltd., a foreign company	1,300
Agricultural income from Nepal	2,29,160
Pension from the Government per month (Mrs. X is a retired Government employee)	4,700
During the year Mrs. X makes the following contribution and expenditure :	
Rent of furnished house paid to the employer	11,200
Payment in respect of use of car	6,000
Contribution towards RPF	10,000
Contribution towards superannuation fund	7,200
Insurance premium for a policy on the life of her husband (sum assured : Rs. 90,000)	5,200
Insurance premium for a policy of Rs. 10,000 on the life of her father	4,000
Deposit in 10-year account under the Post Office Saving Bank (CTD) Rules including advance deposit of April-May, 2011	2,400
Payment of school fees of 2 children (Rs. 18,000 for each child)	36,000

Calculate the taxable income and tax liability of Mrs. X for the A.Y. 2011-12.

Question No. 24 :

X is in Central Government service till his retirement on May 31, 2007 when he joins A Ltd. During the P.Y. 2010-11, he gets the following from A Ltd.:

Basic salary – Rs. 20,000 per month; Dearness allowance – Rs. 2,000 per month (half of which forms part of salary for retirement purposes); Overtime allowance upto May 31, 2010 – Rs. 2,000 per month; Helper allowance for office use – Rs. 1,000 per month (expenditure Rs. 800 per month); Medical bills reimbursement – Rs. 44,000 (out of which Rs. 12,000 is in respect of treatment in a government's hospital); Free gas and electricity only for personal use – Rs. 24,000; Free telephone at residence – Rs. 9,000; Interest free loan for house – Rs. 2,00,000 for six years (SBI lending rate as on April 1, 2010 : 8.75%); earned leave encashment – Rs. 16,000 (as per service rules X is entitled for 2 days leave for each month of service and during 2010-11, X has encashed 24 days leave earned during the year); Mediclaim insurance on life of X – Rs. 5,060; Mediclaim insurance premium on the life of X's brother who is not dependent upon X – Rs. 4,100 (the amount is reimbursed to X); Leave travel concession for X and his family – Rs. 46,500 (no journey is undertaken); Upto May 31, 2010, X has been paid HRA of Rs. 4,000 per month (rent paid at Saket, New Delhi – Rs. 4,000 per month); With effect from June 1, 2010, he has been provided a rent-free furnished house at Saket, New Delhi whose lease rent is Rs. 15,000 per month (rent of furniture provided with effect from September 15, 2010 – Rs. 14,000). Further, A Ltd. bears the following expenses in respect of the house : repairs of the house – Rs. 6,000 and rent of air-conditioning system – Rs. 9,000 (for summer of 2010).

Income of X from other sources is Rs. 6,70,000 (which includes Government pension of Rs. 1,20,000).

Find out the taxable income and tax liability of X for the Assessment Year 2011-12 on the assumption that X annually contributes Rs. 30,000 towards RPF and Rs. 10,000 in PPF.

Question No. 25 :

R retired from G Ltd., Pune on 31-10-2010, after service of 18 years and 8 months. At the time of retirement his employer pays a gratuity of Rs. 96,000 (his average monthly salary of preceding 10 months is Rs. 8,200). He also receives pension of Rs. 1,000 per month but on 1-12-2010, he gets 70% of the pension commuted for Rs. 35,000. Besides the aforesaid pension and gratuity, he receives the following emoluments from G Ltd. :

- Basic Pay (8,600 x 7);
- HRA (Rs. 600 x 7) [Rent paid by him (Rs. 1,250 x 7)];
- Entertainment Allowance (Rs. 600 x 7);
- RPF repayment (Contribution of employer and employee : 10% of salary) – Rs. 90,000.

On 1-1-2011 he joins S Ltd., Bombay. The emoluments relevant to the P.Y. 2010-11 are :

- Basic pay (Rs. 8,500 x 3);
- Medical allowance (Rs. 600 x 3);
- High cost of living allowance (Rs. 1,800 x 3);
- A rent-free house [Rent of the house is paid by the employer (Rs. 600 x 3)];
- A free motor car of 1400cc for private and official purposes. Expenditure on the car by the company :
  a) Maintenance expenditure of 3 month – Rs. 18,000
  b) Registration fee for 1 year – Rs. 1,000
  c) Depreciation as per Income Tax Rules for 1 year – Rs. 6,000
  d) Salary of the driver (Rs. 1,600 x 3)
  Use of the motor car (60% for official purposes, 40% for private purposes);
- Contributions of the employer and employee towards URPF : 10% of Salary.

Determine the taxable income and tax liability of R for the A.Y. 2011-12.

S A L A R I E S

Do yourself

SOLUTIONS

Solution to Problem No. 1 :

In case of non-government employees (including employees of Local Authorities & Public Sector Undertaking) least of the following is exempt under Section 10 (10AA) (ii) :

a) Actual amount = Rs. 50,000/-
b) 10 Months Average Salary [(5,000 x 6 + 4,500 x 4) / 10] x 10 = Rs. 48,000/-
c) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary = Rs. 22,400 ***(Refer Note below)***
d) Rs. 3,00,000/-

Therefore, leave encashment exempt from tax = Rs. 22,400/-

Note :

If a non-government employee is entitled to receive leave salary at a rate higher than 30 days' salary for every completed year of service, the amount to be shown at c) above has to be calculated with reference to 30 days' salary for every completed year of service. However, if earned leave is credited at the rate of less than or equal to 30 days' leave for each year of service, for c) above calculation shall be made accordingly. For this purpose any fraction of year shall be ignored while taking completed year of service.

(A) Actual rate of leave entitlement	40 days
(B) Maximum allowable rate of leave entitlement	30 days
(C) Applicable rate [(A) or (B), whichever is lower]	30 days
(D) Length of service (fraction of year ignored)	16 years
(E) Leave on the basis of applicable rate [(C) x (D)]	480 days
(F) Actual leave availed during the tenure of service**	340 days
(G) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement [(E) – (F)]/30]	140/30 months
(H) Average monthly salary [(5,000 x 6 + 4,500 x 4) / 10]	Rs. 4,800
(I) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary [(G) x (H)]	Rs. 22,400

**actual leave availed during the tenure of service = Actual leave (i.e. 40 days x 16 years) – unavailed leave (i.e. 300 days) = 640 days – 300 days = 340 days.

