

Advance learning on Retirement Benefits (Theoretical)

Major retirement benefits

An employee gets various retirement benefits, viz:

<i>Retirement benefits</i>	<i>Illustration</i>
Leave encashment	Mr. Kumar is working in Essem Ltd. At the time of retirement he was having 84 days' leave standing to the credit in his account. He encashed the leave and got Rs. 2,52,000 on account of leave encashment.
Gratuity	Mr. Sunil is working in Essem Ltd. At the time of retirement from his service, apart from other payments he received Rs. 8,40,000 as gratuity.
Un-commuted pension	Mr. Krunal is working in Essem Ltd. In January, 2013, he retired from his service and received Rs. 8,400 per month as pension.
Commuted pension	Mr. Kaushal is working in Essem Ltd. In December, 2012, he retired from his service and received Rs. 18,400 per month as pension. On 30-4-2013, he decided to commute 50% of his pension. He received Rs. 8,40,000 on account of commuted pension. From May, 2013 and onwards he received the balance 50% of his monthly pension of Rs. 9,200.
Payment received on voluntary retirement/separation	Mr. Kaushik is working in Essem Ltd. In June, 2013, the company declared a voluntary retirement scheme and Mr. Kaushik opted for the scheme and received Rs. 18,40,000 as compensation on account of voluntary retirement.
Payments from provident fund	Mr. Suresh is working in Essem Ltd. In June, 2013, he retired from the job. At the time of his retirement, apart from other payments he received Rs. 2,52,000 on account of withdrawal from provident fund.
Apart from above items, retirement benefits also cover : • Retrenchment compensation	

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| <ul style="list-style-type: none">• Payments from approved superannuation fund• Payments from new pension scheme |
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In this advance learning we will learn about the tax treatment of various retirement benefits.

Leave encashment

Leave salary means the salary for the period of leave not availed by the employee. The encashment of accumulated leave can be at the time of retirement or during the continuation of service. The provisions relating to taxation of leave salary are as follows:

(A) Encashment of leave during the continuation of service :

Leave encashment received during continuation of service by *Government or non-Government* employees is charged to tax in the year of such encashment. However, relief under section 89 is available.

Illustration (Government employee)

Mr. Rupesh is a Government employee. He is entitled to 25 days' leave per year. He has credit of 252 days' leave in his account. During the year 2012-13 he encashed leave of 52 days and received Rs. 52,000 on account of leave encashment. In this case, Rs. 52,000 will amount to encashment of leave during the continuation of service and will be fully taxed in his hands.

Illustration (Non-Government employee)

Mr. Rupesh is working in Essem Ltd. He is entitled to 28 days' leave per year. He has credit of leave of 384 days in his account. During the year 2012-13 he encashed leave of 84 days and received Rs. 84,000 on account of leave encashment. In this case, Rs. 84,000 will amount to encashment of leave during the continuation of service and will be fully taxed in his hands.

(B) Encashment of leave at the time of retirement :

Encashment of leave at the time of retirement can further be classified as : (i) leave encashment at the time of retirement by Government employee, and (ii) leave encashment at the time of retirement by non-Government employee.

(i) Tax treatment in the hands of Central Government or State Government employees:

In case of a Central Government or State Government employee, any amount received for encashment of accumulated leave at the time of retirement/superannuation is exempt from tax under section 10(10AA)(i).

Illustration (Government employee)

Mr. Rupesh is a Government employee. He is entitled to 28 days' leave per year. He has credit of leave of 484 days in his account. He retired in the year 2012-13. He received Rs. 4,84,000 on account of leave encashment at the time of retirement. In this case, Rs. 4,84,000 will amount to encashment of leave at the time of retirement and will be fully exempt from tax.

(ii) Tax treatment in the hands of other employees

In case of non-Government employees (i.e., other than the Central or the State Government employees), leave salary exempt from tax under section 10(10AA)(ii) will be least of the following:

1. Period of earned leave in months (*) $\times$ Average monthly salary (**)
2. Average monthly salary (**) $\times$ 10 (i.e., 10 months' average salary)
3. Maximum amount as specified by the Central Government i.e., Rs. 3,00,000

Different amounts (i.e., ceiling limits) are specified by the Government for different years.

However, for employees retiring after April 1, 1998 specified ceiling limit is Rs. 3,00,000.

4. Leave encashment actually received at the time of retirement.

(*) *Period of earned leave in months is to be computed as follows :*

<i>Sl. No.</i>	<i>Particulars</i>
1.	Number of completed years of service (i.e., ignoring part of the year)
2.	No. of days of leave entitlement for each year of service as per service rules (if leave entitlement as per service rules exceeds 30 days per year of actual service, then it should be restricted to 30 days)
3.	Gross total leave (in days) (i.e., 1 $\times$ 2)
4.	Leave encashed or availed during the continuation of service (in days)
5.	Period of earned leave (in days) (i.e., 3 - 4)
6.	Period of leave in months (i.e., days derived at 5 above $\div$ 30)

(**) *Meaning of average monthly salary*

Average monthly salary means average salary drawn in past ten months immediately preceding the retirement (i.e., the day of retirement). Salary for this purpose will include following only:

- Basic salary,
- Dearness allowance considered while computing retirement benefits (i.e. DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

Illustration (Non- Government employee)

Mr. Kumar is working in Essem Ltd. at a monthly basic salary of Rs. 84,000. Apart from basic salary he is receiving following :

- Dearness allowance (forming part of salary while computing retirement benefits) of Rs. 16,000 per month.
- Dearness allowance (not forming part of salary while computing retirement benefits) of Rs. 50,000 per month.

- Fixed monthly commission of Rs. 10,000.
- Commission based on fixed percentage of turnover achieved by him Rs. 10,000 (@ 2% of turnover of Rs. 5,00,000 for the month).
- Children's education allowance Rs. 1,000 per month for his two children.
- Medical allowance of Rs. 2,000 per month.
- Value of perquisites provided by the employer during the month Rs. 8,400.

There is no change in the above pay structure throughout the year 2012-13. If he retires in the month of April 2013, what will be the amount of average monthly salary to be used while computing exemption in respect of leave encashment at the time of retirement?

While computing average monthly salary for the purpose of exemption in respect of leave encashment at the time of retirement, salary will include following items :

- Basic salary,
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary will not include any other item. Based on above, salary for the purpose of computing exemption in respect of retirement benefits will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	84,000
Dearness allowance (forming part of salary while computing retirement benefits)	16,000
Commission based on fixed percentage of turnover achieved by the employee	<u>10,000</u>
Monthly salary	1,10,000

OTHER POINTS:

- If an employee receives leave salary from more than one employer in the same year, then the maximum amount of exemption under section 10(10AA)(ii) cannot exceed the amount specified by the Central Government (*i.e.*, Rs. 3,00,000).
- Where any employee has claimed exemption of leave salary under this section in any earlier year(s), then in case of such employee, the ceiling limit (*i.e.*, Rs. 3,00,000) shall be reduced by the amount of exemption earlier claimed.
- Relief under section 89 is available in respect of leave salary.

Illustration (Non- Government employee)

In April 2004, Mr. Kumar retired from Essem Ltd. and received leave encashment of Rs. 84,000. Entire amount qualified for exemption. After his retirement from Essem Ltd. he

joined SM Ltd. In March 2013, he retired from SM Ltd. and received leave encashment of Rs. 2,00,000. In this case, the maximum amount of exemption in respect of leave encashment received from SM Ltd. will be limited to Rs. 2,16,000 (Rs. 3,00,000 less Rs. 84,000 claimed earlier).

Illustration (Non- Government employee)

Mr. Kumar retired from Essem Ltd. (a private sector company) on 1-1-2013, after serving for a period of 25 years and 9 months. As per service rules, he is entitled to leave of 35 days for each completed year of service. Following are the details:

Leave availed during service period	184 days
Leave encashed during earlier years	252 days
Leave encashed during the year 2012-13 (Rs. 88,000)	44 days
Basic salary per month during 10 months preceding retirement	Rs. 40,000
Dearness allowance (per month) during 10 months preceding retirement:	
(a) Forming part of salary for computing retirement benefits	Rs. 20,000
(b) Not forming part of salary for computing retirement benefits	Rs. 10,000
Leave salary received at the time of retirement	Rs. 7,90,000

From the above information, ascertain the amount of taxable leave encashment.

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The exemption in respect of leave encashment in case of a non-Government employee at the time of retirement will be lower of the following amounts :

- Period of earned leave standing to the credit in the employee's account at the time of retirement $\times$ average monthly salary.
- Average monthly salary $\times$ 10 (i.e., 10 months' average salary).
- Maximum amount as specified by the Central Government, i.e., Rs. 3,00,000.
- Leave encashment actually received at the time of retirement.

Computation in this regard is as follows :

Total leave salary taxable for the assessment year 2013-14 will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Total leave salary received at the time of retirement	7,90,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	<u>3,00,000</u>
Taxable leave salary	4,90,000
(+) Leave encashment of 44 days received during the year 2012-13	<u>88,000</u>
Total taxable leave salary	<u>5,78,000</u>

Note 1: As per section 10(10AA)(ii), exemption in respect of leave salary received by a non-Government employee is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. Cash equivalent to earned leave (Note 2)	5,40,000

2. 10 months' average salary (Note 3)	6,00,000
3. Maximum amount specified by the Central Government	3,00,000
4. Actual amount received	7,90,000

Amount of exemption under section 10(10AA)(ii) will be Rs. 3,00,000, being least of above.

Note 2: Computation of cash equivalent to earned leave:

Step 1: Computation of earned leave standing to credit at the time of retirement:

In this case, Mr. Kumar is entitled to 35 days' leave for each completed year of service. If leave entitlement as per service rules exceeds 30 days per year, then it should be restricted to 30 days. Hence, while computing leave standing to credit, we will consider 30 days per year. Detailed computation will be as follows:

<i>Particulars</i>	<i>Days</i>
Total leave available during the tenure of service (30 days × 25 years) [period of 9 months (i.e., fraction of year) is to be ignored]	750 days
Less: (a) Leave availed during service period	184 days
(b) Leave encashed during earlier years	252 days
(c) Leave encashed in previous year 2012-13	44 days
Leave standing to credit at the time of retirement	270 days
(÷) Days in month	30 days
Leave credit at the time of retirement	9 months

Step 2: Computation of average monthly salary:

As per section 10(10AA)(ii), salary for the purpose of computation of exemption is:

- 10 months' average salary immediately preceding the retirement (i.e., day of retirement and not the month of retirement).
- Salary will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover achieved by the employee.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the retirement	40,000
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	20,000
Total monthly salary for the purpose of computing exemption	60,000

There is no need to convert aforesaid monthly salary of Rs. 60,000 into average monthly salary, since there is no change in salary during past 10 months.

