ADVANCE LEARNING ON RETIREMENT BENEFITS (PRACTICAL)

Illustration

From the following information identify the nature of retirement benefit.

- Cash received in respect of leave not availed by the employee amounting to Rs. 84,000 (for 84 days). Receipt was during the continuation of the service.
- Cash received at the time of retirement in respect of leave not availed by the employee amounting to Rs. 25,200 (for 25 days).
- After retirement, Mr. Kumar received Rs. 8,400 per month from his employer.
- In the above case, Mr. Kumar requested his employer to pay a lumpsum amount in lieu of monthly pension and he received Rs. 84,000.
- Mr. Kumar opted for voluntarily retirement and got Rs. 8,40,000 on account of voluntarily retirement.

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Particulars	*Nature of payment*
Cash received in respect of leave not availed by the employee amounting to Rs. 84,000 (for 84 days). Receipt was during the continuation of the service.	This will amount to leave encashment during the continuation of service.
Cash received at the time of retirement in respect of leave not availed by the employee amounting to Rs. 25,200 (for 25 days).	This will amount to leave encashment at the time of retirement.
After retirement, Mr. Kumar received Rs. 8,400 per month from his employer.	This will amount to un-commuted pension.
In the above case, Mr. Kumar requested his employer to accumulate the above payments and in lieu he received Rs. 84,000.	This will amount to commuted pension.
Mr. Kumar opted for voluntarily retirement and got Rs. 8,40,000 on account of voluntarily retirement.	This will amount to payment received on account of voluntarily retirement.

Tax treatment of leave encashment during continuation of service

Illustration (Government employee)

Mr. Kripal is a Government employee (he still has 10 years of service left). 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 still has 10 years of service left). 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.

Tax treatment of leave encashment at the time of retirement

Illustration (Government employee)

Mr. Rupen is a Government employee. He is entitled to 28 days' leave per year. He retired in January, 2013. At the time of retirement, he has to his credit leave 184 days in his account. 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 it will be fully exempt from tax (*).

(*)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 (Non-Government employee)

Mr. Rupen is working in Essem Ltd. He is entitled to 28 days' leave per year. He retired in January, 2013. At the time of retirement, he has to his credit leave of 184 days in his account. He received Rs. 4,84,000 on account of leave encashment at the time of retirement. In this case, out of Rs. 4,84,000, Mr. Rupen can claim exemption under section 10(*10AA*)(*ii*) as follows :

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

(*) Computed in prescribed manner which is discussed later on.

Computation of leave standing to credit at the time of retirement

Illustration

Mr. Kumar is working in Essem Ltd. He retired from his job after completing service of 30 years and 10 days. As per service rules he is entitled to avail leave of 25 days per year. During the tenure of his service, he availed leave of 300 days and encashed leave of 100 days. What will the number of days of leave standing to his credit which can be encashed by him at the time of his retirement? Also, compute the number of days to be used for computing exemption in respect of leave encashment at the time of retirement.

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Computation of number of days of leave standing to credit which can be encashed at the time of retirement

Particulars	*Days*
Number of years of service (ignore any fraction of year)	30 years
(×) No. of days of leave entitlement for each year of service as per service rules (*)	25 days
Gross total leave	750 days
Less : Leave availed during the continuation of service	300 days
Less : Leave encashed during the continuation of service	100 days
Leave standing to the credit of employee which can be encashed at the time of retirement	350 days

(*) Computation of number of days to be used for computing exemption in respect of leave encashment at the time of retirement

While computing exemption in respect of leave encashment at the time of retirement, if leave entitlement as per service rules exceeds 30 days per year of actual service, then it should be restricted to 30 days. In this case, the leave entitlement as per service rule is only 25 days (*i.e.*, does not exceed 30 days per year) and, hence, 350 days (as computed above) will only be taken into account while computing exemption in respect of leave encashment at the time of retirement.

Illustration

Mr. Kumar is working in Essem Ltd. He retired from his job after completing service of 30 years and 10 days. As per service rules he is entitled to avail leave of 40 days per year. During the tenure of his service, he availed leave of 300 days and encashed leave of 100 days. What will the number of days of leave standing to his credit which can be encashed by him at the time of his retirement? Also, compute the number of days to be used for computing exemption in respect of leave encashment at the time of retirement.

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Computation of number of days of leave standing to credit which can be encashed at the time of retirement

Particulars	*Days*
Number of years of service (ignore any fraction of year)	30 years
(×) No. of days of leave entitlement for each year of service as per service rules	40 days
Gross total leave	1,200 days
Less : Leave availed during the continuation of service	300 days
Less : Leave encashed during the continuation of service	100 days
Leave standing to the credit of employee which can be encashed at the time of retirement	800 days

Computation of number of days to be used for computing exemption in respect of leave encashment at the time of retirement

While computing exemption in respect of leave encashment at the time of retirement, if leave entitlement as per service rules exceeds 30 days per year of actual service, then it should be restricted to 30 days. In this case, the leave entitlement as per service rule is 40 days (*i.e.,* exceeds 30 days per year) and, hence, 800 days (as computed above) cannot be taken into account while computing exemption in respect of leave encashment at the time of retirement. The computation in this case will be as follows :

Particulars	***Days***
Number of years of service (ignore any fraction of year)	30 years
(×) 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)	30 days
Gross total leave	900 days
Less : Leave availed during the continuation of service	300 days
Less : Leave encashed during the continuation of service	100 days
Number of days to be used for computing exemption in respect of leave encashment at the time of retirement	500 days

Illustration

Mr. Kumar is working in Essem Ltd. He retired from his job after completing service of 30 years and 10 days. As per service rules he is entitled to avail leave of 40 days per year. During the tenure of his service, he availed leave of 700 days and encashed leave of 300 days. What will the number of days of leave standing to his credit which can be encashed by him at the time of his retirement? Also compute the number of days to be used for computing exemption in respect of leave encashment at the time of retirement.

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Computation of number of days of leave standing to credit which can be encashed at the time of retirement

Particulars	***Days***
Number of years of service (ignore any fraction of year)	30 years
(×) No. of days of leave entitlement for each year of service as per service rules	40 days
Gross total leave	1,200 days
Less : Leave availed during the continuation of service	700 days
Less : Leave encashed during the continuation of service	300 days
Leave standing to the credit of employee which can be encashed at the time of retirement	200 days

Computation of number of days to be used for computing exemption in respect of leave encashment at the time of retirement

While computing exemption in respect of leave encashment at the time of retirement, if leave entitlement as per service rules exceeds 30 days per year of actual service, then it should be restricted to 30 days. In this case, the leave entitlement as per service rule is 40 days (*i.e.,* exceeds 30 days per year) and, hence, 200 days (as computed above) cannot be taken into account while computing exemption in respect of leave encashment at the time of retirement. The computation in this case will be as follows :

Particulars	*Days*
Number of years of service (ignore any fraction of year)	30 years
(×) 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)	30 days
Gross total leave	900 days
Less : Leave availed during the continuation of service	700 days
Less : Leave encashed during the continuation of service	300 days
Number of days to be used for computing exemption in respect of leave encashment at the time of retirement	*Nil*

In this case, entire leave encashment will be taxed.

Computation of average monthly salary to be used while computing exemption in respect of leave encashment at the time of retirement in case of Non-Government employee.

Illustration (Non- Government employee)

Mr. Kapoor is working in Essem Ltd. at a monthly basic salary of Rs. 25,200. Apart from basic salary he is receiving following :

- Dearness allowance (forming part of salary while computing retirement benefits) of Rs. 30,000 per month.
- Dearness allowance (not forming part of salary while computing retirement benefits) of Rs. 10,000 per month.
- Value of perquisite in respect of rent free accommodation provided by the employer amounting to Rs. 10,000 per month.
- Value of perquisite in respect of free meal provided during office hours amounting to Rs. 5,000 per month.
- Telephone allowance provided by the employer, Rs. 1,000 per month.
- Fixed monthly commission of Rs. 10,000.
- Commission based on fixed percentage of turnover achieved by him of Rs. 20,000 (@ 1% of turnover of Rs. 20,00,000 for the month).
- Children's education allowance Rs. 2,000 per month for his two children.
- Medical allowance of Rs. 3,000 per month.

There was 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 forming part of salary 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 :

Particulars	***(Rs.)***
Basic salary	25,200
Dearness allowance (forming part of salary while computing retirement benefits)	30,000
Commission based on fixed percentage of turnover achieved by the employee	20,000
Monthly salary	75,200

Following items will not form part of salary to be used for computing exemption in respect of leave encashment and, hence, these items have not been considered in above computation:

- Dearness allowance (not forming part of salary while computing retirement benefits) of Rs. 10,000 per month.
- Value of perquisite in respect of rent free accommodation provided by the employer amounting to Rs. 10,000 per month.
- Value of perquisite in respect of free meal provided during office hours amounted to Rs. 5,000 per month.
- Telephone allowance provided by the employer Rs. 1,000 per month.
- Fixed monthly commission of Rs. 10,000.
- Children's education allowance Rs. 2,000 per month for his two children.
- Medical allowance of Rs. 3,000 per month.