Solution to Problem No. 2 :

In case on non-government employees (including employees of Local Authorities & Public Sector Undertaking) least of the following is exempt under Section 10 (10AA) (ii) :

a) Actual amount = Rs. 4,14,000/-
b) 10 Months Average Salary [(22,600 x 5 + 22,900 x 5) / 10] x 10 = Rs. 2,27,500/-
c) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary = Rs. 2,50,250 ***(Refer Note below)***
d) Rs. 3,00,000 - amount exempted earlier = Rs. 3,00,000 – Rs. 57,000 = Rs. 2,43,000/-

Therefore, leave encashment exempt from tax = Rs. 2,27,500/-

Taxable leave salary = Rs. 4,14,000 – Rs. 2,27,500 = Rs. 1,86,500

Note :

(A) Actual rate of leave entitlement	45 days
(B) Maximum allowable rate of leave entitlement	30 days
(C) Applicable rate [(A) or (B), whichever is lower]	30 days
(D) Length of service (fraction of year ignored)	14 years
(E) Leave on the basis of applicable rate [(C) x (D)]	420 days
(F) Actual leave availed during the tenure of service	90 days
(G) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement [(E) – (F)]/30]	11 months
(H) Average monthly salary [(22,600 x 5 + 22,900 x 5) / 10]	Rs. 22,750
(I) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary [(G) x (H)]	Rs. 2,50,250

Solution to Problem No. 3 :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount = Rs. 1,86,000
ii) 1/2 month's ***Average salary*** for every completed year of service = Rs. 1,64,255 ***(Refer Note below)***
iii) Rs. 10,00,000/-

∴ Gratuity exempt from tax = Rs. 1,64,255/-.
Amount to be included in gross salary = Rs. 1,86,000 – Rs. 1,64,255 = Rs. 21,745/-.

Note :

Average salary = Average of salary of last 10 months

Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee [***Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)***].

∴ Average salary = [(8,000 x 7 + 9,000 x 3) + (500 x 69% x 10)]/10 = Rs. 8,645/-

∴ 1/2 month's ***Average salary*** for every completed year of service = ½ x Rs. 8,645 x 38 years = Rs. 1,64,255/-.

Solution to Problem No. 4 :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount = Rs. 2,90,000
ii) 1/2 month's ***Average salary*** for every completed year of service = Rs. 2,82,800 ***(Refer Note below)***
iii) Rs. 10,00,000 - amount exempted earlier = Rs. 10,00,000 – Rs. 20,000 = Rs. 9,80,000

∴ Gratuity exempt from tax = Rs. 2,82,800/-.
Amount to be included in gross salary = Rs. 2,90,000 – Rs. 2,82,800 = Rs. 7,200/-.

Note :

Average salary = Average of salary of last 10 months

Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee [***Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)***].

∴ Average salary = [(18,200 x 10) + (1,000 x 80% x 10) + (2,00,000 x 6%]/10 = Rs. 20,200/-

∴ 1/2 month's ***Average salary*** for every completed year of service = ½ x Rs. 20,200 x 28 years = Rs. 2,82,800/-.

Solution to Problem No. 5 :

Computation of gross salary

Name of assessee : Shri Vinod
P.Y. : 2010-11
A.Y. : 2011-12

			Rs.
Basic salary :			
A Limited (Rs. 10,000 x 8)		80,000	
B Limited (Rs. 5,500 x 4 + Rs. 6,000 x 5½)		55,000	1,35,000
Dearness allowance :			
A Limited (Rs. 80,000 x 30%)		24,000	
B Limited (Rs. 55,000 x 30%)		16,500	40,500
Gratuity received :			
A Limited	1,43,000		
Less : Exempt ***(Refer Note)***	1,40,140	2,860	
B Limited	1,20,000		
Less : Exempt ***(Refer Note)***	64,400	55,600	58,460
Gross Salary			2,33,960

Note :

	A Limited	B Limited
Least of the following is exempt U/S 10 (10) (iii) :		
i) Actual amount	1,43,000	1,20,000
ii) 1/2 month's ***Average salary*** for every completed year of service ***(Refer W.N. below)***	1,40,140	64,400
iii) Rs. 10,00,000 (for both employers)		
∴ Amount exempt from tax	1,40,140	64,400

Working Note :

Average salary = Average of salary of last 10 months

Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee [***Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)***].

	A Limited	B Limited
Basic salary :		
A Limited (Rs. 10,000 x 8 + Rs. 9,000 x 2)	98,000	
B Limited (Rs. 5,500 x 5 + Rs. 6,000 x 5)		57,500
D.A. if terms of employment so provide :		
A Limited (Rs. 98,000 x 30% x 100%)	29,400	
B Limited (Rs. 57,500 x 30% x 40%)		6,900
Commission based on fixed % of turnover	--------	--------
Salary of last 10 months	1,27,400	64,400
Average salary	12,740	6,440
½ month's average salary	6,370	3,220
Completed years of service	22 years	20 years
1/2 month's ***Average salary*** for every completed year of service	1,40,140	64,400

<u>Solution to Problem No. 6</u> :

<u>Computation of gross salary</u>

Name of assessee : Shri Rajesh
P.Y. : 2010-11
A.Y. : 2011-12

	Situation (i)	**Situation (ii)**
Basic salary [(15,200 x 3) + (15,600 x 7)	1,54,800	1,54,800
Dearness allowance (15% of Rs. 1,54,800)	23,220	23,220
Taxable gratuity ***(Refer Note below)***	8,800	55,168
Gross salary	1,86,820	2,33,188

<u>Note</u> :

<u>Situation (i)</u> :

Least of the following is exempt U/S 10 (10) (ii) :

i) Actual amount = Rs. 3,40,000/-
ii) 15 days (7 days in case of seasonal establishments) ***salary*** for every ***completed year of service*** <u>or part thereof in excess of 6 months</u> = [15,600 + (15% of 15,600)] x 15/26 x 32 = 3,31,200
iii) Rs. 10,00,000/-

∴ Gratuity exempt from tax = Rs. 3,31,200/-
∴ Taxable gratuity = Rs. 3,40,000 – Rs. 3,31,200 = Rs. 8,800/-

<u>Situation (ii)</u> :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount = Rs. 3,40,000/-
ii) 1/2 month's ***Average salary*** for every completed year of service = Rs. 2,84,832/- ***(Refer W.N)***
iii) Rs. 10,00,000/-

∴ Gratuity exempt from tax = Rs. 2,84,832/-
∴ Taxable gratuity = Rs. 3,40,000 – Rs. 2,84,832 = Rs. 55,168/-

<u>Working Note</u> :

Average salary = Average of salary of last 10 months

Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee [***Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)***].

∴ Average salary = [{(15,200 x 3) + (15,600 x 7)} + {(15,200 x 3) + (15,600 x 7) x 15%}]/10 = Rs. 17,802/-

∴ 1/2 month's ***Average salary*** for every completed year of service = ½ x Rs. 17,802 x 32 years = Rs. 2,84,832/-.