Step 3: Computation of cash equivalent to earned leave:

$$\begin{aligned}
 &= \text{Leave standing to credit at the time of retirement} \times \text{Average monthly salary} \\
 &= 9 \text{ months} \times \text{Rs. } 60,000 \\
 &= \text{Rs. } 5,40,000
 \end{aligned}$$

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

= Average monthly salary × 10 months

= Rs. 60,000 × 10 months = Rs. 6,00,000

Illustration (Non- Government employee)

Mr. Kumar retired from Essem Ltd. (a private sector company) on 1-1-2013, after serving for a period of 23 years and 7 months. As per service rules, he is entitled to leave of 33 days for each completed year of service. Following are other details:

Leave availed during service period	484 days
Leave encashed during earlier years	252 days
Basic salary per month during 10 months preceding retirement	Rs. 40,000
Dearness allowance (per month) during 10 months preceding retirement:	
(a) Forming part of salary for computing retirement benefits	Rs. 20,000
(b) Not forming part of salary for computing retirement benefits	Rs. 10,000
Leave salary received at the time of retirement	Rs. 46,000

From the above information, ascertain the amount of taxable leave encashment.

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The exemption in respect of leave encashment in case of a non-Government employee at the time of retirement will be lower of the following amounts :

- Period of earned leave standing to the credit in the employee's account at the time of retirement × Average monthly salary.
- Average monthly salary × 10 (i.e., 10 months' average salary).
- Maximum amount as specified by the Central Government, i.e., Rs. 3,00,000.
- Leave encashment actually received at the time of retirement.

Computation in this regard is as follows :

Total leave salary taxable for the assessment year 2013-14 will be computed as follows:

Particulars	(Rs.)
Total leave salary received at the time of retirement	46,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	<u>Nil</u>
Taxable leave salary	46,000

Note 1: As per section 10(10AA)(ii), exemption in respect of leave salary received by a non-Government employee is least of the following:

Particulars	(Rs.)
1. Cash equivalent to earned leave (Note 2)	Nil
2. 10 months' average salary (Note 3)	6,00,000
3. Maximum amount specified by the Central Government	3,00,000
4. Actual amount received	46,000

Amount of exemption under section 10(10AA)(ii) will be Nil.

Note 2: Computation of cash equivalent to earned leave:

Step 1: Computation of earned leave standing to credit at the time of retirement:

In this example, Mr. Kumar is entitled to 33 days' leave for each completed year of service. If leave entitlement as per service rules exceeds 30 days per year, then it should be restricted to 30 days. Hence, while computing leave standing to credit, we will consider 30 days per year. Detailed computation will be as follows:

<i>Particulars</i>	<i>Days</i>
Total leave available during the tenure of service (30 days × 23 years) [period of 7 months (i.e., fraction of year) is to be ignored]	690 days
Less: (a) Leave availed during service period	484 days
(b) Leave encashed during earlier years	252 days
Leave standing to credit at the time of retirement as per income-tax law	<u>Nil</u>

In this case, as per the computation prescribed under income-tax law, the employee is not having any credit of leave.

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

= Average monthly salary (*) × 10 months

= Rs. 60,000 × 10 months = Rs. 6,00,000

(*) Computation of average monthly salary:

As per section 10(10AA)(ii), salary for the purpose of computation of exemption is:

- 10 months' average salary immediately preceding the retirement (i.e., day of retirement and not the month of retirement).
- Salary will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover achieved by the employee.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the retirement	40,000
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	20,000
Total monthly salary for the purpose of computing exemption	<u>60,000</u>

There is no need to convert aforesaid monthly salary of Rs. 60,000 into average monthly salary, since there is no change in salary during past 10 months.

Gratuity

Tax treatment of gratuity can be classified as follows:

(A) Gratuity received by Government employees and employees of local authority [Section 10(10)(i)]

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(10)(i). It should be noted that employees of statutory corporation will not fall under this category.

Illustration (Government employee)

Mr. Kishan is a Central Government employee. He retired from his service in December 2012 and received gratuity of Rs. 8,40,000. In this case, entire amount of gratuity will be exempt from tax.

(B) Gratuity received by non-Government employees :

This category will further be classified as follows :

- (1) Exemption in respect of gratuity in case of employees covered by the Payment of Gratuity Act, 1972.
- (2) Exemption in respect of gratuity in case of employees not covered by the Payment of Gratuity Act, 1972.

The detailed discussion in this regard is as follows :

(1) Exemption in respect of gratuity in case of employees covered by the Payment of Gratuity Act, 1972 [Section 10(10)(ii)]

Exemption in this case will be lower of the following amounts :

1. 15 days' salary (*) × years of service
2. Maximum amount specified by the Central Government, i.e., Rs. 10,00,000.
3. Gratuity actually received.

(*) Following points should be kept in mind :

- 7 days instead of 15 days in case of employees of a seasonal establishment
- 15 days' salary = $\text{Salary last drawn} \times 15/26$
- Salary for this purpose will include basic salary and dearness allowance only.

Illustration: If Mr. Keshav's monthly salary at the time of his retirement is Rs. 8,484 and basic, Rs. 2,526 as dearness allowance, Rs. 1,848 as commission and Rs. 1,252 as bonus, then salary for aforesaid exemption will be Rs. 6,352, computed as follows:

$\text{Rs. } 11,010 (\text{Basic} + \text{DA}) \times 15/26 = \text{Rs. } 6,352 \text{ (rounded off)}$

- In case of piece rated employee, 15 days' salary will be computed on the basis of average of total wages (excluding overtime wages) received for a period of three months immediately preceding the termination of his service.

Illustration: If in the above **Illustration**, Mr. Keshav is a piece-rated worker and salary drawn by him in three months preceding the retirement is Rs. 11,010

including Rs. 2,526 overtime (OT) wages, then salary for the aforesaid exemption will be Rs. 1,632 computed as follows:

Step 1 - Computation of three months' salary

Three months' salary will be Rs. 8,484 (Rs. 11,010– Rs. 2,526 being OT wages)

Step 2 - Computation of monthly salary

One month salary will be Rs. 2,828 (*i.e.*, 8,484/3)

Step 3 - Computation of salary

Salary will be Rs. 1,632 (rounded off) (*i.e.*, 2,828 × 15/26)

- Part of the year, in excess of 6 months, shall be taken as one full year.

Illustration: If the period of service is 18 years and 8 months, then 19 years will be taken as duration of service. If the period of service is 18 years and 5 months, then duration of service will be taken as 18 years.

(2) Exemption in respect of gratuity in case of employees not covered by the Payment of Gratuity Act, 1972 [Section 10(10)(iii)]

In case of employees not covered by the Payment of Gratuity Act, 1972 exemption in respect of gratuity will be least of the following :

1. Half month's average salary for each completed year of service, *i.e.*,
[Average monthly salary × ½] × Completed years of service. (*)
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000
3. Gratuity actually received.

(*) Following points should be kept in mind :

- Average monthly salary is to be computed on the basis of average of salary for 10 months immediately preceding the month (not the day) of retirement.

Illustration: Mr. Keshav retires from service on 8-4-2010. In this case, average salary will be computed on the basis of salary for the period of 1-6-09 to 31-3-10 (*i.e.*, 10 months preceding the month of retirement).

- Salary for this purpose will include basic salary, dearness allowance, if the terms of service so provide and commission based on fixed percentage of turnover achieved by the employee.
- While computing year of service, any fraction of year is to be ignored.

Illustration: If duration of service is 18 years and 11 months, then 18 years will be considered for computation.

Illustration (Non- Government employee)

Mr. Kaushal retired from A Ltd. on 15-2-2013, after serving for a period of 25 years and 9 months. Following are other details:

- Basic salary per month during 10 months preceding the month of retirement (*i.e.*, monthly salary from 1-4-12 to 31-1-13) : Rs. 60,000.
- Dearness allowance per month during 10 months preceding the month of retirement (*i.e.*, monthly DA from 1-4-12 to 31-1-13)

- (a) Forming part of salary for computing retirement benefits : Rs. 60,000
- (b) Not forming part of salary for computing retirement benefits : Rs. 10,000
- Gratuity received at the time of retirement Rs. 25,20,000.
Compute the amount of exemption in respect of gratuity under section 10(10)(ii)/(iii), considering :
 - (i) Mr. X is covered by the Payment of Gratuity Act, 1972
 - (ii) Mr. X is not covered by the Payment of Gratuity Act, 1972.

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(i) When Mr. X is covered by Payment of Gratuity Act, 1972

As per section 10(10)(ii), exemption in respect of gratuity received by non-Government employee (covered by the Payment of Gratuity Act, 1972) is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. 15 days' salary for each completed year of service or part in excess of 6 months (Note 1)	19,50,000
2. Maximum amount specified by the Central Government	10,00,000
3. Actual amount received	25,20,000
Amount of exemption under section 10(10)(ii) will be Rs. 10,00,000, being least of above. Thus, taxable amount of gratuity will be Rs. 15,20,000 (Rs. 25,20,000 – Rs. 10,00,000)	

Note 1: Computation of 15 days' salary for each completed year of service or part in excess of 6 months:

Following points should be considered:

- Part of year in excess of six months will be considered as a full year.
- Salary for the aforesaid purpose will be last drawn salary.
- Salary for the aforesaid purpose will include basic salary and any dearness allowance (i.e., whether or not forming part of salary while computing retirement benefits).
- While computing 15 days' salary, we will divide monthly salary by 26 days.

Based on above, computation will be as follows:

- Monthly salary will be Rs. 1,30,000 (Rs. 60,000 + Rs. 60,000 + Rs. 10,000).
- 15 days' salary will be Rs. 75,000 (Rs. 1,30,000/26 × 15).
- Duration of service is 25 years and 9 months, i.e., it will be taken as 26 years (for computation of exemption).

Thus, total amount of salary will be Rs. 19,50,000 (Rs. 75,000 × 26 years).

(ii) When Mr. X is not covered by the Payment of Gratuity Act, 1972

As per section 10(10)(iii), exemption in respect of gratuity received by non-Government employee (not covered by the Payment of Gratuity Act, 1972) is least of the following :

<i>Particulars</i>	<i>(Rs.)</i>
1. Half month's salary for each completed year of service (Note 2)	15,00,000
2. Maximum amount specified by the Central Government	10,00,000

3. Actual amount received 25,20,000

Amount of exemption under section 10(10)(iii) will be Rs. 10,00,000, being least of above. Thus, taxable amount of gratuity will be Rs. 15,20,000 (Rs. 25,20,000 - Rs. 10,00,000).

Note 2: Computation of half month's salary for each completed year of service :

Following points should be considered in this regard:

- While computing duration of service, any part of year will be ignored.
- Salary for the aforesaid purpose will be average salary for 10 months preceding the month (not the day) of retirement.
- Salary for this purpose will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover achieved by the employee.
- Half month's salary will be computed by dividing average salary by 2.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the month of retirement	60,000
(+) Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the month of retirement	60,000
Total monthly salary for the purpose of computing exemption	1,20,000

There is no need to convert aforesaid monthly salary of Rs. 1,20,000 into average monthly salary, since there is no change in salary during past 10 months.

Based on above, computation will be as follows:

- Half month's salary will be Rs. 60,000 (i.e., Rs. 1,20,000/2).
- Duration of service will be 25 years (part of year will be ignored).

Thus, total amount of salary will be Rs. 15,00,000 (Rs. 60,000 × 25 years).

Pension

Pension can be in any of the following forms:

(a) Uncommuted pension is a periodic payment received after retirement.