Illustration (Computation of exemption in respect of leave encashment at the time of retirement in case of non-Government employee)

Mr. Sunil is working in Essem Ltd. at a monthly basic salary of Rs. 18,400. Apart from basic salary he is receiving dearness allowance (forming part of salary while computing retirement benefits) of Rs. 1,600 per month. Apart from basic salary and dearness allowance he is not receiving any other benefits. There was no change in the above pay structure throughout the year 2012-13. On 31st March, 2013 Mr. Sunil retired from his service. At the time of retirement he received leave encashment of Rs. 2,40,000 in respect of leave standing to his credit. The details of leave available to him and the details of leave availed by him are as follows :

- He is entitled to leave of 35 days for each completed year of service.
- He retired after serving for 28 years.
- During the tenure of his service he has availed leave of 300 days and encashed leave of 200 days.

**

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 of 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 would be 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	2,40,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	2,00,000
Taxable leave salary	40,000

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)	2,26,666
2. 10 months' average salary (Note 3)	2,00,000
3. Maximum amount specified by the Central Government	3,00,000
4. Actual amount received	2,40,000

Amount of exemption under section 10(10AA)(ii) will be Rs. 2,00,000, 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. Sunil 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:

Particulars	***Days***
Total leave available during the tenure of service (30 days × 28 years)	840 days
Less: (a) Leave availed during service period	300 days
(b) Leave encashed during continuance of service	200 days

Leave standing to credit at the time of retirement	340 days

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 for ten months immediately preceding the retirement (*i.e.*, from 1st June, 2012 to 31st March, 2013) will be computed as follows:

Particulars	***(Rs.)***
Basic salary per month for 10 months immediately preceding the retirement	18,400
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	1,600
Total monthly salary for the purpose of computing exemption	20,000

There is no change in salary during 10 months immediately preceding the retirement, thus, there is no need to convert aforesaid monthly salary of Rs. 20,000 into average monthly salary.

Step 3: Computation of cash equivalent to earned leave:

= Leave standing to credit at the time of retirement (in months) × Average monthly salary

$= \frac{340 \text{ days}}{30 \text{ days}} \times \text{Rs. } 20{,}000$

= Rs. 2,26,666

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

= Average monthly salary × 10 months

= Rs. 20,000 × 10 months = Rs. 2,00,000

Illustration (Computation of exemption in respect of leave encashment at the time of retirement in case of non-Government employee)

Mr. Sujal retired from his job in the month of April, 2013. At the time of his retirement his monthly basic salary was Rs. 25,200 and dearness allowance (forming part of salary while computing retirement benefits) was Rs. 10,800 per month. Apart from basic salary and dearness allowance he was not receiving any other benefits. His last increment was in, the month of December, 2012. The increment was Rs. 5,000 in basic salary and Rs. 3,000 in dearness allowance. At the time of retirement he received leave encashment of Rs. 5,40,000 in respect of leave standing to his credit. The details of leave available to him and the details of leave availed by him were as follows :

- He was entitled to leave of 25 days for each completed year of service.
- He retired after serving for 22 years.
- During the tenure of his service he availed leave of 200 days and encashed leave of 150 days.

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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 would be 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	5,40,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	2,08,000
Taxable leave salary	3,32,000

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)	2,08,000
2. 10 months' average salary (Note 3)	3,12,000
3. Maximum amount specified by the Central Government	3,00,000
4. Actual amount received	5,40,000

Amount of exemption under section 10(10AA)(ii) will be Rs. 2,08,000, 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. Sujal is entitled to 25 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. However, in this case leave entitlement per year is 25 days, hence, we will take 25 days in computation. Detailed computation will be as follows:

Particulars	***Days***
Total leave available during the tenure of service (25 days × 22 years)	550 days
Less: (a) Leave availed during service period	200 days
(b) Leave encashed during continuance of service	150 days
Leave standing to credit at the time of retirement	200 days

Step 2: Computation of average monthly salary:

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

- 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 for the ten months immediately preceding the retirement (*i.e.*, from 1st June, 2012 to 31st March, 2013) will be computed as follows:

Particulars	***From 1st December, 2012 to 31st March, 2013***	***From 1st June, 2012 to 30th Nov., 2012***
Basic salary per month for 10 months immediately preceding the retirement	25,200	20,200
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	10,800	7,800
Total monthly salary for the purpose of computing exemption	36,000	28,000
(×) No. of months	4	6
Salary for the period	1,44,000	1,68,000
Salary for ten months (Rs. 1,44,000 + Rs. 1,68,000)		3,12,000

Total salary for ten months preceding the retirement amounted to Rs. 3,12,000, hence, monthly average salary will come to Rs. 31,200 (Rs. 3,12,000 ÷ 10)

Step 3: Computation of cash equivalent to earned leave:

= Leave standing to credit at the time of retirement (in months) × Average monthly salary

$= \frac{200 \text{ days}}{30 \text{ days}} \times \text{Rs. } 31{,}200$

= Rs. 2,08,000

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

= Average monthly salary × 10 months

= Rs. 31,200 × 10 months = Rs. 3,12,000

Illustration (Computation of exemption in respect of gratuity received at the time of retirement in case of Government employee)

Mr. Krunal is a Central Government employee. He retired from his service in January, 2013 after rendering service of 20 years and received gratuity of Rs. 8,40,000. What will be the tax treatment of gratuity in the hands of Mr. Krunal?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(*10*)(*i*). Thus, in this case entire amount of gratuity will be exempt from tax.

Illustration (Computation of exemption in respect of gratuity received at the time of retirement in case of Government employee)

Mr. Sunil is a Central Government employee. He retired from his service in March, 2013 after rendering service of 25 years and received gratuity of Rs. 18,40,000. After retirement he joined Essem Ltd., a private sector company. What will be the tax treatment of gratuity in the hands of Mr. Sunil?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(*10*)(*i*). The position will remain same even if after the retirement the employee joins any other employer. Thus, in this case entire amount of gratuity will be exempt from tax.

Illustration (Computation of exemption in respect of gratuity received at the time of retirement in case of Government employee)

Mr. Saurabh was working in Essem Ltd. since 1989. He left the job in 1998 and there after joined Central Government employment. He retired from his Government job in March, 2013 and received gratuity of Rs. 2,52,000. What will be the tax treatment of gratuity in the hands of Mr. Saurabh?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(*10*)(*i*). The position would remain same even if the employee was working with any other employer before joining the Government job. Thus, in this case, entire amount of gratuity will be exempt from tax.

Illustration (Computation of exemption in respect of gratuity received at the time of retirement in case of Government employee)

Mr. Kaushal was working in Essem Ltd. since 1989. He left the job in 1998 and there after joined Central Government employment. He retired from his Government job in March, 2013 and received gratuity of Rs. 2,52,000. After retirement he joined Essem Ltd., a private sector company. What will be the tax treatment of gratuity in the hands of Mr. Kaushal?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(*10*)(*i*). The position will remain same even if the employee was working with any other employer before joining the Government service and after retirement the employee joins any other employer. Thus, in this case, entire amount of gratuity will be exempt from tax.

Illustration (Gratuity : Non-Government employee computation of monthly salary)

Mr. Subodh (covered by the Payment of Gratuity Act, 1972) is working in Essem Ltd. His monthly basic salary is Rs. 8,400, dearness allowance forming part of salary while computing retirement benefits is Rs. 2,000 and dearness allowance not forming part of salary while computing retirement benefits is Rs. 2,600. He retired from his service in the month of March 2013. What will be his monthly salary for the purpose of computing exemption in respect of Gratuity?

**

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.

(*) 15 days' salary = Salary last drawn × 15/26.

To compute 15 days' salary we need monthly salary last drawn. Salary will include only two things, *i.e.*, basic salary and dearness allowance whether in terms or not. Thus, in this case monthly salary will be Rs. 13,000 (*i.e.*, Rs. 8,400 + 2,000 + 2,600). 15 days' salary will be computed as follows :

15 days' salary = Salary last drawn × 15/26 = Rs. 13,000 × 15/26 = Rs. 7,500.

Illustration (Gratuity : Non-Government employee computation of monthly salary)

Mr. Subodh (not covered by the Payment of Gratuity Act, 1972) is working in Essem Ltd. His monthly basic salary is Rs. 8,400, dearness allowance forming part of salary while computing retirement benefits is Rs. 2,000 and dearness allowance not forming part of salary while computing retirement benefits is Rs. 2,600. There is no change in salary structure since past three years. He retired from his service in the month of March, 2013. What will be his monthly salary for the purpose of computing exemption in respect of Gratuity?

**

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

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.

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. In this case there is no change in salary structure since past 3 years and, hence, average salary of past 10 months will be same as salary last drawn. Salary includes basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover only.

Considering above discussion, monthly salary will come to Rs. 10,400 (Rs. 8,400 + Rs. 2,000). Half month's salary will come to Rs. 5,200.

Illustration (Exemption in respect of gratuity in case of Non-Government employee covered by the Payment of Gratuity Act, 1972)

Mr. Krish retired from A Ltd. on 12-3-2013, after serving for a period of 29 years and 7 months. Following are other details:

- Basic salary per month during the year 2013 was Rs. 18,400.
- Dearness allowance during the year 2013 was :
  (a) Forming part of salary for computing retirement benefits : Rs. 10,600
  (b) Not forming part of salary for computing retirement benefits : Rs. 10,000
- Gratuity received at the time of retirement Rs. 9,75,000.