<u>Solution to Problem No. 7</u> :

<u>Computation of gross salary</u>

	Rs.
Basic salary [(16,500 x 3) + (17,000 x 2½)	92,000
Dearness allowance (50% of Rs. 92,000)	46,000
Taxable pension ***(Refer Note 1 below)***	3,67,333
Taxable gratuity ***(Refer Note 2 below)***	40,800
Gross salary	5,46,133

Note 1 :

Commuted pension :

	Rs.
Commuted value of 75% of pension	6,00,000
Commuted value of full pension (i.e. 100% of pension) [6,00,000 x 100/75]	8,00,000
Amount exempt (1/3 of commuted value of full pension i.e. 8,00,000 x 1/3)	2,66,667
Commuted pension chargeable to tax as salary (i.e. Rs. 6,00,000 – Rs. 2,66,667)	3,33,333

Uncommuted pension :

	Rs.
Uncommuted pension from 16-09-2010 to 31-12-2010 (i.e. Rs. 8,000 x 3½)	28,000
Uncommuted pension from 01-01-2011 to 31-03-2011 (i.e. Rs. 8,000 x 25% x 3)	6,000
Total Uncommuted pension chargeable to tax as salary	34,000
Total pension chargeable to tax as salary :	
Commuted pension	3,33,333
Uncommuted pension	34,000
	3,67,333

Note 2 :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount = Rs. 2,40,000/-
ii) 1/2 month's ***Average salary*** for every completed year of service = Rs. 1,99,200/- ***(Refer W.N.)***
iii) Rs. 10,00,000/-

∴ Gratuity exempt from tax = Rs. 1,99,200/-

∴ Taxable gratuity = Rs. 2,40,000 – Rs. 1,99,200 = Rs. 40,800/-

Working Note :

Average salary = Average of salary of last 10 months

Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee [***Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)***].

∴ Average salary = [{(17,000 x 2) + (16,500 x 8)} + {(17,000 x 2) + (16,500 x 8) x 50%}]/10 = Rs. 24,900/-

∴ 1/2 month's ***Average salary*** for every completed year of service = ½ x Rs. 24,900 x 16 years = Rs. 1,99,200/-.

Solution to Problem No. 8 :

Computation of gross salary

Name of assessee : A.K. Gupta
P.Y. : 2010-11
A.Y. : 2011-12

	Rs.
Basic salary (23,000 x 9)	2,07,000
Dearness allowance (2,000 x 9)	18,000
Taxable pension ***(Refer Note 1 below)***	1,56,750
Taxable gratuity ***(Refer Note 2 below)***	75,000
Taxable leave salary ***(Refer Note 3 below)***	50,000
Gross salary	5,06,750

Note 1 :

Commuted pension :

	Rs.
Commuted value of ¾ i.e. 75% of pension	2,70,000
Commuted value of full pension (i.e. 100% of pension) [2,70,000 x 100/75]	3,60,000
Amount exempt (1/3 of commuted value of full pension i.e. 3,60,000 x 1/3)	1,20,000
Commuted pension chargeable to tax as salary (i.e. Rs. 2,70,000 – Rs. 1,20,000)	1,50,000

Uncommuted pension :

	Rs.
Uncommuted pension from 01-01-2011 to 31-03-2011 (i.e. Rs. 9,000 x ¼ x 3)	6,750
Total Uncommuted pension chargeable to tax as salary	6,750

Total pension chargeable to tax as salary :

Commuted pension	1,50,000
Uncommuted pension	6,750
	1,56,750

Note 2 :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount = Rs. 4,00,000/-

ii) 1/2 month's ***Average salary*** for every completed year of service = Rs. 3,25,000/- ***(Refer W.N)***

iii) Rs. 10,00,000/-

∴ Gratuity exempt from tax = Rs. 3,25,000/-

∴ Taxable gratuity = Rs. 4,00,000 – Rs. 3,25,000 = Rs. 75,000/-

Working Note :

Average salary = Average of salary of last 10 months

Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee [***Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)***].

∴ Average salary = [(Rs. 23,000 + Rs. 2,000) x10]/10 = Rs. 25,000/-

∴ 1/2 month's ***Average salary*** for every completed year of service = ½ x Rs. 25,000 x 26 years = Rs. 3,25,000/-.

Note 3 :

In case on non-government employees (including employees of Local Authorities & Public Sector Undertaking) least of the following is exempt under Section 10 (10AA) (ii) :

a) Actual amount = Rs. 3,00,000/-

b) 10 Months Average Salary [(23,000 x 10 + 2,000 x 10) / 10] x 10 = Rs. 2,50,000/-

c) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary = 12 months x [(23,000 x 10 + 2,000 x 10) / 10] = Rs. 3,00,000/-

d) Rs. 3,00,000/-

∴ Leave encashment exempt from tax = Rs. 2,50,000/-

Taxable leave salary = Rs. 3,00,000 – Rs. 2,50,000 = Rs. 50,000/-

Solution to Problem No. 9 :

Computation of gross salary

Name of assessee : X
P.Y. : 2010-11
A.Y. : 2011-12

	Rs.
Basic salary [(4,500 x 3) + (5,000 x 7)]	48,500
Dearness allowance	48,500
Taxable pension ***(Refer Note 1 below)***	37,833
Taxable gratuity ***(Refer Note 2 below)***	38,520
Taxable leave salary ***(Refer Note 3 below)***	56,000
Gross salary	2,29,353

Note 1 :

Commuted pension :

	Rs.
Commuted value of 50% of pension	1,00,000
Commuted value of full pension (i.e. 100% of pension) [1,00,000 x 100/50]	2,00,000
Amount exempt (1/3 of commuted value of full pension i.e. 2,00,000 x 1/3)	66,667
Commuted pension chargeable to tax as salary (i.e. Rs. 1,00,000 – Rs. 66,667)	33,333

Uncommuted pension :

	Rs.
Uncommuted pension from 01-02-2011 to 28-02-2011 (i.e. Rs. 3,000 x 1)	3,000
Uncommuted pension from 01-03-2011 to 31-03-2011 (i.e. Rs. 3,000 x 50% x 1)	1,500
Total Uncommuted pension chargeable to tax as salary	4,500

Total pension chargeable to tax as salary :

Commuted pension	33,333
Uncommuted pension	4,500
	37,833

Note 2 :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount = Rs. 1,20,000/-
ii) 1/2 month's ***Average salary*** for every completed year of service = Rs. 81,480/- ***(Refer W.N.)***
iii) Rs. 10,00,0000/-

∴ Gratuity exempt from tax = Rs. 81,480/-
∴ Taxable gratuity = Rs. 1,20,000 – Rs. 81,480 = Rs. 38,520/-

Working Note :

Average salary = Average of salary of last 10 months

Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee [***Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)***].