Illustration : Mr. Keshav receives pension of Rs. 25,200 per month after his retirement from Shyamal Ltd.

(b) Commuted pension is a lump sum payment in lieu of periodic pension.

Illustration : At the time of retirement, Mr. Keshav received a lump sum payment of Rs. 2,52,000 towards commuted pension (i.e., in lieu of monthly pension).

(c) An employee may (depending upon his service rules) partly commute his pension and receive the balance as periodic payments (i.e. uncommuted).

Illustration : Mr. Keshav decided to commute 84% of his pension for Rs. 2,11,680 and continue to receive the balance in periodic payments (i.e. uncommuted). In this situation,

Rs. 2,11,680 is called as commuted pension and Rs. 2,52,000 ($\text{Rs. } 2,11,680 \div 84 \times 100$) is called as full value of commuted pension.

As per section 10(10A)(i), any commuted pension is exempt in the hands of a Government employee. In case of non-Government employee exemption in respect of commuted pension will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

Following important points should be kept in mind :

- For exemption in respect of pension in case of gallantry award winner and family members of armed forces refer to section 10(18) and 10(19).
- Family pension received by the family members of the employee after the death of the employee, is charged to tax in the hands of recipient under the head “Income from other sources”. In such a case, deduction of lower of 1/3rd of the amount of pension or Rs. 15,000 is available from such income.
- Relief under section 89 is available in respect of amount of commuted pension which is not exempt from tax.

Illustration (Government employee)

Mr. Kapoor is a Government employee. On 31-12-2012 he retired from his service. For the month of January 2013, he received pension of Rs. 8,400 per month. On 1-2-2013, he commuted 50% of pension for Rs. 84,000 and continued to receive balance of 50% of pension of Rs. 4,200. What will be the tax treatment of pension in the hands of Mr. Kapoor if he received gratuity of Rs. 1,84,000 at the time of retirement and if he has not received any gratuity at the time of retirement?

As per section 10(10A)(i), any commuted pension, i.e., accumulated pension in lieu of monthly pension is exempt in the hands of a Government employee. There is no exemption in respect of uncommuted pension. In this case, for the month of January, Mr. Kapoor had received pension (uncommuted) of Rs. 8,400 and for the month of February and March he would be receiving Rs. 4,200 per month as uncommuted pension. This amount will be fully taxed.

Commuted pension received by a Government employee is exempt from tax. This rule will remain same even if the employee is receiving gratuity. Thus, nothing will be taxed in respect of commuted pension of Rs. 84,000.

Illustration (Non- Government employee)

Mr. Kapoor is a non-Government employee. On 31-12-2012 he retired from his service. For the month of January, 2013, he received pension of Rs. 8,400 per month. On 1-2-2013, he commuted 50% of pension for Rs. 84,000 and continued to receive balance 50% of pension of Rs. 4,200. What will be the tax treatment of pension in the hands of Mr. Kapoor if he received gratuity of Rs. 1,84,000 at the time of retirement and if he has not received any gratuity at the time of retirement?

For the month of January, Mr. Kapoor had received pension (uncommuted) of Rs. 8,400 and for the month of February and March he would be receiving Rs. 4,200 per month as uncommuted pension. This amount (i.e., uncommuted pension) will be fully taxed.

As per section 10(10A)(ii), exemption in respect of commuted pension in case of a non-Government employee will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

If Mr. Kapoor has received gratuity, then out of Rs. 84,000 received on account of commuted pension, Rs. 56,000 [$\frac{1}{3}$ rd of Rs. 1,68,000 (Rs.84,000/50*100)] will be exempt from tax. If Mr. Kapoor has not received gratuity, then out of Rs. 84,000 received on account of commuted pension, Rs. 84,000 [$\frac{1}{2}$ of Rs. 1,68,000 (Rs.84,000/50*100)] will be exempt from tax.

Compensation received at the time of voluntary retirement or separation

Any compensation received at the time of voluntary retirement or separation is exempt from tax, if the following conditions are satisfied:

- Compensation is received by an employee of an undertaking specified in section 10(10C).
- Compensation is received in accordance with the scheme of voluntary retirement/separation, which is framed in accordance with prescribed guidelines. (for guidelines see Rule 2BA).
- Maximum amount of exemption is Rs. 5,00,000.
- Where exemption is allowed to an employee under section 10(10C) for any assessment year, no exemption under this section shall be allowed to him for any other assessment year.
- Relief under section 89 is admissible in respect of such amount.
- With effect from assessment year 2010-11, section 10(10C) has been amended to provide that where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such, or any other assessment year.

Illustration : Mr. Krunal is working in Essem Ltd. from January, 2000 at a monthly salary of Rs. 84,000. His official date of retirement is January, 2020. In June, 2012, the company declared a voluntary retirement scheme. The scheme of voluntary retirement is framed in accordance with prescribed guidelines given in Rule 2BA. Mr. Krunal opted for the scheme and received Rs. 8,40,000 as compensation on account of voluntary retirement. In this case, Rs. 5,00,000 will be exempt in the hands of Mr. Krunal and balance Rs. 3,40,000 will be charged to tax.

Payment from provident fund

From taxation point of view provident funds can be classified as follows :

- Statutory provident fund
- Recognised provident fund
- Un-recognised provident fund
- Public provident fund

The major issues arising in case of provident funds can be classified as follows :

- Whether amount contributed by the employee will qualify for deduction under section 80C?
- What will be the tax treatment of amount contributed by the employer?
- What will be the tax treatment of annual interest being credited to the provident fund account of the employee?
- What will be the tax treatment of amount withdrawn from provident fund?

Following chart will answer all the above questions

	<i>Statutory Provident Fund</i>	<i>Recognised Provident Fund</i>	<i>Un- recognised Provident Fund</i>	<i>Public Provident Fund</i>
<i>Employer's contribution</i>	Exempt from tax	Exempt upto 12% of salary (Note 1)	Exempt from tax	Employer does not contribute to such fund
<i>Employee's contribution eligible for deduction u/s 80C</i>	Yes	Yes	No	Yes
<i>Interest credited to the said fund</i>	Exempt from tax	Exempt from tax if rate of interest is upto 9.5%. Interest in excess of 9.5% is charged to tax.	Exempt from tax	Exempt from tax
<i>Amount received at the time of termination of service</i>	Exempt from tax	If certain conditions are satisfied, then lump sum amount is exempt from tax (Note 2)	(Note 3)	Exempt from tax

Notes :

1. Salary for this purpose will include the following :
 - Basic salary,

- Dearness allowance, if the terms of service so provide,
 - Commission based on fixed percentage of turnover achieved by the employee.
2. Accumulated balance from a recognised provident fund will be exempt from tax if following conditions are satisfied :
- (a) If the employee has rendered a continuous service of 5 years or more.
If accumulated balance includes amount transferred from other recognised provident fund, then the period for which the employee rendered service to such previous employer shall also be included in computing the aforesaid period of 5 years.
 - (b) If the service of employee is terminated before the period of 5 years due to his ill health or discontinuation of business of the employer or other reasons beyond his control.
 - (c) If on termination, the employee takes employment with any other employer and the balance becoming payable to him is transferred to his account in any recognised fund maintained by such other employer, then the amount so transferred will not be charged to tax.
3. Treatment of payment received from un-recognised provident fund :
- Payment on termination will include four components, viz, employee's contribution and interest thereon and employer's contribution and interest thereon. The tax treatment of such payments is as follows :
- Employee's contribution is not charged to tax; interest thereon is taxed under the head "Income from other sources".
 - Employer's contribution as well as interest thereon will be taxable as salary income. However, relief under Section 89 will be available.

Retrenchment compensation

Compensation received at the time of retrenchment is exempt from tax to the extent of lower of the following:

- (a) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Dispute Act, 1947 (i.e., 15 days' average pay for each completed year of continuous service or any part in excess of six months).
- (b) Maximum amount specified by the Central Government (Rs. 5,00,000).
- (c) Actual amount received.

Aforesaid limit is not applicable to the cases where compensation is paid under any scheme approved by the Central Government. An employee can claim relief in respect of excess amount taxed.

Approved superannuation fund

Approved superannuation fund means superannuation fund which is approved by the Commissioner of Income-tax. In case of approved superannuation fund following questions will arise :

- What will be the tax treatment of contribution made by the employer?
- What will be the tax treatment of amount received from approved superannuation fund?

- Whether amount contributed by the employee will qualify for deduction under section 80C?

With effect from assessment year 2010-11, employer's contribution to an approved superannuation fund in excess of Rs. 1,00,000 is charged to tax as perquisite.

Employee's contribution will qualify for deduction under section 80C and interest on accumulated balance is not liable to tax. Payments in following cases will be exempt from tax under section 10(13):

- Payment on death of beneficiary; or
- Payment to an employee in lieu of, or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapable prior to such retirement; or
- Refund of contribution to an employee on leaving the service (otherwise than above mentioned reason) to the extent to which such payment does not exceed the contribution made prior to April 1, 1962.
- By way of refund of contributions on the death of a beneficiary.

Payments from new pension scheme

Various issues involved in respect of tax treatment of contribution to New Pension Scheme (NPS) are as follows :

- Whether amount contributed by the employee will qualify for deduction under section 80CCD?
- What will be the tax treatment of amount contributed by the employer?
- What will be the tax treatment of amount received from the scheme?

Following points will answer above questions :

- As per section 80CCD, an individual who is employed by the Central Government/any other employer on or after January 1st, 2004 or a self employed assessee can claim deduction under section 80CCD in respect of contribution to NPS.
- Amount paid/deposited (during the previous year) in assessee's account, under NPS will qualify for deduction under section 80CCD.
- Amount of deduction will be as follows :
 - (a) Employee's contribution during the year to notified pension scheme, subject to condition that maximum of 10% of salary is deducted in the year in which contribution is made.
 - (b) Employer's contribution during the year to notified pension scheme is first included in the income of the assessee, and then such contribution, subject to maximum of 10% of salary, is deducted in the year in which contribution is made.
- On closure of aforesaid account or in case the employee opts out of the said scheme or on receipt of pension from the annuity plan, credit balance in such pension account for which deduction is claimed and accretion to such account is taxed in the hands of receiver in the year of receipt. If amount received on closure is used for purchasing an annuity plan in the same previous year, then such amount will be exempt from tax.
- If deduction in respect of above amount is claimed under section 80CCD, then deduction of the same amount cannot be claimed under section 80C.

- Aggregate deduction under sections 80C, 80CCC and 80CCD(1), (*i.e.*, employee's contribution) cannot exceed Rs. 1,00,000.

FAQs

Q1. What are major retirement benefits which are available to a salaried employee?

