Advance learning on Allowances (Theoretical)

An employee gets salary in any of the following forms from his employer :

Different Forms of salary	*Example*
Monthly basic salary (i.e., payment for the work done by the employee)	Mr. Kumar working in Essem Ltd at a monthly salary of Rs. 84,000.
Monthly allowances (i.e., payment for meeting any specific objective)	Mr. Kumar is working in Essem Ltd. Apart from basic salary the company pays him house rent allowance of Rs. 2,520 per month.
Different perquisites (i.e., different facilities provided by the employer)	Mr. Kumar is working in Essem Ltd. Apart from basic salary and different allowances paid to him, the company has provided him with free use of a car. The car can be used for official as well as private purposes and entire cost of the car is borne by the employer.

In this advance learning we will learn the tax treatment of different allowances.

Meaning of allowance

Allowance is generally a fixed amount given on a regular basis to meet some particular requirement. From taxation point of view, allowance can be classified as taxable allowance and exempt allowance. Exempt allowance can be further classified as follows :

- Allowances for which exemption is based on specific method of computation.
- Allowances for which exemption is based on lower of amount of allowance or amount spent for the purpose of allowance.
- Allowances for which exemption is based on lower of amount of allowance or prescribed amount

The detailed discussion on each of the aforesaid category of allowances is given below.

Allowances for which exemption is based on lower of amount of allowance or amount spent for the purpose of allowance.

As per section 10(*14*), in case of following allowances (by whatever name called), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted:

Allowance	*Example*

source : www.trpscheme.com

Travelling allowance/Transfer allowance - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer) is exempt under section 10(*14*).	Mr. Kapoor is working in Essem Ltd. at Delhi. He is being transferred to Mumbai. The company paid him Rs. 84,000 to meet the expenditure on transfer. He actually incurred Rs. 80,000 on account of expenditure on transfer. In this case, the amount of exemption will be Rs. 80,000, being lower of amount of allowance or the amount spent for the purpose of allowance.
Conveyance allowance - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty is exempt under section 10(*14*).	Mr. Kapoor is working in Essem Ltd. The company is paying him Rs. 8,400 per month as conveyance allowance. In the month of April he had actually incurred Rs. 9,000 on account of expenditure on conveyance in performing official duty. In this case, the amount of exemption will be Rs. 8,400, being lower of amount of allowance or the amount spent for the purpose of allowance.
Daily allowance - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer, is exempt from tax under section 10(*14*).	Mr. Kapoor is working in Essem Transport. The company is paying him Rs. 8,400 per month as daily allowance to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer. In the month of April, he had actually spent Rs. 8,000, on account of ordinary daily expenditure incurred by him on account of his absence from normal place of duty. In this case, the amount of exemption will be Rs. 8,000, being lower of amount of allowance or the amount spent for the purpose of allowance.
Helper allowance - Any allowance granted to meet the expenditure on a helper engaged for performing official duty is exempt from tax under section 10(*14*).	Mr. Kapoor is working in Essem Ltd. The company is paying him Rs. 2,520 per month as helper allowance to meet the expenditure on a helper engaged for performing official duty. In the month of April, he had actually spent Rs. 2,000 on account of salary of helper deployed by him for performing official duty. In this case, the amount of exemption will be Rs.

	2,000, being lower of amount of allowance or the amount spent for the purpose of allowance.
Research allowance - Any allowance granted to meet the expenditure on academic research and other professional pursuits, is exempt from tax under section 10(*14*).	Mr. Kapoor is working in Essem Educational Academy. The company is paying him Rs. 840 per month as research allowance to meet the expenditure on academic research. In the month of April, he had actually incurred no expenditure on academic research. In this case, the amount of exemption will be *Nil*, being lower of amount of allowance or the amount spent for the purpose of allowance.
Uniform allowance - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty), is exempt from tax under section 10(*14*).	Mr. Kapoor is working in Essem Ltd. The company is paying him Rs. 2,520 per month as uniform allowance to meet the expenditure on maintenance of official uniform. In the month of April, he had actually spent Rs. 3,000 on account of expenditure on maintenance of uniform. In this case the amount of exemption will be Rs. 2,520, being lower of amount of allowance or the amount spent for the purpose of allowance.

Allowances for which exemption is based on lower of amount of allowance or prescribed amount

In case of following allowances, exemption will be lower of the amount of allowance or amount prescribed under rule 2BB.

This category includes following important allowances :

- Children's education allowance. Exemption in this case will be Rs. 100 per month per child up to a maximum of two children.
- Any allowance granted to an employee to meet the hostel expenditure on his child. Exemption in this case will be Rs. 300 per month per child up to a maximum of two children.
- Transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty. Exemption in this case will be Rs. 800 per month. Exemption will be Rs. 1,600 per month in case of an employee, who is blind or orthopaedically handicapped with disability of lower extremities.

Apart from above allowances, this category includes following allowances also:

- Hill area allowance or high altitude allowance or uncongenial climate allowance or snow bound area allowance or avalanche allowance or Tribal area allowance. Exemption in this case depends on the area of deputation.

- Special compensatory allowance in the nature of border area allowance, remote locality allowance or difficult area allowance or disturbed area allowance. Exemption in this case depends on the area of deputation.
- Allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place, provided that such employee is not in receipt of daily allowance. Exemption in this case will be 70% of such allowance up to a maximum of Rs. 10,000 per month.
- Compensatory field area allowance (for certain specified area). Exemption is Rs. 2,600 per month.
- Compensatory modified field area allowance (for certain specified area). Exemption is Rs. 1,000 per month.
- Any special allowance in the nature of counter-insurgency allowance granted to the members of armed forces operating in areas away from their permanent locations. Exemption will be Rs. 3,900 per month.
- Underground allowance granted to an employee who is working in uncongenial, unnatural climate in underground mines. Exemption will be Rs. 800 per month.
- Any special allowance in the nature of high altitude (uncongenial climate) allowance granted to the members of the armed forces operating in high altitude areas. Exemption will be Rs. 1,060 per month for altitude of 9,000 to 15,000 feet and Rs. 1,600 per month above 15,000 feet.
- Any special allowance granted to the members of the armed forces in the nature of special compensatory highly active field area allowance. Exemption will be Rs. 4,200 per month.
- Any special allowance granted to the members of the armed forces in the nature of Island (duty) allowance. Exemption will be Rs. 3,250 per month.

It should be noted that an employee claiming exemption in respect of compensatory field area allowance and compensatory modified field area allowance cannot claim exemption in respect of special compensatory allowance in the nature of border area allowance, remote locality allowance or difficult area allowance or disturbed area allowance.

Allowances for which exemption is based on specific method of computation

Under this category following allowances are covered:

(a) Entertainment allowance

(b) House rent allowance

Detailed discussion on both of the above is given below :

(a) Entertainment allowance :

Exemption in case of entertainment allowance is available only to an employee of Central Government or State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of (a) 20% of salary (i.e., basic salary only), or (b) Rs. 5,000, or (c) actual amount of allowance for the year. This deduction is available

source : www.trpscheme.com

only to Central Government or State Government employees. Entire amount of entertainment allowance is taxable in the hands of non-Government employees.

Example

Mr. Suraj is employed in Essem Ltd. He is receiving entertainment allowance of Rs. 10,000 per month. His basic salary is Rs. 50,000 per month. In this case, entire amount of entertainment allowance will be charged to tax in the hands of Mr. Suraj, since he is a non-Government employee.

(b) House rent Allowance.

House rent allowance is given to an employee to meet the expenditure incurred by him on account of rent of residential accommodation.

Example

Mr. Kumar is Accounts Manager in Essem Ltd. The company is paying him Rs. 8,400 per month as allowance for meeting the expenditure incurred by him on account of rent of residential accommodation. In this case, Rs. 8,400 is house rent allowance.

As per section 10(*13A*) and Rule 2A, exemption in respect of HRA is least of the following amounts:

- 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary, where residential house is situated at any other place.
- HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure was incurred by the employee, during the previous year.
- Rent paid in excess of 10% of salary.

While determining salary to be used for computation of exemption in respect of house rent allowance following points should be kept in mind :

(1) Meaning of salary, i.e., ingredients of salary

(2) Period of salary

Detailed discussion on the above points is given below :

<table>
<tr><td>(1) Meaning of salary, i.e., ingredients of salary</td><td>Salary for the purpose of computing exemption in respect of house rent allowance will include basic salary, dearness allowance forming part of salary while computing all retirement benefits and commission based on fixed percentage of turnover achieved by the employee. Apart from this, salary for this purpose does not include any other allowance/perquisites.</td></tr>
<tr><td colspan="2">Mr. Kumar is Production Manager in Essem Ltd. The company is paying him following amounts:
• Basic salary of Rs. 84,000 per month.</td></tr>
</table>

- Dearness allowance of Rs. 25,200 per month. This amount is considered as salary while computing all retirement benefits.
- Dearness allowance of Rs. 20,000 per month. This amount is not considered as salary while computing all retirement benefits.
- Fixed monthly commission of Rs. 1,000.
- Apart from monthly commission of Rs. 1,000, he is also entitled to 1% commission on turnover achieved by him. Turnover achieved by him during the month of April amounted to Rs. 2,00,000. Commission on Rs. 2,00,000 @ 1% will amount to Rs. 2,000.
- Value of perquisite arising from free use of motor car provided by the employer amounted to Rs. 4,000 per month.
- House rent allowance of Rs. 6,000 per month.