∴ Average salary = [{(4,500 x 3) + (5,000 x 7)} + {(4,500 x 3) + (5,000 x 7) x 40%}] /10 = Rs. 6,790/-
∴ 1/2 month's ***Average salary*** for every completed year of service = ½ x Rs. 6,790 x 24 years = Rs. 81,480/-.

Note 3 :

In case on non-government employees (including employees of Local Authorities & Public Sector Undertaking) least of the following is exempt under Section 10 (10AA) (ii) :

a) Actual amount = Rs. 56,000/-
b) 10 Months Average Salary [{(4,500 x 3) + (5,000 x 7)} + {(4,500 x 3) + (5,000 x 7) x 40%}] /10 x 10 = Rs. 67,900/-
c) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement x Average monthly salary = Nil ***(Refer W.N. below)***
d) Rs. 3,00,000/-

Therefore, leave encashment exempt from tax = Nil
Taxable leave salary = Rs. 56,000 – Nil = Rs. 56,000/-

Working Note :

(A) Actual rate of leave entitlement	40 days
(B) Maximum allowable rate of leave entitlement	30 days
(C) Applicable rate [(A) or (B), whichever is lower]	30 days
(D) Length of service (fraction of year ignored)	24 years
(E) Leave on the basis of applicable rate [(C) x (D)]	720 days
(F) Actual leave availed during the tenure of service	720 days
(G) Period of earned leave (in no. of months) to the credit of the employee at the time of retirement [(E) – (F)]/30	Nil

**actual leave availed during the tenure of service = Actual leave (i.e. 40 days x 24 years) – unavailed leave (i.e. 240 days) = 960 days – 240 days = 720 days.

Solution to Problem No. 10 :

The mode of computation of X is not correct because :

1. Where employee has not actually incurred expenditure on payment of rent, no exemption of HRA available.
2. Salary is to be taken on ***due*** basis in respect of the period during which the rented house is occupied by the employee.

The correct amount of exemption shall be Rs. 1,250 which has been calculated as shown below :

Least of the following is exempt :
i) Actual amount received = Rs. 250 x 5 = Rs. 1,250
ii) Rent paid – 10 % of ***Salary*** = (Rs. 2,000 x 5) – [10% of (42,000 x 5/12)] = Rs. 8,250/-
iii) 40 % of ***Salary*** = 40% of (42,000 x 5/12) = Rs. 7,000/-

∴ HRA exempt from tax = Rs. 1,250/-.

Solution to Problem No. 11 :

	April, 2010 & May, 2010 Rs.	June, 2010 & July, 2010 Rs.	August, 2010 to November, 2010 Rs.	December, 2010 Rs.	January, 2011 Rs.	February, 2011 & March, 2011 Rs.
Basic salary	4,000	5,000	5,000	10,000	10,000	10,000
D.A. (to the extent enters into retirement benefit)	720	900	900	400	400	400
Salary	4,720	5,900	5,900	10,400	10,400	10,400
50% of salary	**2,360**	**2,950**	**2,950**	**5,200**	----	----
40% of salary	----	----	----	----	**4,160**	**4,160**
HRA received	**2,000**	**3,500**	**3,500**	**6,000**	**6,000**	**6,000**
Excess of rent paid – 10% of salary	**28**	**Nil**	**2,310**	**1,860**	**Nil**	**4,960**
HRA exempt from tax**	28	Nil	2,310	1,860	Nil	4,160
Taxable HRA (monthly fig.)	1,972	3,500	1,190	4,140	6,000	1,840
Taxable HRA for A.Y. 2011-12	**Rs. 29,524 (1,972 x 2 + 3,500 x 2 + 1,190 x 4 + 4,140 x 1 + 6,000 x 1 + 1,840 x 2)**					

**Least of the following is exempt :
i) Actual amount received
ii) Rent paid – 10 % of ***Salary***
iii) 50 % of ***Salary*** if rented house is situated in any one of the 4 metropolitan cities & 40 % of ***Salary*** in other cases.

Solution to Problem No. 12 :

Least of the following is exempt :
i) Actual amount received = Rs. 12,000/-
ii) Rent paid – 10 % of ***Salary*** = Rs. 2,0000 - [10% of (80,000 + 10,000)] = Rs. Rs. 11,000/-
iii) 40 % of ***Salary*** = 40% of (80,000 + 10,000) = Rs. 36,000/-

∴ HRA exempt from tax = Rs. 11,000/-

X is legally not correct. Rs. 1,000 will be chargeable to tax.

Solution to Problem No. 13 :

Situation (i) :

In case of Government employees deduction in respect of entertainment allowance under Section 16 (ii) is available to the extent of least of the following :

i) Actual amount received = Rs. 500 x 12 = Rs. 6,000/-
ii) 20 % of ***Salary*** (i.e. 20% of basic salary) = Rs. 85,000 x 20% = Rs. 17,000/-
iii) Rs. 5,000/-

∴ Deduction in respect of entertainment allowance = Rs. 5,000/-

Situation (ii) :

In case of non-government employees deduction in respect of entertainment allowance under Section 16 (ii) is not available.

Solution to Problem No. 14 :

Computation of salary chargeable to tax

Name of assessee : X
P.Y. : 2010-11
A.Y. : 2011-12

	If professional tax is paid by X	**If professional tax is paid by the employer i.e. A Limited**
Basic salary (Rs. 38,750 x 12)	4,65,000	4,65,000
Entertainment allowance (Rs. 3,000 x 12)	36,000	36,000
Professional tax paid ***(Refer Note 1)***	--------	1,000
Gross salary	5,01,000	5,02,000
Less : Deduction u/s 16 :		
Entertainment allowance u/s 16 (ii) ***(Refer Note 2)***	--------	--------
Professional tax u/s 16 (iii)	1,000	1,000
Salary chargeable to tax	5,00,000	5,01,000

Notes :

1. If the professional tax is paid by the employer on behalf of the employee, it is first included in the salary of the employee as a "perquisite" (since it is an obligation of the employee discharged by the

employer) and then the same amount is allowed as deduction on account of "professional tax" from gross salary.