An employee gets various retirement benefits, viz:

<i>Retirement benefits</i>	<i>Illustration</i>
Leave encashment	Mr. Kumar is working in Essem Ltd. At the time of retirement he was having 84 days' leave standing to the credit in his account. He encashed the leave and got Rs. 2,52,000 on account of leave encashment.
Gratuity	Mr. Sunil is working in Essem Ltd. At the time of retirement from his service, apart from other payments he received Rs. 8,40,000 as gratuity.
Un-commuted pension	Mr. Krunal is working in Essem Ltd. In January, 2013, he retired from his service and received Rs. 8,400 per month as pension.
Commuted pension	Mr. Kaushal is working in Essem Ltd. In December, 2012, he retired from his service and received Rs. 18,400 per month as pension. On 30-4-2013, he decided to commute 50% of his pension. He received Rs. 8,40,000 on account of commuted pension. From May, 2013 and onwards he received the balance 50% of his monthly pension of Rs. 9,200.
Payment received on voluntary retirement/separation	Mr. Kaushik is working in Essem Ltd. In June, 2013, the company declared a voluntary retirement scheme and Mr. Kaushik opted for the scheme and received Rs. 18,40,000 as compensation on account of voluntary retirement.
Payments from provident fund	Mr. Suresh is working in Essem Ltd. In June, 2013, he retired from the job. At the time of his retirement, apart from other payments he received Rs. 2,52,000 on account of withdrawal from provident fund.
Apart from above items, retirement benefits also cover : • Retrenchment compensation • Payments from approved superannuation fund	

- Payments from new pension scheme

In this advance learning we will learn about the tax treatment of various retirement benefits.

Q2. What is leave salary?

Leave salary means the salary for the period of leave not availed by the employee. The encashment of accumulated leave can be at the time of retirement or during the continuation of service. The provisions relating to taxation of leave salary are as follows:

Q3. What is the tax treatment of leave encashment received during the continuation of service?

Leave encashment received during continuation of service by *Government or non-Government* employees is charged to tax in the year of such encashment. However, relief under section 89 is available.

Illustration (Government employee)

Mr. Rupesh is a Government employee. He is entitled to 25 days' leave per year. He has credit of 252 days' leave in his account. During the year 2012-13 he encashed leave of 52 days and received Rs. 52,000 on account of leave encashment. In this case, Rs. 52,000 will amount to encashment of leave during the continuation of service and will be fully taxed in his hands.

Illustration (Non-Government employee)

Mr. Rupesh is working in Essem Ltd. He is entitled to 28 days' leave per year. He has credit of leave of 384 days in his account. During the year 2012-13 he encashed leave of 84 days and received Rs. 84,000 on account of leave encashment. In this case, Rs. 84,000 will amount to encashment of leave during the continuation of service and will be fully taxed in his hands.

Q4. What is the tax treatment of leave encashment at the time of retirement?

Encashment of leave at the time of retirement can further be classified as : (i) leave encashment at the time of retirement by Government employee, and (ii) leave encashment at the time of retirement by non-Government employee.

(i) Tax treatment in the hands of Central Government or State Government employees:

In case of a Central Government or State Government employee, any amount received for encashment of accumulated leave at the time of retirement/superannuation is exempt from tax under section 10(10AA)(i).

Illustration (Government employee)

Mr. Rupesh is a Government employee. He is entitled to 28 days' leave per year. He has credit of leave of 484 days in his account. He retired in the year 2012-13. He received Rs. 4,84,000 on account of leave encashment at the time of retirement. In this case, Rs. 4,84,000 will amount to encashment of leave at the time of retirement and will be fully exempt from tax.

(ii) Tax treatment in the hands of other employees

In case of non-Government employees (i.e., other than the Central or the State Government employees), leave salary exempt from tax under section 10(10AA)(ii) will be least of the following:

1. Period of earned leave in months (*) × Average monthly salary (**)
2. Average monthly salary (**) × 10 (i.e., 10 months' average salary)
3. Maximum amount as specified by the Central Government i.e., Rs. 3,00,000

Different amounts (i.e., ceiling limits) are specified by the Government for different years.

However, for employees retiring after April 1, 1998 specified ceiling limit is Rs. 3,00,000.

4. Leave encashment actually received at the time of retirement.

(*) *Period of earned leave in months is to be computed as follows :*

<i>Sl. No.</i>	<i>Particulars</i>
1.	Number of completed years of service (i.e., ignoring part of the year)
2.	No. of days of leave entitlement for each year of service as per service rules (if leave entitlement as per service rules exceeds 30 days per year of actual service, then it should be restricted to 30 days)
3.	Gross total leave (in days) (i.e., 1 × 2)
4.	Leave encashed or availed during the continuation of service (in days)
5.	Period of earned leave (in days) (i.e., 3 - 4)
6.	Period of leave in months (i.e., days derived at 5 above ÷ 30)

(**) *Meaning of average monthly salary*

Average monthly salary means average salary drawn in past ten months immediately preceding the retirement (i.e., the day of retirement). Salary for this purpose will include following only:

- Basic salary,
- Dearness allowance considered while computing retirement benefits (i.e. DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

Illustration (Non- Government employee)

Mr. Kumar is working in Essem Ltd. at a monthly basic salary of Rs. 84,000. Apart from basic salary he is receiving following :

- Dearness allowance (forming part of salary while computing retirement benefits) of Rs. 16,000 per month.
- Dearness allowance (not forming part of salary while computing retirement benefits) of Rs. 50,000 per month.
- Fixed monthly commission of Rs. 10,000.
- Commission based on fixed percentage of turnover achieved by him Rs. 10,000 (@ 2% of turnover of Rs. 5,00,000 for the month).
- Children's education allowance Rs. 1,000 per month for his two children.

- Medical allowance of Rs. 2,000 per month.
- Value of perquisites provided by the employer during the month Rs. 8,400.

There is no change in the above pay structure throughout the year 2012-13. If he retires in the month of April 2013, what will be the amount of average monthly salary to be used while computing exemption in respect of leave encashment at the time of retirement?

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While computing average monthly salary for the purpose of exemption in respect of leave encashment at the time of retirement, salary will include following items :

- Basic salary,
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary will not include any other item. Based on above, salary for the purpose of computing exemption in respect of retirement benefits will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	84,000
Dearness allowance (forming part of salary while computing retirement benefits)	16,000
Commission based on fixed percentage of turnover achieved by the employee	<u>10,000</u>
Monthly salary	1,10,000

OTHER POINTS:

- If an employee receives leave salary from more than one employer in the same year, then the maximum amount of exemption under section 10(10AA)(ii) cannot exceed the amount specified by the Central Government (*i.e.*, Rs. 3,00,000).
- Where any employee has claimed exemption of leave salary under this section in any earlier year(s), then in case of such employee, the ceiling limit (*i.e.*, Rs. 3,00,000) shall be reduced by the amount of exemption earlier claimed.
- Relief under section 89 is available in respect of leave salary.

Illustration (Non- Government employee)

In April 2004, Mr. Kumar retired from Essem Ltd. and received leave encashment of Rs. 84,000. Entire amount qualified for exemption. After his retirement from Essem Ltd. he joined SM Ltd. In March 2013, he retired from SM Ltd. and received leave encashment of Rs. 2,00,000. In this case, the maximum amount of exemption in respect of leave encashment received from SM Ltd. will be limited to Rs. 2,16,000 (Rs. 3,00,000 less Rs. 84,000 claimed earlier).

Illustration (Non- Government employee)

Mr. Kumar retired from Essem Ltd. (a private sector company) on 1-1-2013, after serving for a period of 25 years and 9 months. As per service rules, he is entitled to leave of 35 days for each completed year of service. Following are the details:

Leave availed during service period	184 days
Leave encashed during earlier years	252 days
Leave encashed during the year 2012-13 (Rs. 88,000)	44 days
Basic salary per month during 10 months preceding retirement	Rs. 40,000
Dearness allowance (per month) during 10 months preceding retirement:	
(a) Forming part of salary for computing retirement benefits	Rs. 20,000
(b) Not forming part of salary for computing retirement benefits	Rs. 10,000
Leave salary received at the time of retirement	Rs. 7,90,000

From the above information, ascertain the amount of taxable leave encashment.

The exemption in respect of leave encashment in case of a non-Government employee at the time of retirement will be lower of the following amounts :

- Period of earned leave standing to the credit in the employee's account at the time of retirement $\times$ average monthly salary.
- Average monthly salary $\times$ 10 (i.e., 10 months' average salary).
- Maximum amount as specified by the Central Government, i.e., Rs. 3,00,000.
- Leave encashment actually received at the time of retirement.

Computation in this regard is as follows :

Total leave salary taxable for the assessment year 2013-14 will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Total leave salary received at the time of retirement	7,90,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	<u>3,00,000</u>
Taxable leave salary	4,90,000
(+) Leave encashment of 44 days received during the year 2012-13	<u>88,000</u>
Total taxable leave salary	<u>5,78,000</u>

Note 1: As per section 10(10AA)(ii), exemption in respect of leave salary received by a non-Government employee is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. Cash equivalent to earned leave (Note 2)	5,40,000
2. 10 months' average salary (Note 3)	6,00,000
3. Maximum amount specified by the Central Government	3,00,000
4. Actual amount received	7,90,000

Amount of exemption under section 10(10AA)(ii) will be Rs. 3,00,000, being least of above.

Note 2: Computation of cash equivalent to earned leave:

Step 1: Computation of earned leave standing to credit at the time of retirement:

In this case, Mr. Kumar is entitled to 35 days' leave for each completed year of service. If leave entitlement as per service rules exceeds 30 days per year, then it should be restricted to 30 days. Hence, while computing leave standing to credit, we will consider 30 days per year. Detailed computation will be as follows:

<i>Particulars</i>	<i>Days</i>
Total leave available during the tenure of service (30 days × 25 years)	
[period of 9 months (i.e., fraction of year) is to be ignored]	750 days
Less: (a) Leave availed during service period	184 days
(b) Leave encashed during earlier years	252 days
(c) Leave encashed in previous year 2012-13	44 days
Leave standing to credit at the time of retirement	270 days
(÷) Days in month	30 days
Leave credit at the time of retirement	9 months

Step 2: Computation of average monthly salary:

As per section 10(10AA)(ii), salary for the purpose of computation of exemption is:

- 10 months' average salary immediately preceding the retirement (i.e., day of retirement and not the month of retirement).
- Salary will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover achieved by the employee.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the retirement	40,000
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	20,000
Total monthly salary for the purpose of computing exemption	60,000

There is no need to convert aforesaid monthly salary of Rs. 60,000 into average monthly salary, since there is no change in salary during past 10 months.

Step 3: Computation of cash equivalent to earned leave:

$$\begin{aligned}
 &= \text{Leave standing to credit at the time of retirement} \times \text{Average monthly salary} \\
 &= 9 \text{ months} \times \text{Rs. } 60,000 \\
 &= \text{Rs. } 5,40,000
 \end{aligned}$$

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

$$\begin{aligned}
 &= \text{Average monthly salary} \times 10 \text{ months} \\
 &= \text{Rs. } 60,000 \times 10 \text{ months} = \text{Rs. } 6,00,000
 \end{aligned}$$

Illustration (Non- Government employee)

Mr. Kumar retired from Essem Ltd. (a private sector company) on 1-1-2013, after serving for a period of 23 years and 7 months. As per service rules, he is entitled to leave of 33 days for each completed year of service. Following are other details:

Leave availed during service period	484 days
Leave encashed during earlier years	252 days
Basic salary per month during 10 months preceding retirement	Rs. 40,000
Dearness allowance (per month) during 10 months preceding retirement:	
(a) Forming part of salary for computing retirement benefits	Rs. 20,000
(b) Not forming part of salary for computing retirement benefits	Rs. 10,000
Leave salary received at the time of retirement	Rs. 46,000

From the above information, ascertain the amount of taxable leave encashment.