In this case, while computing exemption in respect of house rent allowance, salary will be computed as follows :

Particulars	*(Rs.)*
Basic salary (it is considered while computing exemption in respect of house rent allowance)	84,000
Dearness allowance forming part of salary while computing retirement benefits, *i.e.*, DA (as considered while computing exemption in respect of house rent allowance)	25,200
Dearness allowance not forming part of salary while computing retirement benefits, *i.e.*, DA (not considered while computing exemption in respect of house rent allowance)	----------
Fixed monthly commission (not considered while computing exemption in respect of house rent allowance)	----------
Commission based on fixed percentage of turnover achieved by the employee (considered while computing exemption in respect of house rent allowance)	2,000
Perquisite on account of car provided by the employer (perquisites are not considered while computing exemption in respect of house rent allowance)	----------
Salary for the purpose of computation of exemption in respect of House rent allowance	1,11,200

(2) Period of salary	Salary for this purpose shall be computed on due basis in respect of period during which the accommodation is occupied by the employee in the previous year. Hence, any payments not pertaining to the

	previous year or not pertaining to the period of occupation of the accommodation shall be excluded.
Example Mr. Krunal is working in Essem Ltd. at a monthly salary of Rs. 84,000 (basic salary) and dearness allowance of Rs. 16,000 (considered as salary for computing retirement benefits). During the month of March 2013, Mr. Kapoor received advance salary for the month of April, 2013. In this case, while computing exemption in respect of house rent allowance for the month of March, 2013, advance salary of April, 2013 will not be considered. In other words, while computing exemption in respect of house rent allowance for the month of March, 2013, salary will be taken as Rs, 1,00,000 (*i.e.*, basic salary and DA only for the month of March, 2013).	

Points to be kept in mind while making practical implication of the provisions of computation of exemption in respect of HRA

Exemption in respect of house rent allowance depends on following four things, *viz. :*

- Salary of the employee
- House rent allowance received by the employee
- Rent of the residential accommodation
- Place of residential accommodation

It should be noted that when salary, HRA, rent paid and place where house is taken on rent are same throughout the previous year, then the exemption should be calculated on "annual" basis. However, if there is change in any of them, then exemption shall be computed on a "monthly" basis.

Example

Mr. Sunil is employed in Essem Ltd. at a monthly salary of Rs. 84,000. Other details for the year are as follows :

- House rent allowance of Rs. 8,000 per month (remained same for the year).
- Rent paid by him amounted to Rs. 15,000 per month (remained same for the year).
- Dearness allowance (*i.e.*, DA) per month amounted to Rs. 16,000 (remained same for the year).
- Throughout the year he was residing in Jaipur.

In the above example, all the four things, *viz.*, salary, house rent allowance, monthly rent and place of accommodation remained same throughout the year. Hence, computation can be done on an annual basis as follows :

Exemption in respect of house rent allowance will be lower of the following :

- 40% of salary, since residential house is situated at Jaipur, this will come to Rs. 4,80,000 (See note 1)
- Actual amount of HRA received by the employee for the year. Monthly HRA is Rs. 8,000. Hence, annual HRA will amount to Rs. 96,000.

- Rent paid in excess of 10% of salary. This will amount to Rs. 60,000 (See note 2)

Exemption in respect of HRA will be Rs. 60,000, being least of the above computed amounts. Taxable HRA for the year will be computed as follows :

Particulars	***(Rs.)***
Annual HRA (Rs. 8,000 × 12)	96,000
Less: Exemption in respect of HRA as computed as above	60,000
Taxable HRA	36,000

Note 1:

Salary for the purpose of computation of exemption in respect of house rent allowance will come to Rs. 1,00,000 per month (Rs. 84,000 basic salary and Rs. 16,000 dearness allowance). Annual salary will come to Rs. 12,00,000. 40% of salary will come to Rs. 4,80,000.

Note 2:

Rent paid in excess of 10% of salary will be computed as follows :

Particulars	***(Rs.)***
Annual rent (Rs. 15,000 × 12)	1,80,000
Less : 10% of annual salary of Rs. 12,00,000	1,20,000
Rent in excess of 10% of salary	60,000

Example

Suppose in the above example rent is increased from 1st July to Rs. 21,000 and DA is increased to Rs. 26,000 from 1st December, then annual computation cannot be done and computation will be divided as follows :

- Accumulated computation for the period of April to June.
- Accumulated computation for the period of July to November.
- Accumulated computation for the period of December to March.

FAQ's

1. In which modes an employee can get his salary?

An employee gets his salary in any of the following modes from his employer :

Different Forms of salary	*Example*
Monthly basic salary (*i.e.*, payment for his work)	Mr. Kumar working in Essem Ltd at a monthly salary of Rs. 84,000.
Monthly allowances (*i.e.*, payment for meeting any specific objective)	Mr. Kumar is working in Essem Ltd. Apart from basic salary the company pays him house rent allowance of Rs. 2,520 per month.
Different perquisites (*i.e.*, different facilities provided by the employer)	Mr. Kumar is working in Essem Ltd. Apart from basic salary and different allowances paid to him, the company has provided him with free use of car. The car can be used for official as well as private purposes and entire cost of the car is borne by the employer.

2. What is the meaning of allowance?

Allowance is generally a fixed amount given on a regular basis to meet some particular requirement. From taxation point of view, allowance can be classified as taxable allowance and exempt allowance. Exempt allowance can be further classified as follows :

- Allowance for which exemption is based on specific method of computation.
- Allowance for which exemption is based on lower of amount of allowance or amount spent for the purpose of allowance.
- Allowance for which exemption is based on lower of amount of allowance or prescribed amount.

3. Which are the allowances for which exemption is based on lower of amount of allowance or amount spent for the purpose of allowance?

As per section 10(*14*), in case of following allowances (by whatever name called), exemption is lower of : (*a*) the amount of allowance, or (*b*) the amount spent for the purpose for which allowance is granted:

Allowance	*Example*
Travelling allowance/Transfer allowance - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal	Mr. Kapoor is working in Essem Ltd. at Delhi. He is being transferred to Mumbai. The company paid him Rs. 84,000 to meet the expenditure on transfer. He actually incurred Rs. 80,000 on account of

effects on transfer) is exempt under section 10(*14*).	expenditure on transfer. In this case, the amount of exemption will be Rs. 80,000, being lower of amount of allowance or the amount spent for the purpose of allowance.
Conveyance allowance - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty is exempt under section 10(*14*).	Mr. Kapoor is working in Essem Ltd. The company is paying him Rs. 8,400 per month as conveyance allowance. In the month of April he had actually incurred Rs. 9,000 on account of expenditure on conveyance in performing official duty. In this case, the amount of exemption will be Rs. 8,400, being lower of amount of allowance or the amount spent for the purpose of allowance.
Daily allowance - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer, is exempt from tax under section 10(*14*).	Mr. Kapoor is working in Essem Transport. The company is paying him Rs. 8,400 per month as daily allowance to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer. In the month of April, he had actually spent Rs. 8,000 on account of ordinary daily expenditure incurred by him on account of his absence from normal place of duty. In this case, the amount of exemption will be Rs. 8,000, being lower of amount of allowance or the amount spent for the purpose of allowance.
Helper allowance - Any allowance granted to meet the expenditure on a helper engaged for performing official duty, is exempt from tax under section 10(*14*).	Mr. Kapoor is working in Essem Ltd. The company is paying him Rs. 2,520 per month as helper allowance to meet the expenditure on a helper engaged for performing official duty. In the month of April, he had actually spent Rs. 2,000 on account of salary of helper deployed by him for performing official duty. In this case, the amount of exemption will be Rs. 2,000, being lower of amount of allowance or the amount spent for the purpose of allowance.
Research allowance - Any allowance granted to meet the expenditure on	Mr. Kapoor is working in Essem Educational Academy. The company is

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academic research and other professional pursuits, is exempt from tax under section 10(*14*).	paying him Rs. 840 per month as research allowance to meet the expenditure on academic research. In the month of April, he had actually incurred no expenditure on academic research. In this case, the amount of exemption will be *Nil*, being lower of amount of allowance or the amount spent for the purpose of allowance.
Uniform allowance - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty), is exempt from tax under section 10(*14*).	Mr. Kapoor is working in Essem Ltd. The company is paying him Rs. 2,520 per month as uniform allowance to meet the expenditure on maintenance of official uniform. In the month of April, he had actually spent Rs. 3,000 on account of expenditure on maintenance of uniform. In this case, the amount of exemption will be Rs. 2,520, being lower of amount of allowance or the amount spent for the purpose of allowance.

4. Which are the allowances for which exemption is based on lower of amount of allowance or prescribed amount?

In case of the following allowances, exemption will be lower of the amount of allowance or amount prescribed under rule 2BB.

- Children's education allowance - Exemption in this case will be Rs. 100 per month per child up to a maximum of two children.
- Any allowance granted to an employee to meet the hostel expenditure of his child. Exemption in this case will be Rs. 300 per month per child up to a maximum of two children.
- Transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty. Exemption in this case will be Rs. 800 per month. Exemption will be Rs. 1,600 per month in case of an employee, who is blind or orthopaedically handicapped with disability of lower extremities.
- Hill area allowance or high altitude allowance or uncongenial climate allowance or Snow bound area allowance or avalanche allowance or Tribal area allowance Exemption in this case depends on the area of deputation.
- Special compensatory allowance in the nature of border area allowance, remote locality allowance or difficult area allowance or disturbed area allowance. Exemption in this case depends on the area of deputation.
- Allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place, provided that such employee is not in

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receipt of daily allowance. Exemption in this case will be 70% of such allowance up to a maximum of Rs. 10,000 per month.

- Compensatory field area allowance (for certain specified area). Exemption is Rs. 2,600 per month.
- Compensatory modified field area allowance (for certain specified area). Exemption is Rs. 1,000 per month.
- Any special allowance in the nature of counter-insurgency allowance granted to the members of armed forces operating in areas away from their permanent locations. Exemption will be Rs. 3,900 per month.
- Underground allowance granted to an employee who is working in uncongenial, unnatural climate in the underground mines. Exemption will be Rs. 800 per month.
- Any special allowance in the nature of high altitude (uncongenial climate) allowance granted to the member's of the armed forces operating in high altitude areas. Exemption will be Rs. 1,060 per month for altitude of 9,000 to 15,000 feet and Rs. 1,600 per month above 15,000 feet.
- Any special allowance granted to the members of the armed forces in the nature of special compensatory highly active field area allowance. Exemption will be Rs. 4,200 per month.
- Any special allowance granted to the members of the armed forces in the nature of Island (duty) allowance. Exemption will be Rs. 3,250 per month.

It should be noted that an employee claiming exemption in respect of compensatory field area allowance and compensatory modified field area allowance cannot claim exemption in respect of special compensatory allowance in the nature of border area allowance, Remote locality allowance or difficult area allowance or disturbed area allowance.