Compute the amount of exemption and also the taxable amount in respect of gratuity under section 10(10)(ii), if Mr. Krish is covered by the 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:

Particulars	*(Rs.)*
1. 15 days' salary for each completed year of service or part in excess of 6 months (Note 1)	6,75,000
2. Maximum amount specified by the Central Government	10,00,000
3. Actual amount received	9,75,000

Amount of exemption under section 10(10)(ii) will be Rs. 6,75,000, being least of above. Thus, taxable amount of gratuity will be Rs. 3,00,000 (Rs. 9,75,000 – Rs. 6,75,000).

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 the above, computation will be as follows:

- Monthly salary will be Rs. 39,000 (Rs. 18,400 + Rs. 10,600 + Rs. 10,000).
- 15 days' salary will be Rs. 22,500 (Rs. 39,000/26 × 15).
- Duration of service is 29 years and 7 months, it will be taken as 30 years.

15 days' salary @ Rs. 22,500 for 30 years will come to Rs. 6,75,000.

Illustration (Exemption in respect of gratuity in case of Non-Government employee not covered by the Payment of Gratuity Act, 1972)

Mr. Sunil retired from A Ltd. on 12-3-2013, after serving for a period of 29 years and 7 months. Following are other details:

- Basic salary per month during 10 months preceding the month of retirement (*i.e.*, monthly salary from 1-5-12 to 28-2-13) : Rs. 28,400.
- Dearness allowance per month during 10 months preceding the month of retirement (*i.e.*, monthly DA from 1-5-12 to 28-2-13).

  (a) Forming part of salary for computing retirement benefits : Rs. 12,600

  (b) Not forming part of salary for computing retirement benefits : Rs. 5,000
- Gratuity received at the time of retirement Rs. 5,20,000.

Compute the amount of exemption in respect of gratuity under section 10(10)(iii), if Mr. Sunil 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 :

Particulars	*(Rs.)*
1. Half month's average salary for each completed year of service (Note 1)	5,94,500
2. Maximum amount specified by the Central Government	10,00,000
3. Actual amount received	5,20,000

Amount of exemption under section 10(10)(iii) will be Rs. 5,20,000, being least of above.

Note 1: Computation of half month's average 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 average salary will be computed by dividing average salary by 2.

Based on above, salary will be computed as follows:

Particulars	*(Rs.)*
Basic salary per month, for 10 months immediately preceding the month of retirement	28,400
(+) Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the month of retirement	12,600
Total monthly salary for the purpose of computing exemption	41,000

There is no need to convert aforesaid monthly salary of Rs. 41,000 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 average salary will be Rs. 20,500 (i.e., Rs. 41,000/2).
- Duration of service will be 29 years (part of year will be ignored).

Half month's salary @ Rs. 20,500 for 29 completed years of service will come to Rs. 5,94,500 (Rs. 20,500 × 29 years).

Illustration (Un-commuted pension in case of Government employee)

Mr. Sunil retired from Government service after rendering service for 30 years. After his retirement he is receiving Rs. 8,400 per month as pension. What will be tax treatment of monthly pension received by Mr. Sunil?

**

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 un-commuted pension. Thus, un-commuted pension of Rs. 8,400 per month will be fully taxed in the hands of Mr. Sunil.

Illustration (Un- commuted pension in case of non-Government employee)

Mr. Suraj retired from his job (non-Government) after rendering service for 20 years. After his retirement he is receiving Rs. 18,400 per month as pension. What will be tax treatment of monthly pension received by Mr. Suraj?

**

Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Thus, un-commuted pension of Rs. 18,400 per month will be fully taxed in the hands of Mr. Suraj.

Illustration (Commuted and Un-commuted pension in case of Government employee)

Mr. Krunal retired from Government job after rendering service of 30 years. After his retirement he is receiving Rs. 8,400 per month as pension. Apart from Rs. 8,400 as monthly pension, he also received Rs. 5,00,000 on account of commuting of his 40% of pension. What will be tax treatment of pension received by Mr. Krunal?

**

As per section 10(10A)(i), any commuted pension, *i.e.*, accumulated pension in lieu of monthly pension is fully exempt in the hands of a Government employee. There is no exemption in respect of un-commuted pension. Thus, un-commuted pension of Rs. 8,400 per month will be fully taxed in the hand of Mr. Krunal. However, commuted pension will be fully exempt in the hands of Government employee, hence, Rs. 5,00,000 will be fully exempt from tax.

Illustration (Commuted and Un-commuted pension in case of non-Government employee)

Mr. Krunal retired from his job (non-Government) after rendering service for 20 years. After his retirement he is receiving Rs. 2,520 per month as pension. Apart from Rs. 2,520 as monthly pension, he also received Rs. 1,00,000 on account of commuting of his 40% of pension. He has not received any gratuity. What will be tax treatment of pension received by Mr. Krunal?

**

Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Thus, un-commuted pension of Rs. 2,520 per month will be fully taxed in the hand of Mr. Krunal.

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).

In this case no gratuity is received, hence, one half of full value of commuted pension will be exempt from tax. Rs. 1,00,000 is commuted value of 40% of pension, hence, commuted value of 100% pension will come to Rs. 2,50,000. Exemption will be one half of Rs. 2,50,000 which will come to Rs. 1,25,000. In this case actual amount of commuted pension is Rs. 1,00,000 which is less than Rs. 1,25,000, hence, entire amount of commuted pension will be exempt from tax.

Illustration (Commuted and Un-commuted pension in case of non-Government employee)

Mr. Krunal retired from his job (non-Government) after rendering service for 20 years. After his retirement he is receiving Rs. 2,520 per month as pension. Apart from Rs. 2,520 as monthly pension, he also received Rs. 1,00,000 on account of commuting of his 40% of pension. He has received gratuity of Rs. 1,00,000, however, entire amount of gratuity is charged to tax. What will be tax treatment of pension received by Mr. Krunal?

**

Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Thus, un-commuted pension of Rs. 2,520 per month will be fully taxed in the hand of Mr. Krunal.

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).

It should be noted that the exemption will be one third of amount if gratuity is received whether or not any exemption in respect of gratuity is available.

In this case gratuity is received, hence, one third of full value of commuted pension will be exempt from tax. Rs. 1,00,000 is commuted value of 40% of pension, hence, commuted value of 100% pension will come to Rs. 2,50,000. Exemption will be one third of Rs. 2,50,000 which will come to Rs. 83,333.

Illustration (Commuted and Un-commuted pension in case of non-Government employee)

Mr. Krunal retired from his job (non-Government) after rendering service for 20 years. After his retirement he is receiving Rs. 2,520 per month as pension. Apart from Rs. 2,520 as monthly pension, he also received Rs. 1,00,000 on account of commuting of his 40% of pension. He has received gratuity of Rs. 1,00,000, however, entire amount of gratuity is exempt from tax. What will be tax treatment of pension received by Mr. Krunal?

**

Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Thus, un-commuted pension of Rs. 2,520 per month will be fully taxed in the hand of Mr. Krunal.

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).

It should be noted that the exemption will be one third of amount if gratuity is received whether or not any exemption in respect of gratuity is available.

In this case gratuity is received, hence, one third of full value of commuted pension will be exempt from tax. Rs. 1,00,000 is commuted value of 40% of pension, hence, commuted value of 100% pension will come to Rs. 2,50,000. Exemption will be one third of Rs. 2,50,000 which will come to Rs. 83,333.

Illustration (Provident fund payments in case of statutory provident fund)

Mr. Sudhir's employer is making annual contribution of Rs. 84,000 in the statutory provident fund account of Mr. Sudhir. What will be the tax treatment of annual contribution of Rs. 84,000?

**

Contribution made by the employer in case of statutory provident fund is fully exempt from tax. Thus, Rs. 84,000 contributed by the employer of Mr. Sudhir will be fully exempt in the hands of Mr. Sudhir.

Illustration (Provident fund payments in case of statutory provident fund)

Mr. Sudhir annually contributed Rs. 25,200 to his statutory provident fund. Can he claim deduction of above contribution under section 80C?

**

Contribution made by the employee to his statutory provident fund is deductible under section 80C, hence, Rs. 25,200 contributed by Mr. Sudhir will be deductible under section 80C.

Illustration (Provident fund payments in case of statutory provident fund)

During the year 2012-13, Rs. 25,200 was credited to the statutory provident fund account of Mr. Sudhir on account of interest. What will be the tax treatment of Rs. 25,200?

**

Interest credited to statutory provident fund is exempt from tax, hence, Rs. 25,200 will be exempt in the hands of Mr. Sudhir.

Illustration (Provident fund payments in case of statutory provident fund)

In April, 2012 Mr. Sudhir retired and received Rs. 8,40,000 as refund of contribution to statutory provident fund. What will be the tax treatment of Rs. 8,40,000?

**

Amount received from statutory provident fund at the time of retirement is fully exempt from tax, hence, Rs. 8,40,000 will be fully exempt from tax.

Illustration (Provident fund payments in case of recognised provident fund)

Mr. Sudhir's employer is making annual contribution of Rs. 84,000 in the recognised provident fund account of Mr. Sudhir. Annual basic salary of Mr. Sudhir is Rs. 3,00,000.

Annual dearness allowance (not in terms) is Rs. 2,00,000. What will be the tax treatment of annual contribution of Rs. 84,000?