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The exemption in respect of leave encashment in case of a non-Government employee at the time of retirement will be lower of the following amounts :

- Period of earned leave standing to the credit in the employee's account at the time of retirement $\times$ Average monthly salary.
- Average monthly salary $\times$ 10 (i.e., 10 months' average salary).
- Maximum amount as specified by the Central Government, i.e., Rs. 3,00,000.
- Leave encashment actually received at the time of retirement.

Computation in this regard is as follows :

Total leave salary taxable for the assessment year 2013-14 will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Total leave salary received at the time of retirement	46,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	<u>Nil</u>
Taxable leave salary	46,000

Note 1: As per section 10(10AA)(ii), exemption in respect of leave salary received by a non-Government employee is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. Cash equivalent to earned leave (Note 2)	Nil
2. 10 months' average salary (Note 3)	6,00,000
3. Maximum amount specified by the Central Government	3,00,000
4. Actual amount received	46,000

Amount of exemption under section 10(10AA)(ii) will be Nil.

Note 2: Computation of cash equivalent to earned leave:

Step 1: Computation of earned leave standing to credit at the time of retirement:

In this example, Mr. Kumar is entitled to 33 days' leave for each completed year of service. If leave entitlement as per service rules exceeds 30 days per year, then it should be restricted to 30 days. Hence, while computing leave standing to credit, we will consider 30 days per year. Detailed computation will be as follows:

<i>Particulars</i>	<i>Days</i>
Total leave available during the tenure of service (30 days $\times$ 23 years)	

[period of 7 months (<i>i.e.</i> , fraction of year) is to be ignored]	690 days
Less: (a) Leave availed during service period	484 days
(b) Leave encashed during earlier years	252 days
Leave standing to credit at the time of retirement as per income-tax law	<u>Nil</u>

In this case, as per the computation prescribed under income-tax law, the employee is not having any credit of leave.

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

= Average monthly salary (*) × 10 months

= Rs. 60,000 × 10 months = Rs. 6,00,000

(*) Computation of average monthly salary:

As per section 10(10AA)(ii), salary for the purpose of computation of exemption is:

- 10 months' average salary immediately preceding the retirement (*i.e.*, day of retirement and not the month of retirement).
- Salary will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover achieved by the employee.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the retirement	40,000
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	<u>20,000</u>
Total monthly salary for the purpose of computing exemption	60,000

There is no need to convert aforesaid monthly salary of Rs. 60,000 into average monthly salary, since there is no change in salary during past 10 months.

Q5. What is the tax treatment of Gratuity received by Government employees and employees of local authority?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(10)(i). It should be noted that employees of statutory corporation will not fall under this category.

Illustration (Government employee)

Mr. Kishan is a Central Government employee. He retired from his service in December 2012 and received gratuity of Rs. 8,40,000. In this case, entire amount of gratuity will be exempt from tax.

Q6. What is the tax treatment of Gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972?

Exemption in this case will be lower of the following amounts :

1. 15 days' salary (*) $\times$ years of service
2. Maximum amount specified by the Central Government, i.e., Rs. 10,00,000.
3. Gratuity actually received.

(*) Following points should be kept in mind :

- 7 days instead of 15 days in case of employees of a seasonal establishment
- 15 days' salary = Salary last drawn $\times$ 15/26
- Salary for this purpose will include basic salary and dearness allowance only.

Illustration: If Mr. Keshav's monthly salary at the time of his retirement is Rs. 8,484 and basic, Rs. 2,526 as dearness allowance, Rs. 1,848 as commission and Rs. 1,252 as bonus, then salary for aforesaid exemption will be Rs. 6,352, computed as follows:

Rs. 11,010 (Basic + DA) $\times$ 15/26 = Rs. 6,352 (rounded off)

- In case of piece rated employee, 15 days' salary will be computed on the basis of average of total wages (excluding overtime wages) received for a period of three months immediately preceding the termination of his service.

Illustration: If in the above **Illustration**, Mr. Keshav is a piece-rated worker and salary drawn by him in three months preceding the retirement is Rs. 11,010 including Rs. 2,526 overtime (OT) wages, then salary for the aforesaid exemption will be Rs. 1,632 computed as follows:

Step 1 - Computation of three months' salary

Three months' salary will be Rs. 8,484 (Rs. 11,010 – Rs. 2,526 being OT wages)

Step 2 - Computation of monthly salary

One month salary will be Rs. 2,828 (i.e., 8,484/3)

Step 3 - Computation of salary

Salary will be Rs. 1,632 (rounded off) (i.e., 2,828 $\times$ 15/26)

- Part of the year, in excess of 6 months, shall be taken as one full year.

Illustration: If the period of service is 18 years and 8 months, then 19 years will be taken as duration of service. If the period of service is 18 years and 5 months, then duration of service will be taken as 18 years.

Q7. What is the tax treatment of Gratuity received by a non-Government not covered by the Payment of Gratuity Act, 1972?

In case of employees not covered by the Payment of Gratuity Act, 1972 exemption in respect of gratuity will be least of the following :

1. Half month's average salary for each completed year of service, i.e.,
[Average monthly salary $\times \frac{1}{2}$] $\times$ Completed years of service. (*).
2. Maximum amount specified by the Central Government, i.e., Rs. 10,00,000
3. Gratuity actually received.

(*) Following points should be kept in mind :

- Average monthly salary is to be computed on the basis of average of salary for 10 months immediately preceding the month (not the day) of retirement.

Illustration: Mr. Keshav retires from service on 8-4-2010. In this case, average salary will be computed on the basis of salary for the period of 1-6-09 to 31-3-10 (i.e., 10 months preceding the month of retirement).

- Salary for this purpose will include basic salary, dearness allowance, if the terms of service so provide and commission based on fixed percentage of turnover achieved by the employee.
- While computing year of service, any fraction of year is to be ignored.

Illustration: If duration of service is 18 years and 11 months, then 18 years will be considered for computation.

Q8. What is the tax treatment of pension?

Pension can be in any of the following forms:

(a) Uncommuted pension is a periodic payment received after retirement.

Illustration : Mr. Keshav receives pension of Rs. 25,200 per month after his retirement from Shyamal Ltd.

(b) Commuted pension is a lump sum payment in lieu of periodic pension.

Illustration : At the time of retirement, Mr. Keshav received a lump sum payment of Rs. 2,52,000 towards commuted pension (i.e., in lieu of monthly pension).

(c) An employee may (depending upon his service rules) partly commute his pension and receive the balance as periodic payments (i.e. uncommuted).

Illustration : Mr. Keshav decided to commute 84% of his pension for Rs. 2,11,680 and continue to receive the balance in periodic payments (i.e. uncommuted). In this situation, Rs. 2,11,680 is called as commuted pension and Rs. 2,52,000 (Rs. 2,11,680 $\div$ 84 $\times$ 100) is called as full value of commuted pension.

As per section 10(10A)(i), any commuted pension is exempt in the hands of a Government employee. In case of non-Government employee exemption in respect of commuted pension will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

Following important points should be kept in mind :

- For exemption in respect of pension in case of gallantry award winner and family members of armed forces refer to section 10(18) and 10(19).
- Family pension received by the family members of the employee after the death of the employee, is charged to tax in the hands of recipient under the head “Income from other sources”. In such a case, deduction of lower of 1/3rd of the amount of pension or Rs. 15,000 is available from such income.
- Relief under section 89 is available in respect of amount of commuted pension which is not exempt from tax.

Illustration (Government employee)

Mr. Kapoor is a Government employee. On 31-12-2012 he retired from his service. For the month of January 2013, he received pension of Rs. 8,400 per month. On 1-2-2013, he commuted 50% of pension for Rs. 84,000 and continued to receive balance of 50% of pension of Rs. 4,200. What will be the tax treatment of pension in the hands of Mr. Kapoor if he received gratuity of Rs. 1,84,000 at the time of retirement and if he has not received any gratuity at the time of retirement?

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As per section 10(10A)(i), any commuted pension, *i.e.*, accumulated pension in lieu of monthly pension is exempt in the hands of a Government employee. There is no exemption in respect of uncommuted pension. In this case, for the month of January, Mr. Kapoor had received pension (uncommuted) of Rs. 8,400 and for the month of February and March he would be receiving Rs. 4,200 per month as uncommuted pension. This amount will be fully taxed.

Commuted pension received by a Government employee is exempt from tax. This rule will remain same even if the employee is receiving gratuity. Thus, nothing will be taxed in respect of commuted pension of Rs. 84,000.

Illustration (Non- Government employee)

Mr. Kapoor is a non-Government employee. On 31-12-2012 he retired from his service. For the month of January, 2013, he received pension of Rs. 8,400 per month. On 1-2-2013, he commuted 50% of pension for Rs. 84,000 and continued to receive balance 50% of pension of Rs. 4,200. What will be the tax treatment of pension in the hands of Mr. Kapoor if he received gratuity of Rs. 1,84,000 at the time of retirement and if he has not received any gratuity at the time of retirement?

**

For the month of January, Mr. Kapoor had received pension (uncommuted) of Rs. 8,400 and for the month of February and March he would be receiving Rs. 4,200 per month as uncommuted pension. This amount (*i.e.*, uncommuted pension) will be fully taxed.

As per section 10(10A)(ii), exemption in respect of commuted pension in case of a non-Government employee will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

If Mr. Kapoor has received gratuity, then out of Rs. 84,000 received on account of commuted pension, Rs. 56,000 [$\frac{1}{3}^{\text{rd}}$ of Rs. 1,68,000 (Rs.84,000/50*100)] will be exempt from tax. If Mr. Kapoor has not received gratuity, then out of Rs. 84,000 received on account of commuted pension, Rs. 84,000 [$\frac{1}{2}$ of Rs. 1,68,000 (Rs.84,000/50*100)] will be exempt from tax.

Q9. What is the tax treatment of compensation received at the time of voluntary retirement or separation?

Any compensation received at the time of voluntary retirement or separation is exempt from tax, if the following conditions are satisfied:

- Compensation is received by an employee of an undertaking specified in section 10(10C).
- Compensation is received in accordance with the scheme of voluntary retirement/separation, which is framed in accordance with prescribed guidelines. (for guidelines see Rule 2BA).
- Maximum amount of exemption is Rs. 5,00,000.
- Where exemption is allowed to an employee under section 10(10C) for any assessment year, no exemption under this section shall be allowed to him for any other assessment year.
- Relief under section 89 is admissible in respect of such amount.
- With effect from assessment year 2010-11, section 10(10C) has been amended to provide that where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such, or any other assessment year.

Illustration : Mr. Krunal is working in Essem Ltd. from January, 2000 at a monthly salary of Rs. 84,000. His official date of retirement is January, 2020. In June, 2012, the company declared a voluntary retirement scheme. The scheme of voluntary retirement is framed in accordance with prescribed guidelines given in Rule 2BA. Mr. Krunal opted for the scheme and received Rs. 8,40,000 as compensation on account of voluntary retirement. In this case, Rs. 5,00,000 will be exempt in the hands of Mr. Krunal and balance Rs. 3,40,000 will be charged to tax.