2. Deduction in respect of entertainment allowance is available only to Government employees.

Solution to Problem No. 15 :

Value of rent-free unfurnished accommodation (taken on rent by the employer) :

Least of the following :

i) Lease rent ***paid / payable*** = Rs. 8,000 x 12 = Rs. 96,000/-
ii) 15 % of ***Salary*** = 15% of Rs. 1,81,200 ***(Refer Note below)*** = Rs. 27,180/-

∴ Value of rent-free unfurnished accommodation = Rs. 27,180/-

Note :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic Salary (Rs. 9,000 x 12)	1,08,000
D.A. (Rs. 1,08,000 x 20%)	21,600
Bonus (Rs. 1,08,000 x 30%)	32,400
Commission (Rs. 800 x 12)	9,600
Transport allowance [(Rs. 1,100 x 12) – (Rs. 800 x 12)]	3,600
Tribal area allowance [Rs. 8,400 – (Rs. 200 x 12)]	6,000
Income-tax paid by the company (taxable as perquisite as per Section 17(2)(iv), therefore, not taken into consideration)	-------
Advance salary (For the purpose of valuation of accommodation salary is to be computed on accrual basis and for the period during which accommodation has been occupied by the employee. Hence advance salary is not taken into consideration)	-------
	----------
Salary	1,81,200
	======

Solution to Problem No. 16 :

a) Accommodation provided by Ministry of Law (i.e. Government) :

	Rs.	Rs.
Value of unfurnished accommodation :		
Licence fee fixed by the Government		4,000
Value of furniture :		
10% of original cost of furniture (Rs. 36,000 x 10% x 10/12)	3,000	
Actual Hire charges of three air-conditioners	10,000	13,000
	--------	--------
Value of furnished accommodation		17,000
		=====

b) Accommodation provided by ABC (P) Ltd. :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic Salary	1,62,000
Special allowance	17,000

Salary	1,79,000
	======

	Rs.	Rs.
<u>Value of unfurnished accommodation</u> :		
Least of the following:		
i) Lease rent ***paid / payable***	50,000	
ii) 15 % of ***Salary*** (15% of Rs. 1,79,000)	26,850	26,850

<u>Value of furniture</u> :		
10% of original cost of furniture (Rs. 36,000 x 10% x 10/12)	3,000	
Actual Hire charges of three air-conditioners	10,000	13,000
	--------	--------
Value of furnished accommodation		39,850
		=====

Value of hotel accommodation = Rs. 42,960 (being 24% of salary or Rs. 1,20,000, whichever is lower) is chargeable to tax whether X is a Government employee or Non-Government employee.

<u>Solution to Problem No. 17</u> :

<u>Computation of income from Salaries</u>

Name of assessee : X
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	**Rs.**
Basic salary [(Rs. 6,000 x 9) + (Rs. 7,000 x 3)		75,000
D. A. (Rs. 4,000 x 12)		48,000
Education allowance (Rs. 550 x 4 x 12)	26,400	
Less : Exempt u/s 10 (14) [100 x 2 x 12]	2,400	24,000

Medical allowance (Rs. 400 x 12)		4,800
Transport allowance (Rs. 1,150 x 12)	13,800	
Less : Exempt u/s 10 (14) [Rs. 800 x 12]	9,600	4,200

HRA (Rs. 4,500 x 8)	36,000	
Less : Exempt u/s 10 (13A) ***(Note 1)***	28,416	7,584

Value of rent-free furnished flat provided at concessional rate ***(Note 2)***	8,828	
Less : Rent paid by X (Rs. 900 x 4)	3,600	5,228

Salary from B Ltd. (Rs. 2,000 x 3)		6,000

Gross Salary		1,74,812
Less : Deductions u/s 16 :		
Entertainment Allowance u/s 16 (ii)		-----
Professional Tax u/s 16 (iii)		-----

Income from Salaries		1,74,812
		======

<u>Note 1</u> :

Least of the following is exempt u/s 10 (13A) :	
i) Actual amount received (Rs. 4,500 x 8)	36,000
ii) Rent paid – 10 % of ***Salary*** [(Rs. 5,500 x 8) – (10% of 71,040)]	36,896
iii) 40 % of ***Salary*** (40% of Rs. 71,040)	28,416

∴ HRA exempt from tax = Rs. 28,416.

Salary for the above purpose is calculated as under :

Basic Salary (Rs. 6,000 x 8)	48,000
D. A. (Rs. 4,000 x 8 x 72%)	23,040
	71,040

Note 2 :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic Salary (6,000 x 1 + 7,000 x 3)	27,000
D. A. (Rs. 4,000 x 4 x 72%)	11,520
Education allowance [(550 x 4 x 4) – (100 x 2 x 4)]	8,000
Medical allowance (400 x 4)	1,600
Transport allowance [(1,150 x 4) – (800 x 4)]	1,400
Salary from B Ltd. (Rs. 2,000 x 3)	6,000
Salary	55,520

Value of furnished accommodation (taken on rent by the employer) :

Value of unfurnished accommodation :

Least of the following shall be the value of rent-free unfurnished accommodation :

(a) Rent paid/payable (Rs. 7,500 x 4)	30,000	
(b) 15% of Salary (i.e. 15% of Rs. 55,520)	8,328	8,328

Value of furniture :

Rent of furniture	500
	8,828

Solution to Problem No. 18 :

Computation of income from Salaries

Name of assessee : R
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	**Rs.**
Basic salary ***[Note 1]***		2,31,600
D.A. (Rs. 2,13,600 x 40%)		92,640
Conveyance allowance (Rs. 1,200 x 6)	7,200	
Less : Exempt u/s 10 (14) (Rs. 800 x 6)	4,800	2,400
HRA (Rs. 2,500 x 4)	10,000	
Less : Exempt u/s 10 (13A) ***[Note 2]***	4,320	5,680
Fixed medical allowance (Rs. 600 x 12)		7,200
Value of rent-free furnished house ***[Note 3]***		22,040
Electricity bill paid by the employer (Rs. 1,000 x 8)		8,000
Free use of car [(Rs. 2,400 x 6) + (Rs. 900 x 6)]		19,800
Employer's contribution to RPF (15% of Rs. 2,31,600)	34,740	
Less : Exemption (12% of Rs. 2,31,600)	27,792	6,948
Interest credited on RPF balance @ 15%	7,500	
Less : Exemption [(Rs. 7,500 x 9.5/15 x 5/12) – (Rs. 7,500 x 8.5/15 x 7/12)]	4,458	3,042
Club bill paid by the employer		5,708
Gross salary / Income from salaries		4,05,058

Note 1 :

Pay Scale : 18,000 – 400 – 22,000

Basic salary as on :

01-01-2007 = 18,000
01-01-2008 = 18,400
01-01-2009 = 18,800
01-01-2010 = 19,200
01-01-2011 = 19,600

∴ Basic salary from 1-4-2010 to 31-03-2011 = Rs. 19,200 x 9 + Rs. 19,600 x 3 = Rs. 2,31,600

Note 2 :

Least of the following is exempt u/s 10 (13A) :

i)	Actual amount received (Rs. 2,500 x 4)	10,000
ii)	Rent paid – 10 % of ***Salary*** [(Rs. 3,000 x 4) – 10% of (Rs. 19,200 x 4)]	4,320
iii)	40 % of ***Salary*** [40% of (Rs. 19,200 x 4)]	30,720

∴ HRA exempt from tax = Rs. 4,320/-.