**

Contribution made by the employer in case of recognised provident fund fund is exempt from tax upto 12% of the salary. 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.

Based on above, salary will come to Rs. 3,00,000. 12% of Rs. 3,00,000 will come to Rs. 36,000. Employer has contributed Rs. 84,000, hence, amount in excess of Rs. 36,000 will be charged to tax. Thus, Rs. 48,000 will be charged to tax.

Illustration (Provident fund payments in case of recognised provident fund)

Mr. Sudhir contributed Rs. 25,200 annually to his recognised provident fund. Can he claim deduction of above contribution under section 80C?

**

Contribution made by the employee to his recognised provident fund is deductible under section 80C, hence, Rs. 25,200 contributed by Mr. Sudhir will be deductible under section 80C.

Illustration (Provident fund payments in case of recognised provident fund)

During the year 2012-13, Rs. 25,200 was credited to the recognised provident fund account of Mr. Sudhir on account of interest (@ 10%). What will be the tax treatment of Rs. 25,200?

**

Interest credited to recognised provident fund is exempt from tax upto 9.5% per annum. Taxable interest will be computed as follows:

Particulars	***(Rs.)***
Interest credited @ 10%	25,200
Interest exempt from tax @ 9.5% (Note 1)	23,940
Taxable interest	1,260

Note 1:

%	***Interest***
10	Rs. 25,200
9.5	?

Interest @ 9.5% will come to Rs. 23,940.

Illustration (Provident fund payments in case of recognised provident fund)

In April, 2012 Mr. Sudhir retired and received Rs. 8,40,000 as refund of contribution to recognised provident fund. What will be the tax treatment of Rs. 8,40,000?

**

Amount received from recognised provident fund at the time of retirement is fully exempt from tax, if the employee has retired after rendering a continuous service of 5 years. In the above case, the duration of service is not given, hence, if the duration of service is more than five years then entire amount will be exempt from tax. If duration of service is less than five years, then tax treatment of Rs. 8,40,000 will be 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.

Entire amount will be exempt from tax, 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 due to other reasons beyond his control.

Illustration (Provident fund payments in case of un-recognised provident fund)

Mr. Sudhir's employer is making annual contribution of Rs. 84,000 in the un-recognised provident fund account of Mr. Sudhir. Annual basic salary of Mr. Sudhir is Rs. 3,00,000. Annual dearness allowance (not in terms) is Rs. 2,00,000. What will be the tax treatment of annual contribution of Rs. 84,000?

**

Contribution made by the employer in case of un-recognised provident fund is exempt from tax. Thus, Rs. 84,000 will be exempt from tax.

Illustration (Provident fund payments in case of un-recognised provident fund)

Mr. Sudhir annually contributed Rs. 25,200 to his un-recognised provident fund. Can he claim deduction of above contribution under section 80C?

**

Contribution made by the employee to his un-recognised provident is not deductible under section 80C, hence, Rs. 25,200 contributed by Mr. Sudhir cannot be deducted under section 80C.

Illustration (Provident fund payments in case of un-recognised provident fund)

During the year 2012-13, Rs. 25,200 was credited to the un-recognised provident fund account of Mr. Sudhir on account of interest (@ 15%). What will be the tax treatment of Rs. 25,200?

**

Interest credited to un-recognised provident fund is exempt from tax. Thus, Rs. 25,200 will be exempt from tax.

Illustration (Provident fund payments in case of un-recognised provident fund)

In April, 2012 Mr. Sudhir retired and received Rs. 8,40,000 as refund of contribution to un-recognised provident fund. What will be the tax treatment of Rs. 8,40,000?

**

The tax treatment of Rs. 8,40,000 will be 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.

FAQ ON ADVANCE LEARNING ON RETIREMENT BENEFITS (PRACTICAL)

1. What are various retirement benefits? Explain with the help of illustrations?

Following illustration will explain the nature of major retirement benefits :

Illustration

From the following information identify the nature of retirement benefit.

- Cash received in respect of leave not availed by the employee amounting to Rs. 84,000 (for 84 days). Receipt was during the continuation of the service.
- Cash received at the time of retirement in respect of leave not availed by the employee amounting to Rs. 25,200 (for 25 days).
- After retirement, Mr. Kumar received Rs. 8,400 per month from his employer.
- In the above case, Mr. Kumar requested his employer to pay a lumpsum amount in lieu of monthly pension and he received Rs. 84,000.
- Mr. Kumar opted for voluntarily retirement and got Rs. 8,40,000 on account of voluntarily retirement.

**

Particulars	*Nature of payment*
Cash received in respect of leave not availed by the employee amounting to Rs. 84,000 (for 84 days). Receipt was during the continuation of the service.	This will amount to leave encashment during the continuation of service.
Cash received at the time of retirement in respect of leave not availed by the employee amounting to Rs. 25,200 (for 25 days).	This will amount to leave encashment at the time of retirement.
After retirement, Mr. Kumar received Rs. 8,400 per month from his employer.	This will amount to un-commuted pension.
In the above case, Mr. Kumar requested his employer to accumulate the above payments and in lieu he received Rs. 84,000.	This will amount to commuted pension.
Mr. Kumar opted for voluntarily retirement and got Rs. 8,40,000 on account of voluntarily retirement.	This will amount to payment received on account of voluntarily retirement.

2. What is the tax treatment of leave encashment received by an employee during continuation of service? Explain with the help of an illustration.

Following illustrations will explain the tax treatment of leave encashment received by an employee during continuation of service :

Illustration (Government employee)

Mr. Kripal is a Government employee (he still has 10 years of service left). 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 still has 10 years of service left). 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.

3. What is the tax treatment of leave encashment received by an employee at the time of retirement? Explain with the help of an illustration.

Following illustrations will explain the tax treatment of leave encashment received by an employee at the time of retirement :

Illustration (Government employee)

Mr. Rupen is a Government employee. He is entitled to 28 days' leave per year. He retired in January, 2013. At the time of retirement, he has to his credit leave 184 days in his account. 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 it will be fully exempt from tax (*).

(*)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 (Non-Government employee)

Mr. Rupen is working in Essem Ltd. He is entitled to 28 days' leave per year. He retired in January, 2013. At the time of retirement, he has to his credit leave of 184 days in his account. He received Rs. 4,84,000 on account of leave encashment at the time of retirement. In this case, out of Rs. 4,84,000, Mr. Rupen can claim exemption under section 10(*10AA*)(*ii*) as follows :

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*

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

(*) Computed in prescribed manner which is discussed later on.

Illustration (Computation of leave standing to credit at the time of retirement)

Mr. Kumar is working in Essem Ltd. He retired from his job after completing service of 30 years and 10 days. As per service rules he is entitled to avail leave of 25 days per year. During the tenure of his service, he availed leave of 300 days and encashed leave of 100 days. What will the number of days of leave standing to his credit which can be encashed by him at the time of his retirement? Also, compute the number of days to be used for computing exemption in respect of leave encashment at the time of retirement.

**

Computation of number of days of leave standing to credit which can be encashed at the time of retirement

Particulars	*Days*
Number of years of service (ignore any fraction of year)	30 years
(×) No. of days of leave entitlement for each year of service as per service rules (*)	25 days
Gross total leave	750 days
Less : Leave availed during the continuation of service	300 days
Less : Leave encashed during the continuation of service	100 days
Leave standing to the credit of employee which can be encashed at the time of retirement	350 days

(*) Computation of number of days to be used for computing exemption in respect of leave encashment at the time of retirement

While computing exemption in respect of leave encashment at the time of retirement, if leave entitlement as per service rules exceeds 30 days per year of actual service, then it should be restricted to 30 days. In this case, the leave entitlement as per service rule is only 25 days (*i.e.*, does not exceed 30 days per year) and, hence, 350 days (as computed above) will only be taken into account while computing exemption in respect of leave encashment at the time of retirement.

Illustration

Mr. Kumar is working in Essem Ltd. He retired from his job after completing service of 30 years and 10 days. As per service rules he is entitled to avail leave of 40 days per year. During the tenure of his service, he availed leave of 300 days and encashed leave of 100 days. What will the number of days of leave standing to his credit which can be encashed by him at the time of his retirement? Also, compute the number of days to be used for computing exemption in respect of leave encashment at the time of retirement.

**

Computation of number of days of leave standing to credit which can be encashed at the time of retirement

Particulars	*Days*
Number of years of service (ignore any fraction of year)	30 years
(×) No. of days of leave entitlement for each year of service as per service rules	40 days

Gross total leave	1,200 days
Less : Leave availed during the continuation of service	300 days
Less : Leave encashed during the continuation of service	100 days
Leave standing to the credit of employee which can be encashed at the time of retirement	800 days

Computation of number of days to be used for computing exemption in respect of leave encashment at the time of retirement

While computing exemption in respect of leave encashment at the time of retirement, if leave entitlement as per service rules exceeds 30 days per year of actual service, then it should be restricted to 30 days. In this case, the leave entitlement as per service rule is 40 days (*i.e.*, exceeds 30 days per year) and, hence, 800 days (as computed above) cannot be taken into account while computing exemption in respect of leave encashment at the time of retirement. The computation in this case will be as follows :

Particulars	***Days***
Number of years of service (ignore any fraction of year)	30 years
(×) 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)	30 days
Gross total leave	900 days
Less : Leave availed during the continuation of service	300 days
Less : Leave encashed during the continuation of service	100 days
Number of days to be used for computing exemption in respect of leave encashment at the time of retirement	500 days

Illustration

Mr. Kumar is working in Essem Ltd. He retired from his job after completing service of 30 years and 10 days. As per service rules he is entitled to avail leave of 40 days per year. During the tenure of his service, he availed leave of 700 days and encashed leave of 300 days. What will the number of days of leave standing to his credit which can be encashed by him at the time of his retirement? Also compute the number of days to be used for computing exemption in respect of leave encashment at the time of retirement.