Q10. What is the tax treatment of payment from provident fund?

From taxation point of view provident funds can be classified as follows :

- Statutory provident fund
- Recognised provident fund
- Un-recognised provident fund

- Public provident fund

The major issues arising in case of provident funds can be classified as follows :

- Whether amount contributed by the employee will qualify for deduction under section 80C?
- What will be the tax treatment of amount contributed by the employer?
- What will be the tax treatment of annual interest being credited to the provident fund account of the employee?
- What will be the tax treatment of amount withdrawn from provident fund?

Following chart will answer all the above questions

	<i>Statutory Provident Fund</i>	<i>Recognised Provident Fund</i>	<i>Un- recognised Provident Fund</i>	<i>Public Provident Fund</i>
<i>Employer's contribution</i>	Exempt from tax	Exempt upto 12% of salary (Note 1)	Exempt from tax	Employer does not contribute to such fund
<i>Employee's contribution eligible for deduction u/s 80C</i>	Yes	Yes	No	Yes
<i>Interest credited to the said fund</i>	Exempt from tax	Exempt from tax if rate of interest is upto 9.5%. Interest in excess of 9.5% is charged to tax.	Exempt from tax	Exempt from tax
<i>Amount received at the time of termination of service</i>	Exempt from tax	If certain conditions are satisfied, then lump sum amount is exempt from tax (Note 2)	(Note 3)	Exempt from tax

Notes :

1. Salary for this purpose will include the following :
 - Basic salary,
 - Dearness allowance, if the terms of service so provide,
 - Commission based on fixed percentage of turnover achieved by the employee.
2. Accumulated balance from a recognised provident fund will be exempt from tax if following conditions are satisfied :

- (a) If the employee has rendered a continuous service of 5 years or more.

If accumulated balance includes amount transferred from other recognised provident fund, then the period for which the employee rendered service to such previous employer shall also be included in computing the aforesaid period of 5 years.

- (b) If the service of employee is terminated before the period of 5 years due to his ill health or discontinuation of business of the employer or other reasons beyond his control.

- (c) If on termination, the employee takes employment with any other employer and the balance becoming payable to him is transferred to his account in any recognised fund maintained by such other employer, then the amount so transferred will not be charged to tax.

3. Treatment of payment received from un-recognised provident fund :

Payment on termination will include four components, viz, employee's contribution and interest thereon and employer's contribution and interest thereon. The tax treatment of such payments is as follows :

- Employee's contribution is not charged to tax; interest thereon is taxed under the head "Income from other sources".
- Employer's contribution as well as interest thereon will be taxable as salary income. However, relief under Section 89 will be available.

Q11. What is the tax treatment of Retrenchment compensation?

Compensation received at the time of retrenchment is exempt from tax to the extent of lower of the following:

- (a) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Dispute Act, 1947 (i.e., 15 days' average pay for each completed year of continuous service or any part in excess of six months).
- (b) Maximum amount specified by the Central Government (Rs. 5,00,000).
- (c) Actual amount received.

Aforesaid limit is not applicable to the cases where compensation is paid under any scheme approved by the Central Government. An employee can claim relief in respect of excess amount taxed.

What is the tax treatment of Approved superannuation fund?

Approved superannuation fund means superannuation fund which is approved by the Commissioner of Income-tax. In case of approved superannuation fund following questions will arise :

- What will be the tax treatment of contribution made by the employer?
- What will be the tax treatment of amount received from approved superannuation fund?
- Whether amount contributed by the employee will qualify for deduction under section 80C?

With effect from assessment year 2010-11, employer's contribution to an approved superannuation fund in excess of Rs. 1,00,000 is charged to tax as perquisite.

Employee's contribution will qualify for deduction under section 80C and interest on accumulated balance is not liable to tax. Payments in following cases will be exempt from tax under section 10(13):

- Payment on death of beneficiary; or
- Payment to an employee in lieu of, or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapable prior to such retirement; or
- Refund of contribution to an employee on leaving the service (otherwise than above mentioned reason) to the extent to which such payment does not exceed the contribution made prior to April 1, 1962.
- By way of refund of contributions on the death of a beneficiary.

Q12. What is the tax treatment of payments from new pension scheme?

Various issues involved in respect of tax treatment of contribution to New Pension Scheme (NPS) are as follows :

- Whether amount contributed by the employee will qualify for deduction under section 80CCD?
- What will be the tax treatment of amount contributed by the employer?
- What will be the tax treatment of amount received from the scheme?

Following points will answer above questions :

- As per section 80CCD, an individual who is employed by the Central Government/any other employer on or after January 1st, 2004 or a self employed assessee can claim deduction under section 80CCD in respect of contribution to NPS.
- Amount paid/deposited (during the previous year) in assessee's account, under NPS will qualify for deduction under section 80CCD.
- Amount of deduction will be as follows :
 - (a) **Employee's** contribution during the year to notified pension scheme, subject to condition that maximum of 10% of salary is deducted in the year in which contribution is made.
 - (b) **Employer's** contribution during the year to notified pension scheme is first included in the income of the assessee, and then such contribution, subject to maximum of 10% of salary, is deducted in the year in which contribution is made.
- On closure of aforesaid account or in case the employee opts out of the said scheme or on receipt of pension from the annuity plan, credit balance in such pension account for which deduction is claimed and accretion to such account is taxed in the hands of receiver in the year of receipt. If amount received on closure is used for purchasing an annuity plan in the same previous year, then such amount will be exempt from tax.
- If deduction in respect of above amount is claimed under section 80CCD, then deduction of the same amount cannot be claimed under section 80C.
- Aggregate deduction under sections 80C, 80CCC and 80CCD(1), (i.e., employee's contribution) cannot exceed Rs. 1,00,000.

MCQ

Q1. Leave salary means the salary for the period of leave not availed by the employee.

- (a) True (b) False

Correct answer (a)

Justification of correct answer :

Leave salary means the salary for the period of leave not availed by the employee. 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.

Q2. Leave standing to the credit of the account of employee can be encashed only at the time of retirement. Credit leave can never be encashed during the continuation of service.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Leave salary means the salary for the period of leave not availed by the employee. The encashment of accumulated leave can be at the time of retirement or during the continuation of service. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q3. Leave encashment received during continuation of service by *Government* employees is _____.

- (a) Charged to tax (b) Exempt from tax

Correct answer (a)

Justification of correct answer :

Leave encashment received during continuation of service by *Government* employees is charged to tax in the year of such encashment.

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of leave encashment received during continuation of service, hence option (b) giving incorrect tax treatment is not correct.

Q4. Leave encashment received during continuation of service by *non-Government* employees is _____.

- (a) Charged to tax (b) Exempt from tax

Correct answer (a)

Justification of correct answer :

Leave encashment received during continuation of service by *Government or non-Government* employees is charged to tax in the year of such encashment.

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of leave encashment received during continuation of service, hence option (b) giving incorrect tax treatment is not correct.

Q5. Can a Government employee claim relief under section 89 in respect of leave encashment?

(a) Yes

(b) No

Correct answer (a)

Justification of correct answer :

Government employee can claim relief under section 89 in respect of leave encashment. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since Government employee can claim relief under section 89 in respect of leave encashment. Thus option (b) is not correct.

Q6. Can a non-Government employee claim relief under section 89 in respect of leave encashment?

(a) Yes

(b) No

Correct answer (a)

Justification of correct answer :

Non-Government employee can claim relief under section 89 in respect of leave encashment. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since non-Government employee can claim relief under section 89 in respect of leave encashment. Thus, option (b) is not correct.

Q7. Leave encashment received at the time of retirement by Government employees is _____.

(a) Charged to tax

(b) Exempt from tax

Correct answer (b)

Justification of correct answer :

Leave encashment received at the time of retirement by a Government employee is 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 leave encashment received at the time of retirement. Thus, option (a) giving incorrect tax treatment is not correct.

Q8. Leave encashment received at the time of retirement by non-Government employees is always charged to tax.

(a) True

(b) False

Correct answer (b)

Justification of correct answer :

A non-Government employee can claim exemption in respect of leave encashment at the time of retirement under section 10(10AA)(ii). Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q9. Which of the following is one of the limits to be used while computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee?

- (a) Period of earned leave in months $\times$ Average monthly salary
- (b) 5 months' average salary
- (c) Rs. 10,00,000
- (d) Half month's salary for each completed year of service

Correct answer (a)

Justification of correct answer :

In case of non-Government employees, leave salary exempt from tax under section 10(10AA)(ii) will be least of the following:

1. Period of earned leave in months $\times$ Average monthly salary
2. Average monthly salary $\times$ 10 (i.e., 10 months' average salary)
3. Maximum amount as specified by the Central Government, i.e., Rs. 3,00,000.

Different amounts (i.e., ceiling limits) are specified by Government for different years.

However, for employees retiring after April 1, 1998 specified ceiling limit is Rs. 3,00,000.

4. Leave encashment actually received at the time of retirement.

Thus, option (a) is the correct option.

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

Q10. Which of the following is one of the limits to be used while computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee?

- (a) Period of earned leave in days $\times$ Average monthly salary
- (b) 10 months' average salary
- (c) Rs. 10,00,000
- (d) Half month's salary for each completed year of service

Correct answer (b)

Justification of correct answer :

In case of non-Government employees, leave salary exempt from tax under section 10(10AA)(ii) will be least of the following:

1. Period of earned leave in months $\times$ Average monthly salary
2. Average monthly salary $\times$ 10 (*i.e.*, 10 months' average salary)
3. Maximum amount as specified by the Central Government, *i.e.*, Rs. 3,00,000.

Different amounts (*i.e.*, ceiling limits) are specified by Government for different years.

However, for employees retiring after April 1, 1998 specified ceiling limit is Rs. 3,00,000.

4. Leave encashment actually received at the time of retirement.

Thus, option (b) is the correct option.

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

Q11. Which of the following is one of the limits to be used while computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee?

- (a) Period of earned leave in days $\times$ Average monthly salary
- (b) 5 months' average salary
- (c) Rs. 3,00,000
- (d) Half month's salary for each completed year of service

Correct answer (c)

Justification of correct answer :

In case of non-Government employees, leave salary exempt from tax under section 10(10AA)(ii) will be least of the following:

1. Period of earned leave in months $\times$ Average monthly salary
2. Average monthly salary $\times$ 10 (*i.e.*, 10 months' average salary)
3. Maximum amount as specified by the Central Government, *i.e.*, Rs. 3,00,000.

Different amounts (*i.e.*, ceiling limits) are specified by Government for different years.

However, for employees retiring after April 1, 1998 specified ceiling limit is Rs. 3,00,000.

4. Leave encashment actually received at the time of retirement.

Thus, option (c) is the correct option.

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

Q12. Which of the following is one of the limits to be used while computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee?

- (a) Period of earned leave in days $\times$ Average monthly salary

- (b) 5 months' average salary
- (c) Rs. 10,00,000
- (d) Leave encashment actually received at the time of retirement.