5. What is the amount of exemption in respect of entertainment allowance?

Exemption in case of entertainment allowance is available only to an employee of Central Government or State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of : (a) 20% of salary (i.e., basic salary only), or (b) Rs. 5,000, or (c) actual amount of allowance for the year. This deduction is available only to Central Government and the State Government employees. Entire amount of entertainment allowance is taxable in the hands of non-Government employees.

Example

Mr. Suraj is employed in Essem Ltd. He is receiving entertainment allowance of Rs. 10,000 per month. His basic salary is Rs. 50,000 per month. In this case, entire amount of entertainment allowance will be charged to tax in the hands of Mr. Suraj, since he is a non-Government employee.

6. What is the amount of exemption in respect of house rent allowance?

As per section 10(*13A*) and Rule 2A, exemption in respect of HRA is least of the following amounts:

- 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.

- HRA actually received by the employee in respect of the period during which rental accommodation is occupied by him and rent expenditure was incurred by him, during the previous year.
- Rent paid in excess of 10% of salary.

7. While determining salary to be used for computation of exemption in respect of house rent allowance what is the meaning of salary?

Salary for the purpose of computing exemption in respect of house rent allowance will include basic salary, dearness allowance forming part of salary while computing all retirement benefits and commission based on fixed percentage of turnover achieved by the employee. Apart from this, salary for this purpose does not include any other allowance/perquisites. Consider following example for better understanding :

Example : Mr. Kumar is Production Manager in Essem Ltd. The company is paying him following :

- Basic salary of Rs. 84,000 per month.
- Dearness allowance of Rs. 25,200 per month. This amount is considered as salary while computing all retirement benefits.
- Dearness allowance of Rs. 20,000 per month. This amount is not considered as salary while computing all retirement benefits.
- Fixed monthly commission of Rs. 1,000.
- Apart from monthly commission of Rs. 1,000, he is also entitled to 1% commission on turnover achieved by him. Turnover achieved by him during the month of April amounted to Rs. 2,00,000. Commission on Rs. 2,00,000 @ 1% will amount to Rs. 2,000.
- Value of perquisite arising from free use of motor car provided by the employer amounted to Rs. 4,000 per month.
- House rent allowance of Rs. 6,000 per month.

In this case, while computing exemption in respect of house rent allowance, salary will be computed as follows :

Particulars	***(Rs.)***
Basic salary (it is considered while computing exemption in respect of house rent allowance)	84,000
Dearness allowance forming part of salary while computing retirement benefits, *i.e.*, DA (considered while computing exemption in respect of house rent allowance)	25,200
Dearness allowance not forming part of salary while computing retirement benefits, *i.e.*, DA (not considered while computing exemption in respect of house rent allowance)	----------
Fixed monthly commission (not considered while computing	

exemption in respect of house rent allowance)	----------
Commission based on fixed percentage of turnover achieved by the employee (considered while computing exemption in respect of house rent allowance)	2,000
Perquisite on account of car provided by the employer (perquisites are not considered while computing exemption in respect of house rent allowance)	----------
Salary for the purpose of computation of exemption in respect of house rent allowance	1,11,200

8. While determining salary to be used for computation of exemption in respect of house rent allowance, salary for which period is to be taken?

While determining salary to be used for computation of exemption in respect of house rent allowance, salary shall be computed on due basis in respect of period during which the accommodation is occupied by the employee in the previous year. Hence, any payment not pertaining to the previous year or not pertaining to the period of occupation of the accommodation shall be excluded.

Example

Mr. Krunal is working in Essem Ltd. at a monthly salary of Rs. 84,000 (basic salary) and dearness allowance Rs. 16,000 (considered as salary for computing retirement benefits). During the month of March, 2013, Mr. Kapoor received advance salary for the month of April, 2013. In this case, while computing exemption in respect of house rent allowance for the month of March, 2013, advance salary of April, 2013 will not be considered. In other words, while computing exemption in respect of house rent allowance for the month of March, 2013, salary will be taken as Rs, 1,00,000 (*i.e.*, basic salary and DA only for the month of March, 2013).

9. What points are to be kept in mind while making practical implication of the provisions of computation of exemption in respect of HRA?

Exemption in respect of house rent allowance depends on following four things, *viz. :*

- Salary of the employee
- House rent allowance received by the employee
- Rent of the residential accommodation
- Place of residential accommodation

It should be noted that when salary, HRA, rent paid and place where house is taken on rent are same throughout the previous year, then the exemption should be calculated on "annual" basis. However, if there is change in any of them, then exemption shall be computed on a "monthly" basis.

Example

Mr. Sunil is employed in Essem Ltd. at a monthly salary of Rs. 84,000. Other details for the year are as follows :

- House rent allowance Rs. 8,000 per month (remained same for the year).
- Rent paid by him during the year amounted to Rs. 15,000 per month (remained same for the year).
- Dearness allowance (*i.e.*, DA) per month amounted to Rs. 16,000 (remained same for the year).
- Throughout the year he was residing in Jaipur.

In the above example, all the four things, *viz.*, salary, house rent allowanced, monthly rent and place of accommodation remained same throughout the year. Hence, computation can be done on annual basis as follows :

Exemption in respect of house rent allowance will be lower of the following :

- 40% of salary, since residential house is situated at Jaipur this will come to Rs. 4,80,000 (See note 1)
- Actual amount of HRA received by the employee for the year. Monthly HRA is Rs. 8,000. Hence, annual HRA will amount to Rs. 96,000.
- Rent paid in excess of 10% of salary. This will amount to Rs. 60,000 (See note 2)

Exemption in respect of HRA will be Rs. 60,000, being least of the above computed amounts. Taxable HRA for the year will be computed as follows :

Particulars	***(Rs.)***
Annual HRA (Rs. 8,000 × 12)	96,000
Less: Exemption in respect of HRA as computed as above	60,000
Taxable HRA	36,000

Note 1:

Salary for the purpose of computation of exemption in respect of house rent allowance will come to Rs. 1,00,000 per month (Rs. 84,000 basic salary and Rs. 16,000 dearness allowance). Annual salary will come to Rs. 12,00,000. 40% of salary will come to Rs. 4,80,000.

Note 2:

Rent paid in excess of 10% of salary will be computed as follows :

Particulars	***(Rs.)***
Annual rent (Rs. 15,000 × 12)	1,80,000
Less : 10% of annual salary of Rs. 12,00,000	1,20,000
Rent in excess of 10% of salary	60,000

Example

Suppose in the above example rent is increased from 1st July to Rs. 21,000 and DA is increased to Rs. 26,000 from 1st December, then annual computation cannot be done and same will be divided as follows :

- Accumulated computation for the period of April to June.
- Accumulated computation for the period of July to November.
- Accumulated computation for the period of December to March.

MCQ

1. An employee can get salary in any of the following forms :

- Basic salary
- Various allowances
- Various perquisites

(a) True (b) False

Correct answer : (a)

Justification of the correct answer :

An employee gets salary in any of the following forms from his employer :

Different forms of salary	*Example*
Monthly basic salary (i.e., payment for the work done by the employee)	Mr. Kumar working in Essem Ltd at a monthly salary of Rs. 84,000.
Monthly allowances (*i.e.,* payment for meeting any specific objective)	Mr. Kumar is working in Essem Ltd. Apart from basic salary the company pays him house rent allowance of Rs. 2,520 per month.
Different perquisites (*i.e.,* different facilities provided by the employer)	Mr. Kumar is working in Essem Ltd. Apart from basic salary and different allowances paid to him, the company has provided him with free use of car. The car can be used for official as well as private purposes and entire cost of the car is borne by the employer.

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

2. Amount received by an employee for meeting specific objective is called ______ .

(a) Allowance (b) Perquisite

(c) Basic salary (d) Dearness allowance

Correct answer : (a)

Justification of correct answer :

Amount received by an employee for meeting any specific objective is called allowance. Thus, option (a) is the correct option.

Comment on incorrect answer : Amount received by an employee for meeting any specific objective is called allowance. Thus, options (b), (c) and (d) giving incorrect names are not correct.

3. Perquisite and allowance are one and the same thing.

(a) True (b) False

Correct answer : (b)

Justification of the correct answer :

Amount received by an employee for meeting any specific objective is called as allowance. Perquisites refer to various facilities provided by the employer. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on the incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

4. From taxation point of view allowance can be classified as follows :

- Allowances for which exemption is based on specific method of computation.
- Allowances for which exemption is based on lower of amount of allowance or amount spent for the purpose of allowance.
- Allowances for which exemption is based on lower of amount of allowance or prescribed amount

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Allowance is generally a fixed amount given on a regular basis to meet some particular requirement. From taxation point of view, allowance can be classified as taxable allowance and exempt allowance. Exempt allowance can be further classified as follows :

- Allowances for which exemption is based on specific method of computation.
- Allowances for which exemption is based on lower of amount of allowance or amount spent for the purpose of allowance.
- Allowances for which exemption is based on lower of amount of allowance or prescribed amount

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

5. As per section 10(*14*), in case of traveling allowances granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

(a) True (b) False

Correct answer : (a)

Justification of the correct answer :

source : www.trpscheme.com

As per section 10(*14*), in case of following allowances (by whatever name called), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted:

Allowance
Travelling allowance/Transfer allowance - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer).
Conveyance allowance - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty.
Daily allowance - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer.
Helper allowance - Any allowance granted to meet the expenditure on a helper engaged for performing official duty.
Research allowance - Any allowance granted to meet the expenditure on academic research and other professional pursuits.
Uniform allowance – Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty).

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on the incorrect answer : The statement given in the question is true. Hence, option (b) is not correct.

6. As per section 10(*14*), in case of conveyance allowance granted to meet the expenditure on conveyance in performing official duty, exemption is lower of : (*a*) the amount of allowance, or (*b*) the amount spent for the purpose for which allowance is granted.

(a) True (b) False

Correct answer : (a)

Justification of the correct answer :

As per section 10(*14*), in case of following allowances (by whatever name called), exemption is lower of : (*a*) the amount of allowance, or (*b*) the amount spent for the purpose for which allowance is granted:

Allowance
Travelling allowance/Transfer allowance - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer).
Conveyance allowance - Conveyance allowance granted to meet the expenditure on

conveyance in performing official duty.
Daily allowance - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer.
Helper allowance - Any allowance granted to meet the expenditure on a helper engaged for performing official duty.
Research allowance - Any allowance granted to meet the expenditure on academic research and other professional pursuits.
Uniform allowance - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty).