Note 3 :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic Salary [(Rs. 19,200 x 5) + (Rs. 19,600 x 3)]	1,54,800
D.A. (if enters into retirement benefit)	Nil
Conveyance allowance [(Rs. 1,200 x 2) – (Rs. 800 x 2)]	800
Fixed medical allowance (Rs. 600 x 8)	4,800
Salary	1,60,400

Value of rent free furnished accommodation (owned by employer) :

Value of unfurnished accommodation 10% of salary (i.e. 10% of Rs. 1,60,400)	16,040
Value of furniture : 10% of cost of furnishing (Rs. 90,000 x 10% x 8/12)	6,000
	22,040

Solution to Problem No. 19 :

Computation of income from Salaries

Name of assessee : R
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	Rs.
Basic salary [(Rs. 6,100 x 10 + Rs. 6,200 x 2)		73,400
D.A. (Rs. 73,400 x 10%)		7,340
Medical allowance (Rs. 150 x 12)		1,800
Conveyance allowance (Rs. 300 x 6)	1,800	
Less : Exemption u/s 10 (14)	Nil	1,800
Value of rent-free accommodation ***(Note 1)***		8,603
Electricity bills		292
Water bills		200

Telephone bills (tax-free perquisite)		Nil
Motor car [(Rs. 1,800 x 6) + (Rs. 900 x 6)]		16,200
Employer's contribution to RPF in excess of 12% of salary [2.5% (i.e. 14.5%-12%) of Rs. 73,400]		1,835
Interest credited to RPF in excess of 9.5% [Rs. 1,250 - (Rs. 1,250 x 9.5/12.5 x 5/12) – (Rs. 1,250 x 8.5/12.5 x 7/12)]		358
Gross salary		1,11,828
Less : Deductions u/s 16 (ii) & 16 (iii)		Nil
Income from salaries		1,11,828

Note 1 :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic salary [(Rs. 6,100 x 7 + Rs. 6,200 x 2)	55,100
Medical allowance (Rs. 150 x 9)	1,350
Conveyance allowance (Rs. 300 x 3)	900
Salary	57,350

Value of rent free accommodation (owned by employer) :

15% of salary (i.e. 15% of Rs. Rs. 57,350)	8,603

Solution to Problem No. 20 :

Computation of income from Salaries

Name of assessee : A
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	Rs.
Basic salary including DA		1,40,000
Value of rent free furnished accommodation ***(Note 1)***		21,900
College fee paid by the employer – Section 17 (2) (iv)		2,400
Watchman's salary (Rs. 300 x 12)		3,600
Encashment of leave salary		6,000
Accident insurance policy (not taxable)		Nil
Gross salary		1,73,900
Less : Deductions u/s 16 (ii) & 16 (iii)		Nil
Income from salaries		1,73,900

Note 1 :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic salary including DA	1,40,000
Encashment of leave salary	6,000
Salary	1,46,000

Value of rent free accommodation (owned by employer) :

15% of salary (i.e. 15% of Rs. Rs. 1,46,000)	21,900

Solution to Problem No. 21 :

(a) Value of perquisite in respect of use of laptop by X is not chargeable to tax.

(b) Value of perquisite in respect of use of music system by Y is chargeable to tax @ 10% per annum of the actual cost. Taxable value of perquisite shall be Rs. 686 (i.e. Rs. 15,000 x 10% x 167 days/365 days).

(c) The taxable value of perquisite in the hands of Z, A & B shall be determined as under :

Name of the employee	**Z**	**A**	**B**
Asset sold	**Car Rs.**	**Computer Rs.**	**Fridge Rs.**
Cost of asset as on 15-05-2008	6,96,000	1,17,000	40,000
Less : Normal wear and tear for the first year ending 14-05-2009 (20% of Rs. 6,96,000, 50% of Rs. 1,17,000, 10% of Rs. 40,000)	1,39,200	58,500	4,000
Balance as on 15-05-2009	5,56,800	58,500	36,000
Less : Normal wear and tear for the second year ending 14-05-2010 (20% of Rs. 5,56,800, 50% of Rs. 58,500, 10% of Rs. 40,000)	1,11,360	29,250	4,000
Balance as on 15-05-2010	4,45,440	29,250	32,000
Less : Sale consideration	2,10,000	24,270	1,000
Taxable value of perquisite	2,35,440	4,980	31,000

Solution to Problem No. 22 :

Computation of income from Salaries

Name of assessee : Mr. Lal
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.
Basic salary (Rs. 20,000 x 12)	2,40,000
Commission (Rs. 10,00,000 x 5%)	50,000
Dearness allowance (Rs. 2,000 x 12)	24,000
Bonus (Rs. 20,000 x 2)	40,000
HRA ***(Refer Note below)***	19,400
Entertainment allowance (Rs. 250 x 12)	3,000
Income-tax penalty paid by the employer	1,000
Leave travel concession (Rs. 16,000 – Rs. 14,000)	2,000
Amenities of gas, electricity and water	10,833
Free cloth (tax-free perquisite)	Nil
Employer's contribution to RPF in excess of 12% of salary (Rs. 3,14,000 x ½%)	1,570
Interest credited to RPF in excess of 9.5% [Rs. 27,000 - (Rs. 27,000 x 9.5/13.5 x 5/12) – (Rs. 27,000 x 8.5/13.5 x 7/12)]	9,167
Gross salary	4,00,970
Less : Deduction u/s 16 (ii) & 16 (iii)	Nil
Income from salaries	4,00,970

Note :

Least of the following is exempt u/s 10 (13A) :

i) Actual amount received (Rs. 5,000 x 12)	60,000
ii) Rent paid – 10 % of ***Salary*** [(Rs. 6,000 x 12) – 10% of Rs. 3,14,000]	40,600
iii) 50 % of ***Salary*** [50% of Rs. 3,14,000]	1,57,000

∴ HRA exempt from tax = Rs. 40,600/-.
∴ Taxable HRA = Rs. 60,000 – Rs.40,600 = Rs. 19,400/-

Note : Salary for the purpose of HRA & RPF = Basic + D.A. (If D.A. enters into retirement benefit) + Commission based on fixed % of turnover = Rs. 2,40,000 + Rs. 50,000 + Rs. 24,000 = Rs. 3,14,000/-.