Correct answer (d)

Justification of correct answer :

In case of non-Government employees, leave salary exempt from tax under section 10(10AA)(ii) will be least of the following:

1. Period of earned leave in months $\times$ Average monthly salary
2. Average monthly salary $\times$ 10 (*i.e.*, 10 months' average salary)
3. Maximum amount as specified by the Central Government, *i.e.*, Rs. 3,00,000.

Different amounts (*i.e.*, ceiling limits) are specified by Government for different years.

However, for employees retiring after April 1, 1998 specified ceiling limit is Rs. 3,00,000.

4. Leave encashment actually received at the time of retirement.

Thus, option (d) is the correct option.

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

Q13. While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include which of the following item?

- (a) Basic salary
- (b) Dearness allowance not considered while computing retirement benefits
- (c) All allowances
- (d) Value of perquisite

Correct answer (a)

Justification of correct answer :

While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include following items :

- Basic salary
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms)
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

Thus, option (a) is the correct option.

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

Q14. While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include which of the following item?

- (a) Dearness allowance not considered while computing retirement benefits
- (b) Dearness allowance considered while computing retirement benefits
- (c) All allowances
- (d) Value of perquisite

Correct answer (b)

Justification of correct answer :

While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include following items :

- Basic salary
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms)
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

Thus, option (b) is the correct option.

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

Q15. While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include which of the following item?

- (a) Dearness allowance not considered while computing retirement benefits
- (b) All allowances
- (c) Commission based on fixed percentage of turnover achieved by the employee
- (d) Value of perquisite

Correct answer (c)

Justification of correct answer :

While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include following items :

- Basic salary
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms)

- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

Thus, option (c) is the correct option.

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

Q16. While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will not include which of the following item?

- (a) Basic salary
- (b) Dearness allowance considered while computing retirement benefits
- (c) Commission based on fixed percentage of turnover achieved by the employee
- (d) Value of perquisite

Correct answer (d)

Justification of correct answer :

While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include following items :

- Basic salary
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms)
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

Thus, option (d) is the correct option.

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

Q17. While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will not include which of the following item?

- (a) Basic salary
- (b) Dearness allowance considered while computing retirement benefits
- (c) Commission based on fixed percentage of turnover achieved by the employee
- (d) Fixed monthly commission

Correct answer (d)

Justification of correct answer :

While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include following items :

- Basic salary
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms)
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

Thus, option (d) is the correct option.

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

Q18. While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will not include which of the following item?

- (a) Basic salary
- (b) Dearness allowance considered while computing retirement benefits
- (c) Commission based on fixed percentage of turnover achieved by the employee
- (d) Bonus

Correct answer (d)

Justification of correct answer :

While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include following items :

- Basic salary
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms)
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

Thus, option (d) is the correct option.

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

Q19. While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include following items only :

- (i) Basic salary
- (ii) Dearness allowance considered while computing retirement benefits

(iii) Commission based on fixed percentage of turnover achieved by the employee

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

While computing exemption under section 10(10AA)(ii) in respect of leave encashment in case of a non-Government employee, salary to be used to compute average monthly salary will include following items :

- Basic salary
- Dearness allowance considered while computing retirement benefits (*i.e.*, DA in terms)
- Commission based on fixed percentage of turnover achieved by the employee.

Apart from above items, salary for this purpose does not include any other allowance or perquisites.

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.

Q20. If an employee receives leave salary from more than one employer in the same year, then the maximum amount of exemption under section 10(10AA)(ii) can exceed the amount specified by the Central Government (*i.e.*, Rs. 3,00,000).

(a) True

(b) False

Correct answer (b)

Justification of correct answer :

If an employee receives leave salary from more than one employer in the same year, then the maximum amount of exemption under section 10(10AA)(ii) cannot exceed the amount specified by the Central Government (*i.e.*, Rs. 3,00,000).

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false. Hence, option (a) is not correct.

Q21. Where any employee has claimed exemption of leave salary under section 10(10AA)(ii) in any earlier year(s), then in case of such employee, the ceiling limit (*i.e.*, Rs. 3,00,000) shall be reduced by the amount of exemption earlier claimed.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

Where any employee has claimed exemption of leave salary under this section in any earlier year(s), then in case of such employee, the ceiling limit (*i.e.*, Rs. 3,00,000) shall be reduced by the amount of exemption earlier claimed. 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.

Q22. In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(10)(i).

- (a) True (b) False

Correct answer (a)

Justification of correct answer :

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(10)(i). 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.

Q23. In case of a non-Government employee, entire amount of any death-cum-retirement gratuity received is wholly exempt under section 10(10)(i).

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

In case of non-Government employee exemption is not available in respect of entire amount but is available in respect of amount calculated as per the section 10(10)(ii) and 10(10)(iii). Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false. Hence, option (a) is not correct.

Q24. The rule for computing exemption in respect of gratuity in case of non-Government employee is different for employees covered by the Payment of Gratuity Act and employees not covered by the Payment of Gratuity Act.

- (a) True (b) False

Correct answer (a)

Justification of correct answer :

The rule for computing exemption in respect of gratuity in case of non-Government employee is different for employees covered by the Payment of Gratuity Act and employees not covered by the Payment of Gratuity Act. 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.

Q25. Which of the following is one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act?

- (a) Half month's salary for each completed year of service

- (b) 10 months' average salary
- (c) Rs. 10,00,000
- (d) $\frac{1}{3}$ rd of the amount of gratuity

Correct answer (c)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act will be least of the following :

1. 15 days' salary $\times$ Years of service (part of the year, in excess of 6 months shall be taken as one full year)
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received.

Thus, option (c) is the correct option.

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

Q26. Which of the following is one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act?

- (a) 15 days' salary for each completed year of service
- (b) 10 months' average salary
- (c) Rs. 10,00,000
- (d) $\frac{1}{3}$ rd of the amount of gratuity

Correct answer (c)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act will be least of the following :

1. 15 days' salary $\times$ Years of service (part of the year, in excess of 6 months, shall be taken as one full year)
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received.

Thus, option (c) is the correct option.

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

Q27. Which of the following is one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act?

- (a) 15 days' salary for each completed year of service (part of the year, in excess of 6 months, shall be taken as one full year)

- (b) 10 months' average salary
- (c) Rs. 3,50,000
- (d) $\frac{1}{3}$ rd of the amount of gratuity

Correct answer (a)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act will be least of the following :

1. 15 days' salary $\times$ Years of service (part of the year, in excess of 6 months, shall be taken as one full year)
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received.

Thus, option (a) is the correct option.

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

Q28. Which of the following is one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act?

- (a) 15 days' salary for each completed year of service
- (b) 10 months' average salary
- (c) Rs. 3,50,000
- (d) Actual amount of gratuity received by the employee

Correct answer (d)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act will be least of the following :

1. 15 days' salary $\times$ Years of service (part of the year, in excess of 6 months, shall be taken as one full year)
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received.

Thus, option (d) is the correct option.

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

Q29. Which of the following is not one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act?

- (a) 15 days' salary for each completed year of service (part of the year, in excess of 6 months, shall be taken as one full year)

- (b) 10 months' average salary
- (c) Rs. 10,00,000
- (d) Actual amount of gratuity received by the employee

Correct answer (b)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act will be least of the following :

1. 15 days' salary $\times$ Years of service (part of the year, in excess of 6 months, shall be taken as one full year)
2. Maximum amount specified by the Central Government *i.e.* Rs. 10,00,000.
3. Gratuity actually received.

Thus, option (b) is the correct option.

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

Q30. Which of the following is one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act?

- (a) Half month's salary for each completed year of service
- (b) 10 months' average salary
- (c) Rs. 3,50,000
- (d) $\frac{1}{3}^{\text{rd}}$ of the amount of gratuity

Correct answer (a)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act will be least of the following :

1. Half month's salary for each completed year of service, *i.e.*,
[Average monthly salary $\times \frac{1}{2}$] $\times$ Completed years of service
2. Rs. 10,00,000
3. Gratuity actually received.

Thus, option (a) is the correct option.

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

Q31. Which of the following is one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act?

- (a) 15 days' salary for each completed year of service (part of the year, in excess of 6 months, shall be taken as one full year)

- (b) 10 months' average salary
- (c) Rs. 10,00,000
- (d) 1/3rd of the amount of gratuity

Correct answer (c)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act will be least of the following :

1. Half month's salary for each completed year of service, i.e.,
[Average monthly salary $\times \frac{1}{2}$] $\times$ Completed years of service
2. Rs. 10,00,000
3. Gratuity actually received

Thus, option (c) is the correct option.

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

Q32. Which of the following is one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act?

- (a) 15 days' salary for each completed year of service (part of the year, in excess of 6 months, shall be taken as one full year)
- (b) 10 months' average salary
- (c) Rs. 3,50,000
- (d) Actual amount of gratuity received

Correct answer (d)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act will be least of the following :

1. Half month's salary for each completed year of service, i.e.,
[Average monthly salary $\times \frac{1}{2}$] $\times$ Completed years of service
2. Rs. 10,00,000
3. Gratuity actually received.

Thus, option (d) is the correct option.

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

Q33. Which of the following is not one of the limits to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act?

- (a) Half month's salary for each completed year of service

- (b) 10 months' average salary
- (c) Rs. 10,00,000
- (d) Actual amount of gratuity received by the employee

Correct answer (b)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee not covered by Payment of Gratuity Act will be least of the following :

1. Half month's salary for each completed year of service, i.e.,
[Average monthly salary $\times \frac{1}{2}$] $\times$ Completed years of service
2. Rs. 10,00,000
3. Gratuity actually received.

Thus, option (b) is the correct option.

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

Q34. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, one of the items to be considered for computing the maximum amount of exemption is 15 days' salary $\times$ Years of service. In case of an employee of seasonal establishment, _____ days will be considered instead of 15 days.

- (a) 15
- (b) 10
- (c) 7
- (d) 5

Correct answer (c)

Justification of correct answer :

In case of an employee of seasonal establishment, 7 days will be considered instead of 15 days.

Thus, option (c) is the correct option.

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

Q35. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, one of the items to be considered for computing the maximum amount of exemption is 15 days' salary $\times$ Years of service. In this case, 15 days' salary is to be computed by dividing the monthly salary by _____ days.

- (a) 31
- (b) 30
- (c) 26
- (d) 24

Correct answer (c)

Justification of correct answer :

15 days' salary = Salary last drawn $\times \frac{15}{26}$

Thus, option (c) is the correct option.

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

Q36. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, salary to be considered will include basic salary and dearness allowance (whether in terms or not).

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, salary to be considered will include basic salary and dearness allowance (whether in terms or not). 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.

Q37. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, one of the items to be considered for computing the maximum amount of exemption is 15 days' salary $\times$ Years of service. In case of piece rated employee 15 days' salary will be computed on the basis of average of total wages (excluding overtime wages) received for a period of three months immediately preceding the termination of his service.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

In case of piece rated employee, 15 days' salary will be computed on the basis of average of total wages (excluding overtime wages) received for a period of three months immediately preceding the termination of his service.