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on the incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

7. As per section 10(*14*), in case of any allowance is granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer (commonly known as daily allowance), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

As per section 10(*14*), in case of following allowances (by whatever name called), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted:

Allowance
Travelling allowance/Transfer allowance - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer).
Conveyance allowance - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty.
Daily allowance - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer.
Helper allowance - Any allowance granted to meet the expenditure on a helper engaged for performing official duty.
Research allowance - Any allowance granted to meet the expenditure on academic research and other professional pursuits.
Uniform allowance - Any allowance granted to meet the expenditure on purchase or

maintenance of uniform (for wearing during performance of official duty).

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on the incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

8. As per section 10(*14*), in case of any allowance granted to meet the expenditure on a helper engaged for performing official duty (commonly known as helper allowance), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

(a) True (b) False

Correct answer : (a)

Justification of the correct answer :

As per section 10(*14*), in case of following allowances (by whatever name called), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted:

Allowance
Travelling allowance/Transfer allowance - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer).
Conveyance allowance - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty.
Daily allowance - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer.
Helper allowance - Any allowance granted to meet the expenditure on a helper engaged for performing official duty.
Research allowance - Any allowance granted to meet the expenditure on academic research and other professional pursuits.
Uniform allowance - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty).

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

9. As per section 10(*14*), in case of any allowance granted to meet the expenditure on academic research and other professional pursuits (commonly known as research allowance), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

(a) True (b) False

Correct answer : (a)

Justification of the correct answer :

As per section 10(*14*), in case of following allowances (by whatever name called), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted:

Allowance
Travelling allowance/Transfer allowance - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer).
Conveyance allowance - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty.
Daily allowance - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer.
Helper allowance - Any allowance granted to meet the expenditure on a helper engaged for performing official duty.
Research allowance - Any allowance granted to meet the expenditure on academic research and other professional pursuits.
Uniform allowance - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty).

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on the incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

10. As per section 10(*14*), in case of any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty. commonly known as uniform allowance), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

(a) True (b) False

Correct answer : (a)

Justification of the correct answer :

As per section 10(*14*), in case of following allowances (by whatever name), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted:

Allowance
Travelling allowance/Transfer allowance - Any allowance granted to meet the cost of

travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer).
Conveyance allowance - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty.
Daily allowance - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer.
Helper allowance - Any allowance granted to meet the expenditure on a helper engaged for performing official duty.
Research allowance - Any allowance granted to meet the expenditure on academic research and other professional pursuits.
Uniform allowance - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty).

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

11. Mr. Kapoor is working in Essem Ltd. The company paid him Rs. 840 in April as conveyance allowance to meet the expenditure on conveyance in performing official duty. He actually incurred Rs. 1,200 on account of expenditure on conveyance in performing official duty. What will be taxed in the hands of Mr. Kapoor on account of conveyance allowance?

(a) Rs. 1,200 (b) Rs. 840

(c) Rs. 360 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of conveyance allowance granted to meet the expenditure on conveyance in performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 1,200 is spent on conveyance and actual amount received on account of conveyance allowance is Rs. 840. Hence, exemption will be Rs. 840 and nothing will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Nothing will be charged to tax in respect of conveyance allowance. Hence, options (a), (b) and (c) giving various amounts liable to tax are not correct.

12. Mr. Raja is working in Essem Ltd. The company paid him Rs. 1,840 in May as daily allowance to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour. He actually incurred Rs. 2,000 on account of expenditure incurred by him due to his absence from

normal place of duty. What will be taxed in the hands of Mr. Raja on account of daily allowance?

(a) Rs. 2,000 (b) Rs. 1,840

(c) Rs. 160 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of daily allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 2,000 is spent on expenditure incurred by the employee on account of his absence from normal place of duty and actual amount received on account of daily allowance is Rs. 1,840. Hence, exemption will be Rs. 1,840 and nothing will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Nothing will be charged to tax in respect of daily allowance. Hence, options (a), (b) and (c) giving various amounts liable to tax are not correct.

13. Mr. Rahul is working in Essem Ltd. The company paid him Rs. 2,520 in December as helper allowance to meet the expenditure on a helper engaged for performing official duty. He actually incurred Rs. 3,000 on account of expenditure on deputing helper in performing official duty. What will be taxed in the hands of Mr. Rahul on account of helper allowance?

(a) Rs. 3,000 (b) Rs. 2,520

(c) Rs. 480 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of helper allowance to meet the expenditure on a helper engaged for performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 3,000 is spent to meet the expenditure on helper engaged for performing official duty and actual amount received on account of helper allowance is Rs. 2,520. Hence, exemption will be Rs. 2,520 and nothing will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Nothing will be charged to tax in respect of helper allowance. Hence, options (a), (b) and (c) giving various amounts liable to tax are not correct.

14. Mr. Sunil is working in Essem Education Institute. The company paid him Rs. 8,400 in April as research allowance to meet the expenditure on academic research and other professional pursuits. He actually incurred Rs. 10,000 on account of expenditure on academic research and other professional pursuits. What will be taxed in the hands of Mr. Sunil on account of research allowance?

(a) Rs. 10,000 (b) Rs. 8,400

(c) Rs. 1,600 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of research allowance to meet the expenditure on academic research and other professional pursuits, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 10,000 is spent to meet the expenditure on academic research and other professional pursuits and actual amount received on account of research allowance is Rs. 8,400. Hence, exemption will be Rs. 8,400 and nothing will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Nothing will be charged to tax in respect of research allowance. Hence, options (a), (b) and (c) giving various amounts liable to tax are not correct.

15. Mr. Sujal is working in Essem Education Institute. The company paid him Rs. 2,840 in April as uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty). He actually incurred Rs. 2,900 on account of expenditure on maintenance of uniform. What will be taxed in the hands of Mr. Sujal on account of uniform allowance?

(a) Rs. 2,900 (b) Rs. 2,840

(c) Rs. 60 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 2,900 is spent to meet the expenditure on maintenance of uniform (for wearing during performance of official duty) and actual amount received on account of uniform allowance is Rs. 2,840. Hence, exemption will be Rs. 2,840 and nothing will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Nothing will be charged to tax in respect of uniform allowance. Hence, options (a), (b) and (c) giving various amounts liable to tax are not correct.

16. Mr. Kapoor is working in Essem Ltd. The company paid him Rs. 840 in April as conveyance allowance to meet the expenditure on conveyance in performing official duty. He actually incurred Rs. 500 on account of expenditure on conveyance in performing official duty. What will be taxed in the hands of Mr. Kapoor on account of conveyance allowance?

(a) Rs. 500 (b) Rs. 840

(c) Rs. 340 (d) *Nil*

Correct answer : (c)

Justification of the correct answer :

As per section 10(*14*), in case of conveyance allowance granted to meet the expenditure on conveyance in performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 500 is spent on conveyance and actual amount received on account of conveyance allowance is Rs. 840. Hence, exemption will be Rs. 500 and Rs. 340 will be charged to tax. Thus, option (c) is the correct option.

Comment on the incorrect answer : Rs. 340 will be charged to tax in respect of conveyance allowance. Hence, options (a), (b) and (d) giving incorrect amounts liable to tax are not correct.

17. Mr. Raja is working in Essem Ltd. The company paid him Rs. 1,840 in May as daily allowance to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour. He actually incurred Rs. 1,000 on account of expenditure incurred by him due to his absence from normal place of duty. What will be taxed in the hands of Mr. Raja on account of daily allowance?

(a) Rs. 1,000 (b) Rs. 1,840

(c) Rs. 840 (d) *Nil*

Correct answer : (c)

Justification of the correct answer :

As per section 10(*14*), in case of daily allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 1,000 is spent to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty and actual amount received on account of daily allowance is Rs. 1,840. Hence, exemption will be Rs. 1,000 and Rs. 840 will be charged to tax. Thus, option (c) is the correct option.

Comment on the incorrect answer : Rs. 840 will be charged to tax in respect of dailly allowance. Hence, options (a), (b) and (d) giving incorrect amounts liable to tax are not correct.

18. Mr. Rahul is working in Essem Ltd. The company paid him Rs. 2,520 in December as helper allowance to meet the expenditure on a helper engaged for performing official duty. He actually incurred Rs. 2,000 on account of expenditure on deputing helper in performing official duty. What will be taxed in the hands of Mr. Rahul on account of helper allowance?

(a) Rs. 2,000 (b) Rs. 2,520

(c) Rs. 520 (d) *Nil*

Correct answer : (c)

Justification of the correct answer :

source : www.trpscheme.com

As per section 10(*14*), in case of helper allowance to meet the expenditure on a helper engaged for performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 2,000 is spent to meet the expenditure on helper engaged for performing official duty and actual amount received on account of helper allowance is Rs. 2,520. Hence, exemption will be Rs. 2,000 and Rs. 520 will be charged to tax. Thus, option (c) is the correct option.

Comment on the incorrect answer : Rs. 520 will be charged to tax in respect of helper allowance. Hence, options (a), (b) and (d) giving incorrect amounts liable to tax are not correct.

19. Mr. Sunil is working in Essem Education Institute. The company paid him Rs. 8,400 in April as research allowance to meet the expenditure on academic research and other professional pursuits. He actually incurred Rs. 8,000 on account of expenditure on academic research and other professional pursuits. What will be taxed in the hands of Mr. Sunil on account of research allowance?

(a) Rs. 8,000 (b) Rs. 8,400

(c) Rs. 400 (d) *Nil*

Correct answer : (c)

Justification of the correct answer :

As per section 10(*14*), in case of research allowance to meet the expenditure on academic research and other professional pursuits, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 8,000 is spent to meet the expenditure on academic research and other professional pursuits and actual amount received on account of research allowance is Rs. 8,400. Hence, exemption will be Rs. 8,000 and Rs. 400 will be charged to tax. Thus, option (c) is the correct option.