Solution to Problem No. 23 :

Computation of Taxable Income

Name of assessee : Mrs. X
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	Rs.
A. Income from salaries :		
Basic salary	56,000	
Entertainment allowance	6,000	
Bonus	11,200	
Education allowance for grandchildren	2,000	
Income-tax penalty paid by the employer	1,500	
Medical expenses reimbursed by the employer in excess of Rs. 15,000	Nil	
Leave travel concession	Nil	
Free residential telephone – Tax-free perquisite	Nil	
Payment of electricity bill by the employer	1,000	
Reimbursement of gas bills	1,500	
Value of furnished flat provided at concessional rate ***(Note 1)***	12,340	
Salary of gardener	2,000	
Salary of two watchmen	1,000	
Salary of sweeper	1,200	
Car [3,70,000 x 10% + 48,000 + 24,000 – 6,000]	1,03,000	
Arrears of bonus (since taxable on receipt basis)	2,000	
Payment of delegation fee to FICCI (not taxable)	Nil	
Employer's contribution to RPF ***(Note 2)***	1,200	
Interest credited to PF account ***(Note 3)***	4,500	
Employer's contribution to superannuation fund – Not taxable	Nil	
Employer's contribution to approved gratuity fund – Not taxable	Nil	
Pension from Government (Rs. 4,700 x 12)	56,400	
Gross Salary	2,62,840	
Less : Deduction for professional tax – Section 16(ii)	1,650	
Income from salaries		2,61,190
B. Income from other sources :		
Dividend from XYZ Ltd.	1,300	
Agricultural income from Nepal	2,29,160	2,30,460
Gross Total Income		4,91,650
Less : Deductions u/s 80C *(Note 4)*		60,800
Total income		4,30,850

Computation of Tax Liability

	Rs.
Tax on Total Income	24,085
Add : Education Cess @ 2%	482
	24,566
Add : SHEC @ 1%	241
Tax liability (rounded-off)	24,810

Notes :

1. Value of furnished flat provided at concessional rate :

Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic Salary	56,000
Entertainment allowance	6,000
Bonus of P.Y. 2010-11	11,200
Education allowance for grandchildren	2,000
Pension from Government	56,400
Salary	1,31,600

	Rs.	Rs.
Value of unfurnished accommodation :		
Least of the following :		
i) Lease rent ***paid / payable***	60,800	
ii) 15 % of ***Salary*** (15% of Rs. 1,31,600)	19,740	19,740
Value of furniture :		
10% of original cost of furniture (10% of Rs. 18,000)	1,800	
Rent of air-conditioner	2,000	3,800
Value of furnished accommodation		23,540
Less : Amount recovered from Mrs. X		11,200
Value of perquisite		12,340

2. Employer's contribution to RPF is exempt up to 12% of salary.

Salary for this purpose = Basic salary + D.A. (If D.A. enters into retirement benefit) + Commission based on fixed % of turnover [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)].

Therefore salary = Rs. 56,000

Taxable portion of employer's contribution to RPF = Rs. 7,920 – Rs. 6,720 (i.e. Rs. 56,000 x 12%) = Rs. 1,200

3. Interest on RPF is exempt up to 9.5% per annum upto 31.08.2010 & 8.5% thereafter. Since interest credited on August 10, 2010, taxable portion of interest accrued on RPF = Rs. 14,000 - Rs. 14,000 x 9.5/14 = Rs. 4,500/-

4. Deduction u/s 80C :

	Rs.
Own contribution to RPF	10,000
Own contribution to superannuation fund	7,200
Insurance premium for policy on life of husband (does not exceed 20% of Capital sum assured i.e. 20% of Rs. 90,000)	5,200
Insurance premium for policy on life of father (not eligible)	Nil
Deposit in 10-year account under the Post Office Saving Bank (CTD) Rules including advance deposit of April-May, 2011	2,400
Payment of school fees of 2 children	36,000
	60,800

Solution to Problem No. 24 :

Computation of Taxable Income

Name of assessee : X
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.	Rs.
A. Income from salaries :		
Basic salary (Rs. 20,000 x 12)	2,40,000	
Dearness allowance (Rs. 2,000 x 12)	24,000	
Overtime allowance (Rs. 2,000 x 2)	4,000	
Helper allowance ***(Note 1)***	2,400	
Medical bills reimbursement ***(Note 2)***	17,000	
Free gas and electricity	24,000	
Free telephone at residence – Tax-free perquisite	Nil	
Interest-free loan (Rs. 2,00,000 x 8.75%)	17,500	
Earned leave encashment (encashment during the tenure of service is fully taxable)	16,000	
Mediclaim insurance on life of X – Not chargeable to tax	Nil	
Medical insurance premium on the life of X's brother – Fully taxable because not dependent upon X	4,100	
Leave travel concession – Fully taxable because no journey is undertaken	46,500	
House rent Allowance ***(Note 3)***	4,200	
Value of rent-free furnished house ***(Note 4)***	71,800	
Pension from Government	1,20,000	
Gross Salary	5,91,500	
Less : Deduction u/s 16 (ii) & 16 (iii)	Nil	
Income from salaries		5,91,500
B. Income from other sources (Rs. 6,70,000 – Rs. 1,20,000)		5,50,000
Gross Total Income		11,41,500
Less : Deduction u/s 80C (Contribution to RPF & PPF)		40,000
Total income (rounded-off)		11,01,500

Computation of Tax Liability

	Rs.
Tax on Total Income	1,84,450
Add : EC @ 2%	3,689
	1,88,139
Add : SHEC @ 1%	1,845
Tax liability (rounded-off)	1,89,980

Notes :

1. Helper allowance is exempt to the extent of least of the following :
   a) Actual amount received from employer = Rs. 12,000 (Rs. 1,000 x 12)
   b) Amount spent for the purpose for which allowance received = Rs. 9,600 (Rs. 800 x 12)

   Therefore helper allowance exempt = Rs. 9,600/-

   Therefore taxable helper allowance = Rs. 12,000 – Rs. 9,600 = Rs. 2,400/-

2. Medical bills reimbursement :

	Rs.
Medical bills reimbursement	44,000
Less : Reimbursement for medical treatment in Govt. hospital (not chargeable to tax)	12,000
	32,000
Less : Reimbursement for medical treatment in other hospital - not chargeable to tax upto Rs. 15,000	15,000
	17,000