**

Computation of number of days of leave standing to credit which can be encashed at the time of retirement

Particulars	***Days***
Number of years of service (ignore any fraction of year)	30 years
(×) No. of days of leave entitlement for each year of service as per service rules	40 days

Gross total leave	1,200 days
Less : Leave availed during the continuation of service	700 days
Less : Leave encashed during the continuation of service	300 days
Leave standing to the credit of employee which can be encashed at the time of retirement	200 days

Computation of number of days to be used for computing exemption in respect of leave encashment at the time of retirement

While computing exemption in respect of leave encashment at the time of retirement, if leave entitlement as per service rules exceeds 30 days per year of actual service, then it should be restricted to 30 days. In this case, the leave entitlement as per service rule is 40 days (*i.e.,* exceeds 30 days per year) and, hence, 200 days (as computed above) cannot be taken into account while computing exemption in respect of leave encashment at the time of retirement. The computation in this case will be as follows :

Particulars	***Days***
Number of years of service (ignore any fraction of year)	30 years
(×) 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)	30 days
Gross total leave	900 days
Less : Leave availed during the continuation of service	700 days
Less : Leave encashed during the continuation of service	300 days
Number of days to be used for computing exemption in respect of leave encashment at the time of retirement	*Nil*

In this case, entire leave encashment will be taxed.

Illustration for computation of average monthly salary to be used while computing exemption in respect of leave encashment at the time of retirement in case of Non-Government employee.

Illustration (Non- Government employee)

Mr. Kapoor is working in Essem Ltd. at a monthly basic salary of Rs. 25,200. Apart from basic salary he is receiving following :

- Dearness allowance (forming part of salary while computing retirement benefits) of Rs. 30,000 per month.
- Dearness allowance (not forming part of salary while computing retirement benefits) of Rs. 10,000 per month.
- Value of perquisite in respect of rent free accommodation provided by the employer amounting to Rs. 10,000 per month.

- Value of perquisite in respect of free meal provided during office hours amounting to Rs. 5,000 per month.
- Telephone allowance provided by the employer, Rs. 1,000 per month.
- Fixed monthly commission of Rs. 10,000.
- Commission based on fixed percentage of turnover achieved by him of Rs. 20,000 (@ 1% of turnover of Rs. 20,00,000 for the month).
- Children's education allowance Rs. 2,000 per month for his two children.
- Medical allowance of Rs. 3,000 per month.

There was 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 forming part of salary 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 :

Particulars	***(Rs.)***
Basic salary	25,200
Dearness allowance (forming part of salary while computing retirement benefits)	30,000
Commission based on fixed percentage of turnover achieved by the employee	20,000
Monthly salary	75,200

Following items will not form part of salary to be used for computing exemption in respect of leave encashment and, hence, these items have not been considered in above computation:

- Dearness allowance (not forming part of salary while computing retirement benefits) of Rs. 10,000 per month.
- Value of perquisite in respect of rent free accommodation provided by the employer amounting to Rs. 10,000 per month.

- Value of perquisite in respect of free meal provided during office hours amounted to Rs. 5,000 per month.
- Telephone allowance provided by the employer Rs. 1,000 per month.
- Fixed monthly commission of Rs. 10,000.
- Children's education allowance Rs. 2,000 per month for his two children.
- Medical allowance of Rs. 3,000 per month.

Illustration (Computation of exemption in respect of leave encashment at the time of retirement in case of non-Government employee)

Mr. Sunil is working in Essem Ltd. at a monthly basic salary of Rs. 18,400. Apart from basic salary he is receiving dearness allowance (forming part of salary while computing retirement benefits) of Rs. 1,600 per month. Apart from basic salary and dearness allowance he is not receiving any other benefits. There was no change in the above pay structure throughout the year 2012-13. On 31st March, 2013 Mr. Sunil retired from his service. At the time of retirement he received leave encashment of Rs. 2,40,000 in respect of leave standing to his credit. The details of leave available to him and the details of leave availed by him are as follows :

- He is entitled to leave of 35 days for each completed year of service.
- He retired after serving for 28 years.
- During the tenure of his service he has availed leave of 300 days and encashed leave of 200 days.

**

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 of 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 would be 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	2,40,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	2,00,000
Taxable leave salary	40,000

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)	2,26,666

2. 10 months' average salary (Note 3) 2,00,000
3. Maximum amount specified by the Central Government 3,00,000
4. Actual amount received 2,40,000

Amount of exemption under section 10(10AA)(ii) will be Rs. 2,00,000, 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. Sunil 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:

Particulars	***Days***
Total leave available during the tenure of service (30 days × 28 years)	840 days
Less: (a) Leave availed during service period	300 days
(b) Leave encashed during service period	200 days
Leave standing to credit at the time of retirement	340 days

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 for ten months immediately preceding the retirement (*i.e.*, from 1st June, 2012 to 31st March, 2013) will be computed as follows:

Particulars	***(Rs.)***
Basic salary per month for 10 months immediately preceding the retirement	18,400
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	1,600
Total monthly salary for the purpose of computing exemption	20,000

There is no change in salary during 10 months immediately preceding the retirement, thus, there is no need to convert aforesaid monthly salary of Rs. 20,000 into average monthly salary.

Step 3: Computation of cash equivalent to earned leave:

= Leave standing to credit at the time of retirement (in months) × Average monthly salary

$$= \frac{340 \text{ days}}{30 \text{ days}} \times \text{Rs. } 20{,}000$$

= Rs. 2,26,666

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

= Average monthly salary × 10 months

= Rs. 20,000 × 10 months = Rs. 2,00,000

Illustration (Computation of exemption in respect of leave encashment at the time of retirement in case of non-Government employee)

Mr. Sujal retired from his job in the month of April, 2013. At the time of his retirement his monthly basic salary was Rs. 25,200 and dearness allowance (forming part of salary while computing retirement benefits) was Rs. 10,800 per month. Apart from basic salary and dearness allowance he was not receiving any other benefits. His last increment was in, the month of December, 2012. The increment was Rs. 5,000 in basic salary and Rs. 3,000 in dearness allowance. At the time of retirement he received leave encashment of Rs. 5,40,000 in respect of leave standing to his credit. The details of leave available to him and the details of leave availed by him were as follows :

- He was entitled to leave of 25 days for each completed year of service.
- He retired after serving for 22 years.
- During the tenure of his service he availed leave of 200 days and encashed leave of 150 days.

**

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 would be 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	5,40,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	2,08,000
Taxable leave salary	3,32,000

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)	2,08,000

2.	10 months' average salary (Note 3)	3,12,000
3.	Maximum amount specified by the Central Government	3,00,000
4.	Actual amount received	5,40,000

Amount of exemption under section 10(10AA)(ii) will be Rs. 2,08,000, 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. Sujal is entitled to 25 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. However, in this case leave entitlement per year is 25 days, hence, we will take 25 days in computation. Detailed computation will be as follows:

Particulars	***Days***
Total leave available during the tenure of service (25 days × 22 years)	550 days
Less: (a) Leave availed during service period	200 days
(b) Leave encashed during service period	150 days
Leave standing to credit at the time of retirement	200 days

Step 2: Computation of average monthly salary:

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

- 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 for the ten months immediately preceding the retirement (*i.e.*, from 1st June, 2012 to 31st March, 2013) will be computed as follows:

Particulars	***From 1st December, 2012 to 31st March, 2013***	***From 1st June, 2012 to 30th Nov., 2012***
Basic salary per month for 10 months immediately preceding the retirement	25,200	20,200
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	10,800	7,800
Total monthly salary for the purpose of computing exemption	36,000	28,000
(×) No. of months	4	6

Salary for the period	1,44,000	1,68,000
Salary for ten months (Rs. 1,44,000 + Rs. 1,68,000)		3,12,000

Total salary for ten months preceding the retirement amounted to Rs. 3,12,000, hence, monthly average salary will come to Rs. 31,200 (Rs. 3,12,000 ÷ 10)

Step 3: Computation of cash equivalent to earned leave:

= Leave standing to credit at the time of retirement (in months) × Average monthly salary

$= \frac{200 \text{ days}}{30 \text{ days}} \times \text{Rs. } 31{,}200$

= Rs. 2,08,000

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

= Average monthly salary × 10 months

= Rs. 31,200 × 10 months = Rs. 3,12,000

4. What is the tax treatment of gratuity received by an employee? Explain with the help of an illustration.

Following illustrations will explain the tax treatment of gratuity received by an employee:

Illustration (Computation of exemption in respect of gratuity received at the time of retirement in case of Government employee)

Mr. Krunal is a Central Government employee. He retired from his service in January, 2013 after rendering service of 20 years and received gratuity of Rs. 8,40,000. What will be the tax treatment of gratuity in the hands of Mr. Krunal?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(*10*)(*i*). Thus, in this case entire amount of gratuity will be exempt from tax.