Comment on the incorrect answer : Rs. 400 will be charged to tax in respect of research allowance. Hence, options (a), (b) and (d) giving incorrect amounts liable to tax are not correct.

20. Mr. Sujal is working in Essem Education Institute. The company paid him Rs. 2,840 in April as uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty). He actually incurred Rs. 2,800 on account of expenditure on maintenance of uniform. What will be taxed in the hands of Mr. Sujal on account of uniform allowance?

(a) Rs. 2,900 (b) Rs. 2,840

(c) Rs. 40 (d) *Nil*

Correct answer : (c)

Justification of the correct answer :

As per section 10(*14*), in case of uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

source : www.trpscheme.com

In this case Rs. 2,800 is spent to meet the expenditure on maintenance of uniform (for wearing during performance of official duty) and actual amount received on account of uniform allowance is Rs. 2,840. Hence, exemption will be Rs. 2,800 and Rs. 40 will be charged to tax. Thus, option (c) is the correct option.

Comment on the incorrect answer : Rs. 40 will be charged to tax in respect of uniform allowance. Hence, options (a), (b) and (d) giving incorrect amounts liable to tax are not correct.

21. Mr. Kapoor is working in Essem Ltd. The company paid him Rs. 840 in April as conveyance allowance to meet the expenditure on conveyance in performing official duty. He actually incurred Rs. 1,200 on account of expenditure on conveyance in performing official duty. What will be exemption in respect of conveyance allowance?

(a) Rs. 1,200 (b) Rs. 840

(c) Rs. 360 (d) *Nil*

Correct answer : (b)

Justification of the correct answer :

As per section 10(*14*), in case of conveyance allowance granted to meet the expenditure on conveyance in performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 1,200 is spent on conveyance and actual amount received on account of conveyance allowance is Rs. 840. Hence, exemption will be Rs. 840 and nothing will be charged to tax. Thus, option (b) is the correct option.

Comment on the incorrect answer : Exemption in respect of conveyance allowance will be Rs. 840. Hence, options (a), (c) and (d) giving incorrect amounts of exemption are not correct.

22. Mr. Raja is working in Essem Ltd. The company paid him Rs. 1,840 in May as daily allowance to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour. He actually incurred Rs. 2,000 on account of expenditure due to his absence from normal place of duty. What will be exemption in respect of daily allowance?

(a) Rs. 2,000 (b) Rs. 1,840

(c) Rs. 160 (d) *Nil*

Correct answer : (b)

Justification of the correct answer :

As per section 10(*14*), in case of daily allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty due to tour, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 2,000 is spent on expenditure incurred by the employee on account of his absence from normal place of duty and actual amount received on account of daily allowance is Rs. 1,840. Hence, exemption will be Rs. 1,840 and nothing will be charged to tax. Thus, option (b) is the correct option.

Comment on the incorrect answer : Exemption in respect of daily allowance will be Rs. 1,840. Hence, options (a), (c) and (d) giving incorrect amounts of exemption are not correct.

23. Mr. Rahul is working in Essem Ltd. The company paid him Rs. 2,520 in December as helper allowance to meet the expenditure on a helper engaged for performing official duty. He actually incurred Rs. 3,000 on account of expenditure on deputing helper in performing official duty. What will be exemption in respect of helper allowance?

(a) Rs. 3,000 (b) Rs. 2,520

(c) Rs. 480 (d) *Nil*

Correct answer : (b)

Justification of the correct answer :

As per section 10(*14*), in case of helper allowance to meet the expenditure on a helper engaged for performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 3,000 is spent to meet the expenditure on helper engaged for performing official duty and actual amount received on account of helper allowance is Rs. 2,520. Hence, exemption will be Rs. 2,520 and nothing will be charged to tax. Thus, option (b) is the correct option.

Comment on the incorrect answer : Exemption in respect of helper allowance will be Rs. 2,520. Hence, options (a), (c) and (d) giving incorrect amounts of exemption are not correct.

24. Mr. Sunil is working in Essem Education Institute. The company paid him Rs. 8,400 in April as research allowance to meet the expenditure on academic research and other professional pursuits. He actually incurred Rs. 10,000 on account of expenditure on academic research and other professional pursuits. What will be exemption on account of research allowance?

(a) Rs. 10,000 (b) Rs. 8,400

(c) Rs. 1,600 (d) *Nil*

Correct answer : (b)

Justification of the correct answer :

As per section 10(*14*), in case of research allowance to meet the expenditure on academic research and other professional pursuits, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 10,000 is spent to meet the expenditure on academic research and other professional pursuits and actual amount received on account of research allowance is Rs. 8,400. Hence, exemption will be Rs. 8,400 and nothing will be charged to tax. Thus, option (b) is the correct option.

Comment on the incorrect answer : Exemption in respect of research allowance will be Rs. 8,400. Hence, options (a), (c) and (d) giving incorrect amounts of exemption are not correct.

25. Mr. Sujal is working in Essem Ltd. The company paid him Rs. 2,840 in April as uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty). He actually incurred Rs. 2,900 on account of expenditure on maintenance of uniform. What will be exemption in the hands of Mr. Sujal on account of uniform allowance?

(a) Rs. 2,900 (b) Rs. 2,840

(c) Rs. 60 (d) *Nil*

Correct answer : (b)

Justification of the correct answer :

As per section 10(*14*), in case of uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 2,900 is spent to meet the expenditure on maintenance of uniform (for wearing during performance of official duty) and actual amount received on account of uniform allowance is Rs. 2,840. Hence, exemption will be Rs. 2,840 and nothing will be charged to tax. Thus, option (b) is the correct option.

Comment on incorrect answer : Exemption in respect of uniform allowance will be Rs. 2,840. Hence, options (a), (c) and (d) giving incorrect amounts of exemption are not correct.

26. Mr. Kapoor is working in Essem Ltd. The company paid him Rs. 840 in April as conveyance allowance to meet the expenditure on conveyance in performing official duty. He actually incurred Rs. 500 on account of expenditure on conveyance in performing official duty. What will be exemption on account of conveyance allowance?

(a) Rs. 500 (b) Rs. 840

(c) Rs. 340 (d) *Nil*

Correct answer : (a)

Justification of the correct answer :

As per section 10(*14*), in case of conveyance allowance granted to meet the expenditure on conveyance in performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 500 is spent on conveyance and actual amount received on account of conveyance allowance is Rs. 840. Hence, exemption will be Rs. 500. Thus, option (a) is the correct option.

Comment on the incorrect answer : Exemption in respect of conveyance allowance will be Rs. 500. Hence, options (b), (c) and (d) giving incorrect amounts of exemption are not correct.

27. Mr. Raja is working in Essem Ltd. The company paid him Rs. 1,840 in May as daily allowance to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour. He actually incurred Rs. 1,000 on account of expenditure incurred by him due to his absence from normal place of duty. What will the amount of exemption in respect of daily allowance?

(a) Rs. 1,000 (b) Rs. 1,840

(c) Rs. 840 (d) *Nil*

Correct answer : (a)

Justification of the correct answer :

As per section 10(*14*), in case of daily allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty due to tour, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 1,000 is spent to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty and actual amount received on account of daily allowance is Rs. 1,840. Hence, exemption will be Rs. 1,000. Thus, option (a) is the correct option.

Comment on incorrect answer : Exemption in respect of daily allowance will be Rs. 1,000. Hence, options (b), (c) and (d) giving incorrect amounts of exemption are not correct.

28. Mr. Rahul is working in Essem Ltd. The company paid him Rs. 2,520 in December as helper allowance to meet the expenditure on a helper engaged for performing official duty. He actually incurred Rs. 2,000 on account of expenditure on deputing helper in performing official duty. What will be the amount of exemption on account of helper allowance?

(a) Rs. 2,000 (b) Rs. 2,520

(c) Rs. 520 (d) *Nil*

Correct answer : (a)

Justification of the correct answer :

As per section 10(*14*), in case of helper allowance to meet the expenditure on a helper engaged for performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 2,000 is spent to meet the expenditure on helper engaged for performing official duty and actual amount received on account of helper allowance is Rs. 2,520. Hence, exemption will be Rs. 2,000. Thus, option (a) is the correct option.

Comment on the incorrect answer : Exemption in respect of helper allowance will be Rs. 2,000. Hence, options (b), (c) and (d) giving incorrect amounts of exemption are not correct.

29. Mr. Sunil is working in Essem Education Institute. The company paid him Rs. 8,400 in April as research allowance to meet the expenditure on academic research

and other professional pursuits. He actually incurred Rs. 8,000 on account of expenditure on academic research and other professional pursuits. What will be the amount of exemption on account of research allowance?

(a) Rs. 8,000 (b) Rs. 8,400

(c) Rs. 400 (d) *Nil*

Correct answer : (a)

Justification of the correct answer :

As per section 10(*14*), in case of research allowance to meet the expenditure on academic research and other professional pursuits, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 8,000 is spent to meet the expenditure on academic research and other professional pursuits and actual amount received on account of research allowance is Rs. 8,400. Hence, exemption will be Rs. 8,000. Thus, option (a) is the correct option.

Comment on incorrect answer : Exemption in respect of research allowance will be Rs. 8,000. Hence, options (b), (c) and (d) giving incorrect amounts of exemption are not correct.

30. Mr. Sujal is working in Essem Ltd. The company paid him Rs. 2,840 in April as uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty). He actually incurred Rs. 2,800 on account of expenditure on maintenance of uniform. What will be taxed in the hands of Mr. Sujal on account of uniform allowance?

(a) Rs. 2,900 (b) Rs. 2,840

(c) Rs. 40 (d) *Nil*

Correct answer : (c)

Justification of the correct answer :

As per section 10(*14*), in case of uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case Rs. 2,800 is spent to meet the expenditure on maintenance of uniform (for wearing during performance of official duty) and actual amount received on account of uniform allowance is Rs. 2,840. Hence, exemption will be Rs. 2,800 and the taxable amount will be Rs. 40. Thus, option (c) is the correct option.

Comment on incorrect answer : Taxable amount in respect of uniform allowance will be Rs. 40. Hence, options (a), (b) and (d) giving incorrect amounts of taxable amount are not correct.