3. Least of the following is exempt u/s 10(13A) :

i) Actual amount received (Rs. 4,000 x 2)	8,000
ii) Rent paid – 10 % of Salary [(Rs. 4,000 x 2) – (10% of 42,000)]	3,800
iii) 50 % of Salary (50% of Rs. 42,000)	1,000

HRA exempt from tax = Rs. 3,800

Taxable HRA = Rs. 8,000 – Rs. 3,800 = Rs. 4,200

Working Note :

Salary for the above purpose is calculated as under :

Basic Salary (Rs. 20,000 x 2)	40,000
DA [50% of (Rs. 2,000 x 2)]	2,000
	42,000

4. Computation of salary for the purpose of valuation of accommodation :

	Rs.
Basic Salary (20,000 x 10)	2,00,000
D.A. (2,000 x 50% x 10)	10,000
Helper allowance (2,400 x 10/12)	2,000
Overtime allowance (received before rent-free house is provided)	Nil
Earned leave encashment (20 days leave) (i.e. Rs. 16,000 x 20/24)	13,333
Pension from Government (Rs. 1,20,000 x 10/12)	1,00,000
Salary	3,25,333

	Rs.	Rs.
Value of unfurnished accommodation :		
Least of the following :		
i) Lease rent ***paid / payable*** (Rs. 15,000 x 10)	1,50,000	
ii) 15 % of ***Salary*** (15% of Rs. 3,25,333)	48,800	48,800
Value of furniture :		
Rent of furniture	14,000	
Rent of air-conditioning system	9,000	23,000
Value of furnished accommodation		71,800

Expenditure incurred in respect of house repair is not chargeable to tax.

<u>Solution to Problem No. 25</u> :

<u>Computation of Taxable Income</u>

Name of assessee : Mr. R
Previous Year : 2010-11
Assessment Year : 2011-12

	Rs.
<u>A. Income from salaries</u> :	
<u>Salary from G Ltd., Pune</u> **:**	
Basic pay (Rs. 8,600 x 7)	60,200
HRA ***(Note 1)***	1,470
Entertainment allowance	4,200
Gratuity ***(Note 2)***	22,200
Pension ***(Note 3)***	20,533
Employer's contribution to RPF – Not taxable because does not exceed 12% of salary	Nil
Repayment from RPF – Not taxable	Nil
<u>Salary from S Ltd., Bombay</u> **:**	
Basic pay (8,500 x 3)	25,500
Medical allowance (600 x 3)	1,800
High cost of living allowance (1,800 x 3)	5,400
Value of rent-free house ***(Note 4)***	1,800
Motor Car [(Rs. 1,800 x 3) + (Rs. 900 x 3)]	8,100
Employer's contribution to URPF – Not taxable in the year of contribution	Nil
Gross Salary	1,51,203
Less : Deductions u/s 16(ii) & 16(iii) ***(Note 5)***	Nil
Income from salaries (Gross Total Income)	1,51,203
Less : Deduction u/s 80C	6,020
Total income (rounded off)	1,45,183

<u>Computation of Tax Liability</u>

	Rs.
Tax on Total Income	Nil
Add : EC @ 2%	Nil
	Nil
Add : SHEC @ 1%	Nil
Tax liability (rounded off)	Nil

<u>Notes</u> :

1. <u>HRA</u> :

   Least of the following is exempt :

   a) Actual amount received = Rs. 4,200
   b) Rent paid – 10 % of ***Salary*** = Rs. 8,750 (1,250 x 7) – Rs. 6,020 (10% of Rs. 60,200) = Rs. 2,730/-
   c) 40 % of ***Salary*** = Rs. 24,080 (40% of Rs. 60,200)

   Salary means Basic salary + D.A. if terms of employment so provide. + Commission based on fixed % of turnover received by the employee [Gestetner Duplicators Pvt. Ltd. Vs. CIT (SC)] = Rs. 60,200

   Therefore HRA exempt = Rs. 2,730/-

   HRA taxable = Rs. 4,200 – Rs. 2,730 = Rs. 1,470/-

2. Gratuity :

Least of the following is exempt U/S 10 (10) (iii) :

i) Actual amount = Rs. 96,000

ii) 1/2 month's ***Average salary*** for every completed year of service = Rs. 8,200 x ½ x 18 = Rs. 73,800

iii) Rs. 10,00,000/-

Salary = Basic salary + D.A. if terms of employment so provide (or if D.A. is taken into account for computing retirement benefit) + Commission based on fixed % of turnover received by the employee

Therefore gratuity exempt = Rs. 73,800/-

Gratuity taxable = Rs. 96,000 – Rs. 73,800 = Rs. 22,200/-

3. Pension :

Commuted pension :

	Rs.
Commuted value of 70% of pension	35,000
Commuted value of full pension (i.e. 100% of pension) [35,000 x 100/70]	50,000
Amount exempt (1/3 of commuted value of full pension i.e. 50,000 x 1/3)	16,667
Commuted pension chargeable to tax as salary (i.e. Rs. 35,000 – Rs. 16,667)	18,333

Uncommuted pension :

	Rs.
Uncommuted pension from Nov 1, 2010 to Nov 30, 2010 (i.e. Rs. 1,000 x 1)	1,000
Uncommuted pension from December 1, 2010 to March 31, 2011 (i.e. Rs. 1,000 x 30% x 4)	1,200
Total Uncommuted pension chargeable to tax as salary	2,200

Total pension chargeable to tax as salary :

Commuted pension	18,333
Uncommuted pension	2,200
	20,533

4. Value of rent-free house :

Salary for the purpose of rent-free house :

Basic pay	25,500
Medical allowance	1,800
High cost of living allowance	5,400
	32,700

Least of the following is the value of perquisite :

Rent ***paid / payable*** (Rs. 600 x 3)	1,800
15 % of ***Salary*** (15% of Rs. 32,700)	4,905

Therefore Value of perquisite = Rs. 1,800

5. Deduction u/s 80C :

Deduction is not available for Mr. R's contribution to URPF. However deduction is available for contribution to RPF.

Contribution to RPF = 10% of salary

Salary for this purpose = Basic + D.A. (If D.A. enters into retirement benefit) + Commission based on fixed % of turnover

Therefore Salary = 60,200 + Nil + Nil = Rs. 60,200/-

Therefore contribution to RPF = Rs. 6,020 (i.e. 10% of Rs. 60,200)

Therefore deduction u/s 80C = Rs. 6,020.