Illustration (Computation of exemption in respect of gratuity received at the time of retirement in case of Government employee)

Mr. Sunil is a Central Government employee. He retired from his service in March, 2013 after rendering service of 25 years and received gratuity of Rs. 18,40,000. After retirement he joined Essem Ltd., a private sector company. What will be the tax treatment of gratuity in the hands of Mr. Sunil?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(*10*)(*i*). The position will remain same even if after the retirement the employee joins any other employer. Thus, in this case entire amount of gratuity will be exempt from tax.

Illustration (Computation of exemption in respect of gratuity received at the time of retirement in case of Government employee)

Mr. Saurabh was working in Essem Ltd. since 1989. He left the job in 1998 and there after joined Central Government employment. He retired from his Government job in March, 2013 and received gratuity of Rs. 2,52,000. What will be the tax treatment of gratuity in the hands of Mr. Saurabh?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(*10*)(*i*). The position would remain same even if the employee was working with any other employer before joining the Government job. Thus, in this case, entire amount of gratuity will be exempt from tax.

Illustration (Computation of exemption in respect of gratuity received at the time of retirement in case of Government employee)

Mr. Kaushal was working in Essem Ltd. since 1989. He left the job in 1998 and there after joined Central Government employment. He retired from his Government job in March, 2013 and received gratuity of Rs. 2,52,000. After retirement he joined Essem Ltd., a private sector company. What will be the tax treatment of gratuity in the hands of Mr. Kaushal?

In case of a Government employee, any death-cum-retirement gratuity received is wholly exempt under section 10(*10*)(*i*). The position will remain same even if the employee was working with any other employer before joining the Government service and after retirement the employee joins any other employer. Thus, in this case, entire amount of gratuity will be exempt from tax.

Illustration (Gratuity : Non-Government employee computation of monthly salary)

Mr. Subodh (covered by the Payment of Gratuity Act, 1972) is working in Essem Ltd. His monthly basic salary is Rs. 8,400, dearness allowance forming part of salary while computing retirement benefits is Rs. 2,000 and dearness allowance not forming part of salary while computing retirement benefits is Rs. 2,600. He retired from his service in the month of March 2013. What will be his monthly salary for the purpose of computing exemption in respect of Gratuity?

**

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.

(*) 15 days' salary = Salary last drawn × 15/26.

To compute 15 days' salary we need monthly salary last drawn. Salary will include only two things, *i.e.*, basic salary and dearness allowance whether in terms or not. Thus, in this case monthly salary will be Rs. 13,000 (*i.e.*, Rs. 8,400 + 2,000 + 2,600). 15 days' salary will be computed as follows :

15 days' salary = Salary last drawn × 15/26 = Rs. 13,000 × 15/26 = Rs. 7,500.

Illustration (Gratuity : Non-Government employee computation of monthly salary)

Mr. Subodh (not covered by the Payment of Gratuity Act, 1972) is working in Essem Ltd. His monthly basic salary is Rs. 8,400, dearness allowance forming part of salary while computing retirement benefits is Rs. 2,000 and dearness allowance not forming part of salary while computing retirement benefits is Rs. 2,600. There is no change in salary structure since past three years. He retired from his service in the month of March, 2013. What will be his monthly salary for the purpose of computing exemption in respect of Gratuity?

**

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

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.

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. In this case there is no change in salary structure since past 3 years and, hence, average salary of past 10 months will be same as salary last drawn. Salary includes basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover only.

Considering above discussion, monthly salary will come to Rs. 10,400 (Rs. 8,400 + Rs. 2,000). Half month's salary will come to Rs. 5,200.

Illustration (Exemption in respect of gratuity in case of Non-Government employee covered by the Payment of Gratuity Act, 1972)

Mr. Krish retired from A Ltd. on 12-3-2013, after serving for a period of 29 years and 7 months. Following are other details:

- Basic salary per month during the year 2013 was Rs. 18,400.
- Dearness allowance during the year 2013 was :

  (a) Forming part of salary for computing retirement benefits : Rs. 10,600

  (b) Not forming part of salary for computing retirement benefits : Rs. 10,000

- Gratuity received at the time of retirement Rs. 9,75,000.

  Compute the amount of exemption and also the taxable amount in respect of gratuity under section 10(10)(ii), if Mr. Krish is covered by the 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:

Particulars	***(Rs.)***
1. 15 days' salary for each completed year of service or part in excess of 6 months (Note 1)	6,75,000
2. Maximum amount specified by the Central Government	10,00,000
3. Actual amount received	9,75,000

Amount of exemption under section 10(10)(ii) will be Rs. 6,75,000, being least of above. Thus, taxable amount of gratuity will be Rs. 3,00,000 (Rs. 9,75,000 – Rs. 6,75,000).

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 the above, computation will be as follows:

- Monthly salary will be Rs. 39,000 (Rs. 18,400 + Rs. 10,600 + Rs. 10,000).
- 15 days' salary will be Rs. 22,500 (Rs. 39,000/26 × 15).
- Duration of service is 29 years and 7 months, it will be taken as 30 years.

15 days' salary @ Rs. 22,500 for 30 years will come to Rs. 6,75,000.

Illustration (Exemption in respect of gratuity in case of Non-Government employee not covered by the Payment of Gratuity Act, 1972)

Mr. Sunil retired from A Ltd. on 12-3-2013, after serving for a period of 29 years and 7 months. Following are other details:

- Basic salary per month during 10 months preceding the month of retirement (*i.e.*, monthly salary from 1-5-12 to 28-2-13) : Rs. 28,400.
- Dearness allowance per month during 10 months preceding the month of retirement (*i.e.*, monthly DA from 1-5-12 to 28-2-13).

  (a) Forming part of salary for computing retirement benefits : Rs. 12,600

  (b) Not forming part of salary for computing retirement benefits : Rs. 5,000
- Gratuity received at the time of retirement Rs. 5,20,000.

  Compute the amount of exemption in respect of gratuity under section 10(10)(iii), if Mr. Sunil 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 :

Particulars	***(Rs.)***
1. Half month's average salary for each completed year of service (Note 1)	5,94,500
2. Maximum amount specified by the Central Government	10,00,000
3. Actual amount received	5,20,000

Amount of exemption under section 10(10)(iii) will be Rs. 5,20,000, being least of above.

Note 1: Computation of half month's average 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 average salary will be computed by dividing average salary by 2.

Based on above, salary will be computed as follows:

Particulars	*(Rs.)*
Basic salary per month, for 10 months immediately preceding the month of retirement	28,400
(+) Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the month of retirement	12,600
Total monthly salary for the purpose of computing exemption	41,000

There is no need to convert aforesaid monthly salary of Rs. 41,000 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 average salary will be Rs. 20,500 (i.e., Rs. 41,000/2).
- Duration of service will be 29 years (part of year will be ignored).

Half month's salary @ Rs. 20,500 for 29 completed years of service will come to Rs. 5,94,500 (Rs. 20,500 × 29 years).

5. What is the tax treatment of pension received by an employee? Explain with the help of an illustration.

Following illustrations will explain the tax treatment of pension received by an employee:

Illustration (Un-commuted pension in case of Government employee)

Mr. Sunil retired from Government service after rendering service for 30 years. After his retirement he is receiving Rs. 8,400 per month as pension. What will be tax treatment of monthly pension received by Mr. Sunil?

**

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 un-commuted pension. Thus, un-commuted pension of Rs. 8,400 per month will be fully taxed in the hands of Mr. Sunil.

Illustration (Un- commuted pension in case of non-Government employee)

Mr. Suraj retired from his job (non-Government) after rendering service for 20 years. After his retirement he is receiving Rs. 18,400 per month as pension. What will be tax treatment of monthly pension received by Mr. Suraj?

**

Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Thus, un-commuted pension of Rs. 18,400 per month will be fully taxed in the hands of Mr. Suraj.

Illustration (Commuted and Un-commuted pension in case of Government employee)

Mr. Krunal retired from Government job after rendering service of 30 years. After his retirement he is receiving Rs. 8,400 per month as pension. Apart from Rs. 8,400 as monthly pension, he also received Rs. 5,00,000 on account of commuting of his 40% of pension. What will be tax treatment of pension received by Mr. Krunal?

**

As per section 10(10A)(i), any commuted pension, *i.e.*, accumulated pension in lieu of monthly pension is fully exempt in the hands of a Government employee. There is no exemption in respect of un-commuted pension. Thus, un-commuted pension of Rs. 8,400 per month will be fully taxed in the hand of Mr. Krunal. However, commuted pension will be fully exempt in the hands of Government employee, hence, Rs. 5,00,000 will be fully exempt from tax.

Illustration (Commuted and Un-commuted pension in case of non-Government employee)

Mr. Krunal retired from his job (non-Government) after rendering service for 20 years. After his retirement he is receiving Rs. 2,520 per month as pension. Apart from Rs. 2,520 as monthly pension, he also received Rs. 1,00,000 on account of commuting of his 40% of pension. He has not received any gratuity. What will be tax treatment of pension received by Mr. Krunal?

**

Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Thus, un-commuted pension of Rs. 2,520 per month will be fully taxed in the hand of Mr. Krunal.

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).