31. Mr. Kapoor is working in Essem Ltd. The company paid him Rs. 840 in April as conveyance allowance to meet the expenditure on conveyance in performing official duty. He has not incurred any amount on account of expenditure on conveyance in

performing official duty. What will be exemption in respect of conveyance allowance?

(a) Rs. 1,200 (b) Rs. 840

(c) Rs. 360 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of conveyance allowance granted to meet the expenditure on conveyance in performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

In this case nothing is spent on conveyance and actual amount received on account of conveyance allowance is Rs. 840. Hence, exemption will be *nil* and entire amount will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Exemption in respect of conveyance allowance will be *nil*, hence, options (a), (b) and (c) giving various amounts of exemption are not correct.

32. Mr. Raja is working in Essem Ltd. The company paid him Rs. 1,840 in May as daily allowance to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour. Nothing is incurred by him on account of expenditure incurred due to his absence from normal place of duty. What will be exemption in respect of daily allowance?

(a) Rs. 2,000 (b) Rs. 1,840

(c) Rs. 160 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of daily allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty due to tour, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

Nothing is spent on expenditure incurred by the employee on account of his absence from normal place of duty and actual amount received on account of daily allowance is Rs. 1,840. Hence, exemption will be *nil* and entire amount will be charged to tax. Thus, option (d) is the correct option.

Comment on incorrect answer : Exemption in respect of daily allowance will be *nil*. Hence, options (a), (b) and (c) giving various amounts of exemption are not correct.

33. Mr. Rahul is working in Essem Ltd. The company paid him Rs. 2,520 in December as helper allowance to meet the expenditure on a helper engaged for performing official duty. No helper is deputed. What will be exemption in respect of helper allowance?

(a) Rs. 3,000 (b) Rs. 2,520

(c) Rs. 480 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of helper allowance to meet the expenditure on a helper engaged for performing official duty, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

No helper is engaged for performing official duty and actual amount received on account of helper allowance is Rs. 2,520. Hence, exemption will be *nil* and entire amount will be charged to tax. Thus, option (d) is the correct option.

Comment on incorrect answer : Exemption in respect of helper allowance will be *nil*. Hence, options (a), (b) and (c) giving various amounts of exemption are not correct.

34. Mr. Sunil is working in Essem Education Institute. The company paid him Rs. 8,400 in April as research allowance to meet the expenditure on academic research and other professional pursuits. Nothing is incurred on account of expenditure on academic research and other professional pursuits. What will be the amount of exemption on account of research allowance?

(a) Rs. 10,000 (b) Rs. 8,400

(c) Rs. 1,600 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of research allowance to meet the expenditure on academic research and other professional pursuits, exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

Nothing is spent to meet the expenditure on academic research and other professional pursuits and actual amount received on account of research allowance is Rs. 8,400. Hence, exemption will be *nil* and entire amount will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Exemption in respect of research allowance will be *nil*. Hence, options (a), (b) and (c) giving various amounts of exemption are not correct.

35. Mr. Sujal is working in Essem Ltd. The company paid him Rs. 2,840 in April as uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty). Nothing is incurred on account of expenditure on maintenance of uniform. What will be the amount of exemption on account of uniform allowance?

(a) Rs. 2,900 (b) Rs. 2,840

(c) Rs. 60 (d) *Nil*

Correct answer : (d)

Justification of the correct answer :

As per section 10(*14*), in case of uniform allowance to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty), exemption is lower of : (*a*) The amount of allowance, or (*b*) The amount spent for the purpose for which allowance is granted.

Nothing is spent to meet the expenditure on maintenance of uniform (for wearing during performance of official duty) and actual amount received on account of uniform allowance is Rs. 2,840. Hence, exemption will be *nil* and entire amount will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Exemption in respect of uniform allowance will be *nil*, hence, options (a), (b) and (c) giving various amounts of exemption are not correct.

36. Besides other items, Mr. Sunil received travelling allowance of Rs. 18,400 from his employer. He has spent Rs. 20,000 on account of traveling for official purpose. What will be the tax treatment of travelling allowance in the hands of Mr. Sunil?

(a) Entire amount of allowance will be taxed.

(b) Entire amount of allowance will be exempt from tax.

(c) Rs. 1,600 will be taxed.

(d) Rs. 20,000 will be taxed.

Correct answer (b)

Justification of the correct answer

Traveling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 18,400 is received as travelling allowance and Rs. 20,000 is the amount spent for the purpose of the allowance. Hence, Rs. 18,400 will be exempt or in other words, the entire amount will be exempt from tax. Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct tax treatment of travelling allowance. Hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of traveling allowance are not correct.

37. Besides other items, Mr. Suraj received conveyance allowance of Rs. 18,400 from his employer for meeting the expenditure on client visits. He has spent Rs. 10,000 on account of conveyance. What will be the tax treatment of conveyance allowance in the hands of Mr. Sunil?

(a) Entire amount of allowance will be taxed.

(b) Entire amount of allowance will be exempt from tax.

(c) Rs. 800 per month will be exempt and balance will be taxed.

(d) Rs. 8,400 will be taxed.

Correct answer (d)

Justification of the correct answer

Conveyance allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 18,400 is received as conveyance allowance and Rs. 10,000 is the amount spent for the purpose of the allowance. Hence, Rs. 10,000 will be exempt or Rs. 8,400 will be charged to tax. Thus, option (d) is the correct option.

Comment on the incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of conveyance allowance. Hence, other options, *viz.*, option (a), (b) and (c) giving incorrect tax treatment of conveyance allowance are not correct.

38. Beside other items, Mrs. Kapoor received helper allowance of Rs. 8,400 from her employer. She has deputed a servant at a monthly salary of Rs. 9,000 to help her at her home. What will be the tax treatment of helper allowance in the hands of Mrs. Kapoor?

source : www.trpscheme.com

(a) Entire amount of allowance will be taxed.

(b) Entire amount of allowance will be exempt from tax.

(c) Rs. 9,000 will be charged to tax.

(d) Rs. 600 will be charged to tax

Correct answer (a)

Justification of the correct answer

Helper allowance (for deputing helper in official work) is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, helper is deputed for personal purpose and not for official purpose. Hence, entire amount of helper allowance will be charged to tax. Thus, option (a) is the correct option.

Comment on the incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of helper allowance. Hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of helper allowance are not correct.

39. Besides other items, Mr. Krunal received helper allowance of Rs. 2,520 per month from his employer. He has deputed an office assistant at a monthly salary of Rs. 5,000 to help him in computer data entry. What will be the tax treatment of helper allowance in the hands of Mr. Krunal?

(a) Entire amount of allowance will be taxed.

(b) Entire amount of allowance will be exempt from tax.

(c) Rs. 5,000 will be charged to tax.

(d) Exemption will be Rs. 4,980 per month.

Correct answer (b)

Justification of the correct answer

Helper allowance (for deputing helper in official work) is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 2,520 per month is received as helper allowance and Rs. 5,000 per month is the amount spent for the purpose of the allowance. Hence, Rs. 2,520 (*i.e.*, entire amount of allowance) will be exempt. Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct tax treatment of helper allowance. Hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of helper allowance are not correct.

40. Besides other items, Mr. Suraj received research allowance of Rs. 25,200 from his employer. He had incurred an expenditure of Rs. 5,200 on account of research. What will be the tax treatment of research allowance in the hands of Mr. Suraj?

(a) Entire amount of allowance will be taxed.

(b) Entire amount of allowance will be exempt from tax.

(c) Rs. 5,200 will be exempt and balance will be charged to tax

(d) Rs. 2,500 will be exempt and balance will be charged to tax

Correct answer (c)

Justification of the correct answer

Research allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 25,200 is received as research allowance and Rs. 5,200 is the amount spent for the purpose of the allowance. Hence, Rs. 5,200 will be exempt and balance will be charged to tax. Thus, option (c) is the correct option.

Comment on the incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of research allowance. Hence, other options, *viz.*, options (a), (b) and (d) giving incorrect tax treatment of research allowance are not correct.

41. Beside other items, Mr. Rupen received uniform allowance of Rs. 12,000 per annum from his employer. He had incurred an expenditure of Rs. 1,200 per month on account of maintenance of uniform. What will be the tax treatment of uniform allowance in the hands of Mr. Rupen?

(a) Entire amount of allowance will be taxed

(b) Entire amount of allowance will be exempt from tax.

(c) Rs. 1,200 will be exempt and balance will be charged to tax.

(d) Rs. 2,100 will be charged to tax

Correct answer (b)

Justification of the correct answer

Uniform allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 12,000 is received as uniform allowance and Rs. 14,400 (Rs. 1,200 × 12 month) is the amount spent for the purpose of the allowance. Hence, Rs. 12,000 i.e. entire amount of allowance will be exempt from tax. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct tax treatment of uniform allowance. Hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of uniform allowance are not correct.

42. Exemption in respect of children education allowance will be Rs. 300 per month per child up to a maximum of two children.

(a) True (b) False

Correct answer : (b)

Justification of the correct answer :

Exemption in respect of children education allowance will be Rs. 100 per month per child up to a maximum of two children. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on the incorrect answer : The statement given in the question is false. Hence, option (a) is not correct.

43. Exemption in respect of children education allowance will be Rs. 100 per month per child up to a maximum of four children.

(a) True (b) False

Correct answer : (b)

Justification of the correct answer :

Exemption in respect of children education allowance will be Rs. 100 per month per child up to a maximum of two children. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on the incorrect answer : The statement given in the question is false. Hence, option (a) is not correct.

44. Exemption in respect of any allowance granted to an employee to meet the hostel expenditure on his child will be Rs. 100 per month per child up to a maximum of two children.

(a) True (b) False

Correct answer : (b)

Justification of the correct answer :

Exemption in respect of any allowance granted to an employee to meet the hostel expenditure on his child will be Rs. 300 per month per child up to a maximum of two children. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on the incorrect answer : The statement given in the question is false. Hence, option (a) is not correct.

45. Exemption in respect of any allowance granted to an employee to meet the hostel expenditure on his child will be Rs. 300 per month per child up to a maximum of one child.