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.

Q38. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, part of the year of service in excess of 6 months will be taken as one full year.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, part of the year of service in excess of 6 months will be taken as one full year. 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.

Q39. While computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, part of the year of service in excess of 6 months will be taken as one full year.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

While computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, part of the year of service shall be ignored and only full year of service is to be considered. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q40. While computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, one of the items to be considered for computing the maximum amount of exemption is half month's salary $\times$ years of service. Half month's salary is to be computed by dividing the monthly salary by 26.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Half month's salary is to be computed by dividing the monthly salary by 2. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false. Hence, option (a) is not correct.

Q41. Uncommuted pension is a periodic payment received after retirement.

- (a) True (b) False

Correct answer (a)

Justification of correct answer :

Uncommuted pension is a periodic payment received after retirement. 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.

Q42. Commuted pension is a lump sum payment in lieu of periodic pension.

- (a) True (b) False

Correct answer (a)

Justification of correct answer :

Commuted pension is a lump sum payment in lieu of periodic pension. 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.

Q43. A non-Government employee cannot commute his pension and is only eligible to receive monthly pension.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

An employee may (depending upon his service rules) partly commute his pension and receive the balance as periodic payments (i.e. uncommuted). Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false. Hence, option (a) is not correct.

Q44. Monthly pension i.e. uncommuted pension is fully taxable in the hands of a Government employee.

- (a) True (b) False

Correct answer (a)

Justification of correct answer :

Monthly pension, i.e., uncommuted pension is fully taxable in the hands of a Government employee. 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.

Q45. Monthly pension, i.e., uncommuted pension is fully taxable in the hands of a non-Government employee.

- (a) True (b) False

Correct answer (a)

Justification of correct answer :

Monthly pension, i.e., uncommuted pension is fully taxable in the hands of a non-Government employee. 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.

Q46. Commuted pension is fully taxable in the hands of a Government employee.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

As per section 10(10A)(i), any commuted pension is exempt in the hands of a Government employee. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false. Hence, option (a) is not correct.

Q47. Commuted pension is fully taxable in the hands of a non-Government employee.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

In case of non-Government employee, exemption in respect of commuted pension will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false. Hence, option (a) is not correct.

Q48. In case of non-Government employee, exemption in respect of commuted pension will be lower of the following :

- One third of full value of commuted pension
- Actual amount of commuted pension

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

In case of non-Government employee, exemption in respect of commuted pension will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q49. In case of non-Government employee, exemption in respect of commuted pension will be lower of the following :

- One half of full value of commuted pension
- Actual amount of commuted pension

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

In case of non-Government employee, exemption in respect of commuted pension will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q50. A non-Government employee, cannot claim exemption in respect of commuted pension if he is receiving gratuity.

(a) True

(b) False

Correct answer (b)

Justification of correct answer :

In case of non-Government employee exemption in respect of commuted pension will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q51. Family pension received by the family members of the employee after the death of the employee, is charged to tax in the hands of recipient under the head “Income from other salary”.

(a) True

(b) False

Correct answer (b)

Justification of correct answer :

Family pension received by the family members of the employee after the death of the employee, is charged to tax in the hands of recipient under the head “Income from other sources”.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q52. In case of family pension received by the family members of the employee, the receiver can claim deduction of lower of 1/3rd of the amount of pension or Rs. 15,000, from such pension.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

Family pension received by the family members of the employee after the death of the employee is charged to tax in the hands of recipient under the head "Income from other sources". In such a case, deduction of lower of 1/3rd of the amount of pension or Rs. 15,000 is available from such pension.

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.

Q53. Relief under section 89 is available in respect of amount of commuted pension which is not exempt from tax.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

Relief under section 89 is available in respect of amount of commuted pension which is not exempt from tax.

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.

Q54. Any compensation received at the time of voluntary retirement or separation is fully taxable.

(a) True

(b) False

Correct answer (b)

Justification of correct answer :

An employee can claim exemption upto Rs. 5,00,000 in respect of compensation received at the time of voluntary retirement or separation.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q55. What is the maximum amount of exemption in respect of compensation received at the time of voluntary retirement or separation?

(a) Rs. 10,00,000

(b) Rs. 5,00,000

(c) Rs. 3,50,000

(d) Rs. 3,00,000

Correct answer (b)

Justification of correct answer :

An employee can claim exemption upto Rs. 5,00,000 in respect of compensation received at the time of voluntary retirement or separation.

Thus, option (b) is the correct option.

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

Q56. Where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such or any other assessment year.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

Where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such, or any other assessment year.

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.

Q57. Any amount received from Statutory Provident Fund is _____.

(a) Fully exempt from tax

(b) Charged to tax

Correct answer (a)

Justification of correct answer :

Any amount received from Statutory Provident Fund is fully exempt from tax. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of amount received from Statutory Provident Fund. Hence, option (b) giving incorrect tax treatment is not correct.

Q58. Any amount received from Recognised Provident Fund is exempt from tax if it is received after rendering continuous service of _____ years.

(a) 10

(b) 5

(c) 3

(d) 2

Correct answer (b)

Justification of correct answer :

Any amount received from Recognised Provident Fund is exempt from tax if it is received after rendering continuous service of 5 years. Thus, option (b) is the correct option.

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

Q59. Any amount received from Un-recognised Provident Fund is exempt from tax if it is received after rendering continuous service of 5 years.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Any amount received from Un-recognised Provident Fund is exempt from/charged to tax irrespective of period of service. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q60. In case of amount received from Un-recognised Provident Fund employer's contribution is _____.

- (a) Exempt from tax (b) Charged to tax

Correct answer (b)

Justification of correct answer :

In case of amount received from Un-recognised Provident Fund, employer's contribution is charged to 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. Hence, option (a) giving incorrect tax treatment is not correct.

Q61. In case of amount received from Un-recognised Provident Fund, employee's contribution is _____.

- (a) Exempt from tax (b) Charged to tax

Correct answer (a)

Justification of correct answer :

In case of amount received from Un-recognised Provident Fund, employee's contribution is exempt from tax. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment. Hence, option (b) giving incorrect tax treatment is not correct.

Q62. In case of amount received from Un-recognised Provident Fund, interest on employer's contribution is _____.

- (a) Exempt from tax (b) Charged to tax

Correct answer (b)

Justification of correct answer :

In case of amount received from Un-recognised Provident Fund, interest on employer's contribution is charged to 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. Hence, option (a) giving incorrect tax treatment is not correct.

Q63. In case of amount received from Un-recognised Provident Fund, interest on employee's contribution is _____.

- (a) Exempt from tax (b) Charged to tax

Correct answer (b)

Justification of correct answer :

In case of amount received from Un-recognised Provident Fund, interest on employee's contribution is charged to 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. Hence, option (a) giving incorrect tax treatment is not correct.

Q64. In case of amount received from Un-recognised Provident Fund, employer's contribution is charged to tax under the head _____.

- (a) Salaries (b) Profits and gains of business or profession
(c) Income from capital gains (d) Income from other sources

Correct answer (a)

Justification of correct answer :

In case of amount received from Un-recognised Provident Fund, employer's contribution is charged to tax under the head "Salaries". Thus, option (a) is the correct option.

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

Q65. In case of amount received from Un-recognised Provident Fund, interest on employer's contribution is charged to tax under the head _____.

- (a) Salaries (b) Profits and gains of business or profession
(c) Income from capital gains (d) Income from other sources

Correct answer (a)

Justification of correct answer :

In case of amount received from Un-recognised Provident Fund, employer's contribution as well as interest thereon is charged to tax under the head "Salaries". Thus, option (a) is the correct option.

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

Q66. In case of amount received from Un-recognised Provident Fund, interest on employee's contribution is charged to tax under the head _____.

- (a) Salaries (b) Profits and gains of business or profession
(c) Income from capital gains (d) Income from other sources

Correct answer (d)

Justification of correct answer :

In case of amount received from Un-recognised Provident Fund, interest on employee's contribution is charged to tax under the head "Income from other sources". Thus, option (d) is the correct option.

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

Q67. Compensation received at the time of retrenchment is exempt from tax to the extent of lower of the following:

- (i) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Dispute Act, 1947 (i.e., 15 days' average pay for each completed year of continuous service or any part in excess of six months).
- (ii) Maximum amount specified by the Central Government (Rs. 5,00,000).
- (iii) Actual amount received.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

Compensation received at the time of retrenchment is exempt from tax to the extent of lower of the following:

- (i) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Dispute Act, 1947 (i.e., 15 days' average pay for each completed year of continuous service or any part in excess of six months).
- (ii) Maximum amount specified by the Central Government (Rs. 5,00,000).
- (iii) Actual amount received.

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.

Q68. In case of an approved superannuation fund, payments in following cases will be exempt from tax :

- Payment on death of beneficiary; or
- Payment to an employee in lieu of, or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapable, prior to such retirement; or
- Refund of contribution to an employee on leaving the service (otherwise than above mentioned reason) to the extent to which such payment does not exceed the contribution made prior to April 1, 1962.
- By way of refund of contributions on the death of a beneficiary.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

In case of an approved superannuation fund payments, in following cases will be exempt from tax under section 10(13):

- Payment on death of beneficiary; or
- Payment to an employee in lieu of, or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapable, prior to such retirement; or
- Refund of contribution to an employee on leaving the service (otherwise than above mentioned reason) to the extent to which such payment does not exceed the contribution made prior to April 1, 1962.
- By way of refund of contributions on the death of a beneficiary.

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.

Q69. In case of an amount received from New Pension Scheme on closure of the account or in case the employee opts out of the said scheme or on receipt of pension from the annuity plan, credit balance in such pension account for which deduction is claimed and accretion to such account is not charged to tax in the hands of receiver.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

In case of an amount received from New Pension Scheme on closure of the account or in case the employee opts out of the said scheme or on receipt of pension from the annuity plan, credit balance in such pension account for which deduction is claimed and accretion to such account is taxed in the hands of receiver.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q70. Maximum amount of exemption in respect of amount received from superannuation fund is Rs. 10,00,000

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Payments from superannuation fund in following cases will be exempt from tax under section 10(13):

- Payment on death of beneficiary; or
- Payment to an employee in lieu of, or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapable, prior to such retirement; or
- Refund of contribution to an employee on leaving the service (otherwise than above mentioned reason) to the extent to which such payment does not exceed the contribution made prior to April 1, 1962.

There is no limit on the amount of exemption.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q71. Maximum amount of exemption in respect of amount received from account in case of New Pension Scheme is Rs. 10,00,000.

(a) True

(b) False

Correct answer (b)

Justification of correct answer :

In case of an amount received from New Pension Scheme on closure of the account or in case the employee opts out of the said scheme or on receipt of pension from the annuity plan, credit balance in such pension account for which deduction is claimed and accretion to such account is taxed in the hands of receiver. There is no limit on the amount of exemption.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q72. If amount received from account in case of New Pension Scheme on closure is used for purchasing an annuity plan in the same previous year, then such amount will be exempt from tax.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

If amount received from account in case of New Pension Scheme on closure is used for purchasing an annuity plan in the same previous year, then such amount will be exempt from tax.

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.