In this case no gratuity is received, hence, one half of full value of commuted pension will be exempt from tax. Rs. 1,00,000 is commuted value of 40% of pension, hence, commuted value of 100% pension will come to Rs. 2,50,000. Exemption will be one half of Rs. 2,50,000 which will come to Rs. 1,25,000. In this case actual amount of commuted pension is Rs. 1,00,000 which is less than Rs. 1,25,000, hence, entire amount of commuted pension will be exempt from tax.

Illustration (Commuted and Un-commuted pension in case of non-Government employee)

Mr. Krunal retired from his job (non-Government) after rendering service for 20 years. After his retirement he is receiving Rs. 2,520 per month as pension. Apart from Rs. 2,520 as monthly pension, he also received Rs. 1,00,000 on account of commuting of his 40% of pension. He has received gratuity of Rs. 1,00,000, however, entire amount of gratuity is charged to tax. What will be tax treatment of pension received by Mr. Krunal?

**

Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Thus, un-commuted pension of Rs. 2,520 per month will be fully taxed in the hand of Mr. Krunal.

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).

It should be noted that the exemption will be one third of amount if gratuity is received whether or not any exemption in respect of gratuity is available.

In this case gratuity is received, hence, one third of full value of commuted pension will be exempt from tax. Rs. 1,00,000 is commuted value of 40% of pension, hence, commuted value of 100% pension will come to Rs. 2,50,000. Exemption will be one third of Rs. 2,50,000 which will come to Rs. 83,333.

Illustration (Commuted and Un-commuted pension in case of non-Government employee)

Mr. Krunal retired from his job (non-Government) after rendering service for 20 years. After his retirement he is receiving Rs. 2,520 per month as pension. Apart from Rs. 2,520 as monthly pension, he also received Rs. 1,00,000 on account of commuting of his 40% of pension. He has received gratuity of Rs. 1,00,000, however, entire amount of gratuity is exempt from tax. What will be tax treatment of pension received by Mr. Krunal?

**

Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Thus, un-commuted pension of Rs. 2,520 per month will be fully taxed in the hand of Mr. Krunal.

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).

It should be noted that the exemption will be one third of amount if gratuity is received whether or not any exemption in respect of gratuity is available.

In this case gratuity is received, hence, one third of full value of commuted pension will be exempt from tax. Rs. 1,00,000 is commuted value of 40% of pension, hence, commuted value of 100% pension will come to Rs. 2,50,000. Exemption will be one third of Rs. 2,50,000 which will come to Rs. 83,333.

6. What is the tax treatment of provident fund payments received by an employee? Explain with the help of an illustration.

Following illustrations will explain the tax treatment of provident fund payments received by an employee:

Illustration (Provident fund payments in case of statutory provident fund)

Mr. Sudhir's employer is making annual contribution of Rs. 84,000 in the statutory provident fund account of Mr. Sudhir. What will be the tax treatment of annual contribution of Rs. 84,000?

**

Contribution made by the employer in case of statutory provident fund is fully exempt from tax. Thus, Rs. 84,000 contributed by the employer of Mr. Sudhir will be fully exempt in the hands of Mr. Sudhir.

Illustration (Provident fund payments in case of statutory provident fund)

Mr. Sudhir annually contributed Rs. 25,200 to his statutory provident fund. Can he claim deduction of above contribution under section 80C?

**

Contribution made by the employee to his statutory provident fund is deductible under section 80C, hence, Rs. 25,200 contributed by Mr. Sudhir will be deductible under section 80C.

Illustration (Provident fund payments in case of statutory provident fund)

During the year 2012-13, Rs. 25,200 was credited to the statutory provident fund account of Mr. Sudhir on account of interest. What will be the tax treatment of Rs. 25,200?

**

Interest credited to statutory provident fund is exempt from tax, hence, Rs. 25,200 will be exempt in the hands of Mr. Sudhir.

Illustration (Provident fund payments in case of statutory provident fund)

In April, 2012 Mr. Sudhir retired and received Rs. 8,40,000 as refund of contribution to statutory provident fund. What will be the tax treatment of Rs. 8,40,000?

**

Amount received from statutory provident fund at the time of retirement is fully exempt from tax, hence, Rs. 8,40,000 will be fully exempt from tax.

Illustration (Provident fund payments in case of recognised provident fund)

Mr. Sudhir's employer is making annual contribution of Rs. 84,000 in the recognised provident fund account of Mr. Sudhir. Annual basic salary of Mr. Sudhir is Rs. 3,00,000. Annual dearness allowance (not in terms) is Rs. 2,00,000. What will be the tax treatment of annual contribution of Rs. 84,000?

**

Contribution made by the employer in case of recognised provident fund fund is exempt from tax upto 12% of the salary. 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.

Based on above, salary will come to Rs. 3,00,000. 12% of Rs. 3,00,000 will come to Rs. 36,000. Employer has contributed Rs. 84,000, hence, amount in excess of Rs. 36,000 will be charged to tax. Thus, Rs. 48,000 will be charged to tax.

Illustration (Provident fund payments in case of recognised provident fund)

Mr. Sudhir contributed Rs. 25,200 annually to his recognised provident fund. Can he claim deduction of above contribution under section 80C?

**

Contribution made by the employee to his recognised provident fund is deductible under section 80C, hence, Rs. 25,200 contributed by Mr. Sudhir will be deductible under section 80C.

Illustration (Provident fund payments in case of recognised provident fund)

During the year 2012-13, Rs. 25,200 was credited to the recognised provident fund account of Mr. Sudhir on account of interest (@ 10%). What will be the tax treatment of Rs. 25,200?

**

Interest credited to recognised provident fund is exempt from tax upto 9.5% per annum. Taxable interest will be computed as follows:

Particulars	***(Rs.)***
Interest credited @ 10%	25,200
Interest exempt from tax @ 9.5% (Note 1)	23,940
Taxable interest	1,260

Note 1:

%	***Interest***
10	Rs. 25,200
9.5	?

Interest @ 9.5% will come to Rs. 23,940.

Illustration (Provident fund payments in case of recognised provident fund)

In April, 2012 Mr. Sudhir retired and received Rs. 8,40,000 as refund of contribution to recognised provident fund. What will be the tax treatment of Rs. 8,40,000?

**

Amount received from recognised provident fund at the time of retirement is fully exempt from tax, if the employee has retired after rendering a continuous service of 5 years. In the above case, the duration of service is not given, hence, if the duration of service is more than five years then entire amount will be exempt from tax. If duration of service is less than five years, then tax treatment of Rs. 8,40,000 will be 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.

Entire amount will be exempt from tax, 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 due to other reasons beyond his control.

Illustration (Provident fund payments in case of un-recognised provident fund)

Mr. Sudhir's employer is making annual contribution of Rs. 84,000 in the un-recognised provident fund account of Mr. Sudhir. Annual basic salary of Mr. Sudhir is Rs. 3,00,000. Annual dearness allowance (not in terms) is Rs. 2,00,000. What will be the tax treatment of annual contribution of Rs. 84,000?

**

Contribution made by the employer in case of un-recognised provident fund is exempt from tax. Thus, Rs. 84,000 will be exempt from tax.

Illustration (Provident fund payments in case of un-recognised provident fund)

Mr. Sudhir annually contributed Rs. 25,200 to his un-recognised provident fund. Can he claim deduction of above contribution under section 80C?

**

Contribution made by the employee to his un-recognised provident is not deductible under section 80C, hence, Rs. 25,200 contributed by Mr. Sudhir cannot be deducted under section 80C.

Illustration (Provident fund payments in case of un-recognised provident fund)

During the year 2012-13, Rs. 25,200 was credited to the un-recognised provident fund account of Mr. Sudhir on account of interest (@ 15%). What will be the tax treatment of Rs. 25,200?

**

Interest credited to un-recognised provident fund is exempt from tax. Thus, Rs. 25,200 will be exempt from tax.

Illustration (Provident fund payments in case of un-recognised provident fund)

In April, 2012 Mr. Sudhir retired and received Rs. 8,40,000 as refund of contribution to un-recognised provident fund. What will be the tax treatment of Rs. 8,40,000?

**

The tax treatment of Rs. 8,40,000 will be 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.

MCQ's

Q1. Cash received in respect of leave not availed by the employee is called _______.

(a) Leave salary (b) Gratuity

(c) Allowance (d) Perquisite

Correct answer (a)

Justification of correct answer

Cash received in respect of leave not availed by the employee is called leave salary. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct nature of item given in the question, other options, *viz.*, options (b), (c) and (d) giving incorrect nature of items are not correct.

Q2. Fixed monthly amount received by the employee from employer after retirement is called ______.

(a) Un-commuted pension (b) Gratuity

(c) Allowance (d) Perquisite

Correct answer (a)

Justification of correct answer

Fixed monthly amount received by the employee from employer after retirement is called un-commuted pension. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct nature of item given in the question, other options, viz., options (b), (c) and (d) giving incorrect nature of items are not correct.

Q3. Accumulation of pension in lieu of fixed monthly pension is called ______.

(a) Un-commuted pension (b) Gratuity

(c) Commuted pension (d) Perquisite

Correct answer (c)

Justification of correct answer

Accumulation of pension in lieu of fixed monthly pension is called commuted pension. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct nature of item given in the question, other options, viz., options (a), (b) and (d) giving incorrect nature of items are not correct.