(a) True (b) False

Correct answer : (b)

Justification of the correct answer :

Exemption in respect of any allowance granted to an employee to meet the hostel expenditure on his child will be Rs. 300 per month per child up to a maximum of two children. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on the incorrect answer : The statement given in the question is false. Hence, option (a) is not correct.

46. Exemption in respect of transport allowance granted to an employee for the purpose of meeting expenditure on official conveyance will be Rs. 800 per month.

(a) True (b) False

Correct answer : (b)

Justification of the correct answer :

Exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty (and not for the purpose of meeting expenditure on official conveyance) will be Rs. 800 per month. Thus, the statement given in the question is false and hence, option (b) is the correct option.

Comment on the incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

47. Exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty will be Rs. 800 per month, provided the employee has incurred

expenditure of more than Rs. 800 per month on account of commuting between the place of his residence and the place of his duty.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

Exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty will be Rs. 800 per month. The exemption of Rs. 800 per month is fixed, irrespective of the actual expenditure incurred by the employee. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on the incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

48. Exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty in case of an employee who is blind will be Rs. ______ per month.

(a) Rs. 800 (b) Rs. 1,600

(c) Rs. 2,400 (d) Rs. 3,000

Correct answer : (b)

Justification of correct answer

Exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty in case of an employee who is blind will be Rs. 1,600 per month. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (a), (c) and (d) giving incorrect amount of exemption are not correct.

49. Exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty in case of an employee who orthopaedically handicapped with disability of lower extremities will be ______ per month.

(a) Rs. 800 (b) Rs. 1,600

(c) Rs. 2,400 (d) Rs. 3,000

Correct answer : (b)

Justification of the correct answer

Exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty in case of an employee who is blind or orthopaedically handicapped with disability of lower extremities will be Rs. 1,600 per month. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (a), (c) and (d) giving incorrect amount of exemption are not correct.

50. Exemption in respect of allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place, provided that such employee is not in receipt of daily allowance will be 70% of such allowance up to a maximum of ________ per month.

(a) Rs. 7,000

(b) Rs. 10,000

(c) Rs. 17,000

(d) There is no limit

Correct answer : (b)

Justification of the correct answer

Exemption in respect of allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place, provided that such employee is not in receipt of daily allowance will be 70% of such allowance up to a maximum of Rs. 10,000 per month. Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (a), (c) and (d) giving incorrect amount of exemption are not correct.

51. Exemption in respect of compensatory field area allowance (for certain specified area) will be _________ per month.

(a) Rs. 6,200

(b) Rs. 2,600

(c) Rs. 1,000

(d) There is no limit

Correct answer : (b)

Justification of the correct answer

Exemption in respect of compensatory field area allowance (for certain specified area) will be Rs. 2,600 per month. Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (a), (c) and (d) giving incorrect amount of exemption are not correct.

52. Exemption in respect of compensatory modified field area allowance (for certain specified area) will be _________ per month.

(a) Rs. 6,200

(b) Rs. 2,600

(c) Rs. 1,000

(d) There is no limit

Correct answer : (c)

Justification of the correct answer

Exemption in respect of compensatory modified field area allowance (for certain specified area) will be Rs. 1,000 per month. Thus, option (c) is the correct option.

Comment on the incorrect answer : Option (c) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (a), (b) and (d) giving incorrect amount of exemption are not correct.

53. Exemption in respect of any special allowance in the nature of counter-insurgency allowance granted to the members of armed forces operating in areas away from their permanent locations will be _______ per month.

(a) Rs. 1,000
(b) Rs. 3,000
(c) Rs. 3,900
(d) There is no limit

Correct answer : (c)

Justification of the correct answer

Exemption in respect of any special allowance in the nature of counter-insurgency allowance granted to the members of armed forces operating in areas away from their permanent locations will be Rs. 3,900 per month. Thus, option (c) is the correct option.

Comment on the incorrect answer : Option (c) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (a), (b) and (d) giving incorrect amount of exemption are not correct.

54. Exemption in respect of Underground allowance granted to an employee who is working in uncongenial, unnatural climate in underground mines will be _______ per month.

(a) Rs. 800
(b) Rs. 3,000
(c) Rs. 3,900
(d) There is no limit

Correct answer : (a)

Justification of the correct answer

Exemption in respect of Underground allowance granted to an employee who is working in uncongenial, unnatural climate in underground mines will be Rs. 800 per month. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (b), (c) and (d) giving incorrect amount of exemption are not correct.

55. Exemption in respect of any special allowance in the nature of high altitude (uncongenial climate) allowance granted to the member of the armed forces operating in high altitude areas for altitude of 9,000 to 15,000 feet will be _______ per month.

(a) Rs. 1,060
(b) Rs. 1,600
(c) Rs. 3,900
(d) There is no limit

Correct answer : (a)

Justification of correct answer

Exemption in respect of any special allowance in the nature of high altitude (uncongenial climate) allowance granted to the member of the armed forces operating in high altitude areas for altitude of 9,000 to 15,000 feet will be 1,060 per month. Thus, option (a) is the correct option.

Comment on the incorrect answer : Option (a) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (b), (c) and (d) giving incorrect amount of exemption are not correct.

56. Exemption in respect of any special allowance in the nature of high altitude (uncongenial climate) allowance granted to the member of the armed forces operating in high altitude areas for altitude above 15,000 feet will be _______ per month.

(a) Rs. 1,060 (b) Rs. 1,600

(c) Rs. 3,900 (d) There is no limit

Correct answer : (b)

Justification of the correct answer

Exemption in respect of any special allowance in the nature of high altitude (uncongenial climate) allowance granted to the member of the armed forces operating in high altitude areas for altitude of above 15,000 feet will be 1,600 per month. Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (a), (c) and (d) giving incorrect amount of exemption are not correct.

57. Exemption in respect of any special allowance granted to the members of the armed forces in the nature of special compensatory highly active field area allowance will be ________ per month.

(a) Rs. 1,060 (b) Rs. 1,600

(c) Rs. 4,200 (d) There is no limit

Correct answer : (c)

Justification of the correct answer

Exemption in respect of any special allowance granted to the members of the armed forces in the nature of special compensatory highly active field area allowance will be 4,200 per month. Thus, option (c) is the correct option.

Comment on the incorrect answer : Option (c) is the correct option since it gives the correct amount of exemption, hence, other options *viz.* option (a), (b) and (d) giving incorrect amount of exemption are not correct.

58. Exemption in respect of any special allowance granted to the member of the armed forces in the nature of Island (duty) allowance will be ________ per month.

(a) Rs. 1,060 (b) Rs. 3,250

(c) Rs. 4,200 (d) There is no limit

Correct answer : (b)

Justification of the correct answer

Exemption in respect of any special allowance granted to the member of the armed forces in the nature of Island (duty) allowance will be 3,250 per month. Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct amount of exemption, hence, other options, *viz.*, options (a), (c) and (d) giving incorrect amount of exemption are not correct.

59 As per section _______, read with rule ___________ , an employee can claim exemption in respect of house rent allowance.

(a) Section 10(13A) and rule 2BB(1)

(b) Section 10(13A) and rule 2BB(2)

(c) Section 10(13A) and rule 2A

(d) None of the above

Correct answer (c)

Justification of the correct answer

As per section 10(13A), read with rule 2A, an employee can claim exemption in respect of house rent allowance. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct section and rule of exemption in respect of house rent allowance, hence, all the other options, *viz.*, options (a), (b) and (d) giving incorrect section and rule of exemption in respect of house rent allowance are not correct.

60 Exemption in respect of house rent allowance in case of metro cities is _____ of the following :

(1) 50% of salary.

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.

(3) Rent paid in excess of 10% of salary.

(a) Lower

(b) Higher

Correct answer (a)

Justification of the correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the amounts given in (1) to (3). Thus, option (a) is the correct option.

Comment on the incorrect answer : Option (a) is the correct option since it gives the selection of lower amount, hence, option (b) giving selection of higher amount is not correct.

61 Exemption in respect of house rent allowance in case of non-metro cities is higher of the following :

(1) 40% of salary.

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.

(3) Rent paid in excess of 10% of salary.

(a) True

(b) False

Correct answer (b)

Justification of the correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the amounts given in (1) to (3). Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on the incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

62. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 3,16,000, fixed monthly commission Rs. 15,000 per month and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Mumbai Rs. 2,00,000. Taxable HRA will be _____.

(a) Rs. 1,84,000 (b) Rs. 1,50,000

(c) Rs. 1,00,000 (d) *Nil*

Correct answer (d)

Justification of the correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

(1) 50% of salary (50% of salary will come to Rs. 2,50,000).

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year. Actual amount of HRA is Rs. 1,00,000

(3) Rent paid in excess of 10% of salary, will come to Rs. 1,50,000 (Rent paid Rs. 2,00,000 *less* Rs. 50,000 being 10% of salary).

Considering above provision, exemption in this case will come to Rs. 1,00,000 and taxable HRA will come to *Nil*. Thus, option (d) is the correct option.

Comment on the incorrect answer : Option (d) is the correct option since entire amount of HRA is exempt from tax, hence, all the other options, *viz.*, options (a), (b) and (c) giving various amounts liable to tax are not correct.

63. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 3,16,000, fixed monthly commission Rs. 15,000 per month and house rent allowance (HRA) Rs. 3,00,000 per annum. Annual rent paid at Mumbai Rs. 2,00,000. Taxable HRA will be _____.

(a) Rs. 2,00,000 (b) Rs. 1,50,000

(c) Rs. 1,00,000 (d) *Nil*

Correct answer (b)

Justification of the correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

(1) 50% of salary (50% of salary will come to Rs. 2,50,000).

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year. Actual amount of HRA is Rs. 3,00,000

(3) Rent paid in excess of 10% of salary, will come to Rs. 1,50,000 (Rent paid Rs. 2,00,000 *less* Rs. 50,000 being 10% of salary).

Considering above provision, exemption in this case will come to Rs. 1,50,000 and taxable HRA will come to Rs. 1,50,000 (Rs. 3,00,000 *less* Rs. 1,50,000). Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct amount of taxable HRA. All the other options, *viz.*, options (a), (c) and (d) giving incorrect amounts liable to tax are not correct.

64. Basic salary Rs. 2,16,000 per annum, dearness allowance forming part of salary Rs. 3,84,000, fixed monthly commission Rs. 25,000 per month and house rent allowance (HRA) Rs. 5,00,000 per annum. Annual rent paid at Mumbai Rs. 3,00,000. Taxable HRA will be _____.

(a) Rs. 5,00,000 (b) Rs. 2,60,000

(c) Rs. 3,00,000 (d) *Nil*

Correct answer (b)

Justification of the correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

(1) 50% of salary (50% of salary will come to Rs. 3,00,000).

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year. Actual amount of HRA is Rs. 5,00,000

(3) Rent paid in excess of 10% of salary, this will come to Rs. 2,40,000 (Rent paid Rs. 3,00,000 *less* Rs. 60,000 being 10% of salary).

Considering above provision, exemption in this case will come to Rs. 2,40,000 and taxable HRA will come to Rs. 2,60,000 (Rs. 5,00,000 *less* Rs. 2,40,000). Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct amount of taxable HRA, all the other options, *viz.*, options (a), (c) and (d) giving incorrect amounts liable to tax are not correct.

65. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 3,16,000, fixed monthly commission Rs. 15,000 per month and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Jaipur Rs. 2,00,000. Taxable HRA will be _____.

(a) Rs. 1,84,000 (b) Rs. 1,50,000

(c) Rs. 1,00,000 (d) *Nil*

Correct answer (d)

Justification of the correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

(1) 40% of salary (40% of salary will come to Rs. 2,00,000).

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year. Actual amount of HRA is Rs. 1,00,000

(3) Rent paid in excess of 10% of salary, this will come to Rs. 1,50,000 (Rent paid Rs. 2,00,000 *less* Rs. 50,000 being 10% of salary).

Considering above provision, exemption in this case will come to Rs. 1,00,000 and taxable HRA will come to *Nil*. Thus, option (d) is the correct option.

Comment on the incorrect answer : Option (d) is the correct option since entire amount of HRA is exempt from tax, hence, all the other options, *viz.*, options (a), (b) and (c) giving various amounts liable to tax are not correct.

66. Basic salary Rs. 3,84,000 per annum, dearness allowance forming part of salary Rs. 1,16,000, fixed monthly commission Rs. 5,000 per month and house rent allowance (HRA) Rs. 3,00,000 per annum. Annual rent paid at Jaipur Rs. 2,00,000. Taxable HRA will be _____.

(a) Rs. 2,00,000 (b) Rs. 1,50,000

(c) Rs. 1,00,000 (d) *Nil*

Correct answer (b)

Justification of the correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

(1) 40% of salary (40% of salary; will come to Rs. 2,00,000).

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year. Actual amount of HRA is Rs. 3,00,000

(3) Rent paid in excess of 10% of salary, this will come to Rs. 1,50,000 (Rent paid Rs. 2,00,000 *less* Rs. 50,000 being 10% of salary).

Considering above provision, exemption in this case will come to Rs. 1,50,000 and taxable HRA will come to Rs. 1,50,000 (Rs. 3,00,000 *less* Rs. 1,50,000). Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct amount of taxable HRA; all the other options, *viz.*, options (a), (c) and (d) giving incorrect amounts liable to tax are not correct.

67. Basic salary Rs. 3,16,000 per annum, dearness allowance forming part of salary Rs. 2,84,000, fixed monthly commission Rs. 25,000 per month and house rent allowance (HRA) Rs. 5,00,000 per annum. Annual rent paid at Bhopal Rs. 3,00,000. Taxable HRA will be _____.

(a) Rs. 5,00,000 (b) Rs. 2,60,000

(c) Rs. 3,00,000 (d) *Nil*

Correct answer (b)

Justification of the correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

(1) 40% of salary (40% of salary will come to Rs. 2,40,000).

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year. Actual amount of HRA is Rs. 5,00,000

(3) Rent paid in excess of 10% of salary; this will come to Rs. 2,40,000 (Rent paid Rs. 3,00,000 *less* Rs. 60,000 being 10% of salary).

Considering above provision, exemption in this case will come to Rs. 2,40,000 and taxable HRA will come to Rs. 2,60,000 (Rs. 5,00,000 *less* Rs. 2,40,000). Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct amount of taxable HRA;, all the other options, *viz.*, options (a), (c) and (d) giving incorrect amounts liable to tax are not correct.

68. Basic salary Rs. 6,00,000 per annum, no dearness allowance is paid to the employee, fixed monthly commission Rs. 35,000 per month is paid and house rent allowance (HRA) Rs. 5,00,000 per annum. Annual rent paid at Bhopal Rs. 3,00,000. Taxable HRA will be _____.

(a) Rs. 5,00,000
(b) Rs. 2,60,000
(c) Rs. 3,00,000
(d) *Nil*

Correct answer (b)

Justification of the correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

(1) 40% of salary (40% of salary will come to Rs. 2,40,000).

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year. Actual amount of HRA is Rs. 5,00,000

(3) Rent paid in excess of 10% of salary, this will come to Rs. 2,40,000 (Rent paid Rs. 3,00,000 *less* Rs. 60,000 being 10% of salary).

Considering above provision, exemption in this case will come to Rs. 2,40,000 and taxable HRA will come to Rs. 2,60,000 (Rs. 5,00,000 *less* Rs. 2,40,000). Thus, option (b) is the correct option.

Comment on the incorrect answer : Option (b) is the correct option since it gives the correct amount of taxable HRA, all the other options, *viz.*, options (a), (c) and (d) giving incorrect amounts liable to tax are not correct.

69. Beside other items, Mr. Rupesh received children education allowance of Rs. 100 per month from his employer. He spends Rs. 500 per month on account of education of his daughter. What will be the tax treatment of children education allowance in the hands of Mr. Rupesh?

source : www.trpscheme.com

(a) Entire amount of allowance will be exempt.

(b) Rs. 100 per month will be taxed.

(c) Rs. 500 per month will be taxed.

(d) Rs. 300 per month will be charged to tax

Correct answer (a)

Justification of the correct answer

Exemption in respect of children's education allowance is lower of the amount of allowance or Rs. 100 per month per child. This exemption is limited to 2 children of the employee. In this case, Rs. 100 is received as education allowance per month for his child, hence, Rs. 100, *i.e.*, entire amount of allowance will be exempt. Thus, option (a) is the correct option.

Comment on the incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of children education allowance, hence, other ,options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of children education allowance are not correct.

70. Besides other items, Mr. Rupesh received children's education allowance of Rs. 300 per month per child for his two children. He spends Rs. 500 per month on account of education of his daughter and Rs. 500 per month on education of his son. What will be the tax treatment of children education allowance in the hands of Mr. Rupesh?

(a) Exemption will be Rs. 300 per month.

(b) Entire amount of allowance will be exempt.

(c) Rs. 200 per month will be exempt and balance Rs. 400 will be charged to tax.

(d) Rs. 300 per month per child will be exempt

Correct answer (c)

Justification of the correct answer

Exemption in respect of children education allowance is lower of the amount of allowance or Rs. 100 per month per child. This exemption is limited to 2 children of the employee. In this case, Rs. 600 is received as education allowance per month for his two children, hence, Rs. 200 will be exempt and balance of Rs. 400 will be charged to tax. Thus, option (c) is the correct option.

Comment on the incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of children education allowance, hence, other options, *viz.*, options (a), (b) and (d) giving incorrect tax treatment of children education allowance are not correct.

71. Beside other items, Mr. Sunil received children's hostel allowance of Rs. 300 per month from his employer. He spends Rs. 600 per month on account of hostel expenditure of his daughter. What will be the tax treatment of hostel allowance in the hands of Mr. Sunil?

(a) Entire amount of allowance will be exempt.

(b) Rs. 600 per month will be exempt.

(c) Rs. 500 per month will be taxed.

(d) Rs. 100 per month will be taxed

Correct answer (a)

Justification of correct answer

Exemption in respect of children's hostel allowance is lower of the amount of allowance or Rs. 300 per month per child. This exemption is limited to 2 children of the employee. In this case, Rs. 300 is received as children hostel allowance per month for his child, hence, Rs. 300, *i.e.*, entire amount of allowance will be exempt. Thus, option (a) is the correct option.

Comment on the incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of children hostel allowance, hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of children hostel allowance are not correct.

72. Exemption in respect of entertainment allowance is available only to an employee of Central Government or State Government.

(a) True (b) False

Correct answer : (a)

Justification of the correct answer :

Exemption in case of entertainment allowance is available only to an employee of the Central Government or State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of (a) 20% of salary (i.e., basic salary only), or (b) Rs. 5,000, or (c) actual amount of allowance for the year. Thus, the statement given in the question is true and hence, option (a) is the correct option.

Comment on the incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

73. Exemption in respect of entertainment allowance will be lower of (a) _____ of salary (i.e., basic salary only) or (b)Rs. 5,000 or (c) actual amount of allowance.

(a) 20% (b) 15%

(c) 10% (d) 5%

Correct answer (a)

Justification of the correct answer

Exemption in case of entertainment allowance is available only to an employee of the Central Government or State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of (a) 20% of salary (i.e., basic salary only), or (b) Rs. 5,000, or (c) actual amount of allowance for the year. Thus, option (a) is the correct option.

Comment on the incorrect answer : Option (a) is the correct option since it gives the correct percentage, other options, *viz.*, options (b), (c) and (d) giving incorrect percentages are not correct.

74. Mr. Kishan is working in Essem Pvt. Ltd. He is receiving Rs. 100 per month on account of entertainment allowance. What will be the tax treatment of entertainment allowance in the hands of Mr. X?

(a) Entire amount will be charged to tax.

(b) Entire amount will be exempt.

(c) Exemption will be lower of 20% of basic salary or Rs. 5,000.

(d) Tax treatment will be decided by the Assessing Officer.

Correct answer (a)

Justification of the correct answer

Exemption in respect of entertainment allowance is not available to a Non-Government employee, hence, in this case entire amount of entertainment allowance will be charged to tax. Thus, option (a) is the correct option.

Comment on the incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of entertainment allowance, hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of entertainment allowance are not correct.