Q4. Mr. Raj, a Government employee, received Rs. 8,400 on account of leave encashment during the year 2012-13. Still 6 years of his service is left. What will be the tax treatment of Rs. 8,400?

(a) Fully taxed (b) Fully exempt

Correct answer (a)

Justification of correct answer

Encashment of leave during the continuation of service is fully taxable. 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. Other option, viz., option (b) giving incorrect tax treatment of leave encashment is not correct.

Q5. Mr. Raja, a non-Government employee received Rs. 18,400 on account of leave encashment during the year 2012-13. Still 10 years of his service is left. What will be the tax treatment of Rs. 18,400?

(a) Fully taxed (b) Fully exempt

Correct answer (a)

Justification of correct answer

Encashment of leave during the continuation of service is fully taxable. 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, other option, *viz.*, option (b) giving incorrect tax treatment of leave encashment is not correct.

Q6. Mr. Kapoor, a Government employee received Rs. 1,84,400 on account of leave encashment at the time of his retirement. What will be the tax treatment of Rs. 1,84,400?

(a) Fully taxed (b) Fully exempt

Correct answer (b)

Justification of correct answer

Encashment of leave at the time of retirement in case of Government employee is fully 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, other option, viz., option (a) giving incorrect tax treatment of leave encashment is not correct.

Q7. Mr. Krunal, a non-Government employee received Rs. 3,84,000 on account of leave encashment at the time of his retirement. In this case entire amount, *i.e.*, Rs. 3,84,000 will be exempt in the hands of Mr. Krunal?

(a) True (b) False

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 × 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

4. Leave encashment actually received at the time of retirement

Thus, in this case, exemption will be computed in above manner and entire amount may not be exempt from tax. 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.

Q8. Mr. Krunal, a non-Government employee received Rs. 3,84,000 on account of leave encashment at the time of his retirement. In this case exemption will be lower of following amounts :

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
4. Leave encashment actually received at the time of retirement

(a) True (b) False

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 lower of the following amounts:

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

Q9. Leave standing to credit of the employee to be used in computing exemption in respect of leave encashment is computed in following manner.

Sl. No.	*Particulars*
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)

(a) True (b) False

Correct answer (a)

Justification of correct answer :

Leave standing to credit of the employee to be used in computing exemption in respect of leave encashment is computed in following manner.

Sl. No.	*Particulars*
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)

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.

Q10. Average monthly salary to be used in computing exemption in respect of leave encashment means average salary drawn in past ______months immediately preceding the retirement (*i.e.*, the day of retirement).

(a) Five

(b) Ten

(c) Fifteen

(d) Twenty

Correct answer (b)

Justification of correct answer

Average monthly salary to be used in computing exemption in respect of leave encashment means average salary drawn in past ten months immediately preceding the retirement (*i.e.*, the day of retirement). Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct duration to be used to compute average monthly salary, other options, viz., options (a), (c) and (d) giving incorrect duration are not correct.

Q11. Average monthly salary to be used in computing exemption in respect of leave encashment 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 forming part of salary while computing retirement benefits (*i.e.* DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

(a) True

(b) False

Correct answer (a)

Justification of correct answer :

Average monthly salary to be used in computing exemption in respect of leave encashment 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 forming part of salary while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved 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.

Q12. What will be average monthly salary to be used in computation of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if monthly basic salary for the year 2012-13 was Rs. 84,000 and monthly dearness allowance in terms was Rs. 16,000? Employee retired in the month of April, 2013.

(a) Rs. 84,000 (b) Rs. 16,000

(c) Rs. 1,00,000 (d) Rs. 50,000

Correct answer (c)

Justification of correct answer

Average monthly salary to be used in computing exemption in respect of leave encashment 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 forming part of salary while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Based on above discussion, average monthly salary will come to Rs. 1,00,000 (Rs. 84,000 + Rs. 16,000). Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct amount of average monthly salary. Other options, viz., options (a), (b) and (d) giving incorrect amounts are not correct.

Q13. What will be average monthly salary to be used in computation of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if monthly basic salary for the year 2012-13 was Rs. 84,000 and monthly dearness allowance not in terms was Rs. 16,000? Employee retired in the month of April, 2013.

(a) Rs. 84,000 (b) Rs. 16,000

(c) Rs. 1,00,000 (d) Rs. 50,000

Correct answer (a)

Justification of correct answer

Average monthly salary to be used in computing exemption in respect of leave encashment 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 forming part of salary while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Based on above discussion, average monthly salary will come to Rs. 84,000 (only basic). Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct amount of average monthly salary. Other options, viz., options (b), (c) and (d) giving incorrect amounts are not correct.

Q14. What will be average monthly salary to be used in computation of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if monthly basic salary for the year 2012-13 was Rs. 8,400, monthly dearness allowance not in terms was Rs. 16,000 and monthly dearness allowance in terms was Rs. 2,600? Employee retired in the month of April, 2013.

(a) Rs. 8,400 (b) Rs. 16,000

(c) Rs. 11,000 (d) Rs. 27,000

Correct answer (c)

Justification of correct answer

Average monthly salary to be used in computing exemption in respect of leave encashment 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 forming part of salary while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Based on above discussion, average monthly salary will come to Rs. 11,000 (Rs. 8,400 + Rs. 2,600). Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct amount of average monthly salary. Other options, viz., options (a), (b) and (d) giving incorrect amounts are not correct.

Q15. What will be average monthly salary to be used in computation of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if monthly basic salary for the year 2012-13 was Rs. 8,400, monthly dearness allowance not in terms was Rs. 16,000, monthly dearness

allowance in terms was Rs. 2,600 and fixed monthly commission was Rs. 10,000? Employee retired in the month of April, 2013.

(a) Rs. 8,400 (b) Rs. 16,000

(c) Rs. 11,000 (d) Rs. 27,000

Correct answer (c)

Justification of correct answer

Average monthly salary to be used in computing exemption in respect of leave encashment 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 forming part of salary while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Based on above discussion, average monthly salary will come to Rs. 11,000 (Rs. 8,400 + Rs. 2,600). Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct amount of average monthly salary. Other options, viz., options (a), (b) and (d) giving incorrect amounts are not correct.

Q16. What will be average monthly salary to be used in computation of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if monthly basic salary for the year 2012-13 was Rs. 8,400, monthly dearness allowance not in terms was Rs. 16,000, monthly dearness allowance in terms was Rs. 2,600 and commission based on fixed percentage of turnover achieved by the employee amounted to Rs. 1,000 per month? Employee retired in the month of April, 2013.

(a) Rs. 8,400 (b) Rs. 16,000

(c) Rs. 12,000 (d) Rs. 27,000

Correct answer (c)

Justification of correct answer

Average monthly salary to be used in computing exemption in respect of leave encashment 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 forming part of salary while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

Based on above discussion, average monthly salary will come to Rs. 12,000 (Rs. 8,400 + Rs. 2,600 + Rs. 1,000). Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct amount of average monthly salary. Other options, viz., options (a), (b) and (d) giving incorrect amounts are not correct.

Q17. What will be average monthly salary to be used in computation of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if monthly basic salary for the year 2012-13 was Rs. 18,400 and for the year 2011-12 was Rs. 10,400 per month? Employee retired on 31-12-2012.

(a) Rs. 18,400 (b) Rs. 10,400

(c) Rs. 17,600 (d) Rs. 28,800

Correct answer (c)

Justification of correct answer

Average monthly salary to be used in computing exemption in respect of leave encashment 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 forming part of salary while computing retirement benefits (*i.e.*, DA in terms),
- Commission based on fixed percentage of turnover achieved by the employee.

In this case, the employee retired on 31-12-2012 and, hence, ten months preceding retirement will be from 1-3-2012 to 31-12-2012. Total salary for 10 months will come to Rs. 1,76,000 (Rs. 18,400 × 9 months + Rs. 10,400 × 1 month). Average salary will come to Rs. 17,600 (Rs. 1,76,000 ÷ 10).

Comment on incorrect answer : Option (c) is the correct option since it gives the correct amount of average monthly salary. Other options, viz., options (a), (b) and (d) giving incorrect amounts are not correct.

Q18. What will be the amount of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if average monthly salary (basic + DA in terms + commission based on fixed percentage of turnover) for ten months preceding the retirement is Rs. 8,400? Leave standing to credit at the time of retirement is 11 months (computed @ 30 days' leave per year of service) and leave encashment received amounted to Rs. 1,84,000.

(a) Rs. 84,000 (b) Rs. 92,400

(c) Rs. 3,00,000 (d) Rs. 1,84,000

Correct answer (a)

Justification of correct answer

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

1. Period of earned leave in months × Average monthly salary (this will come to Rs. 92,400 : Rs. 8,400 × 11 months)

2. Average monthly salary × 10 (this will come to Rs. 84,000 : Rs. 8,400 × 10 months).

3. Maximum amount as specified by the Central Government *i.e., Rs. 3,00,000*

4. Actual amount of leave encashment (this will come to Rs. 1,84,000)

Exemption will be Rs. 84,000 being lower of above. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives correct amount of exempted leave salary. Other options, viz., options (b), (c) and (d) giving incorrect amounts are not correct.

Q19. What will be the amount of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if average monthly salary (basic + DA in terms + commission based on fixed percentage of turnover) for ten months preceding the retirement is Rs. 8,400? Leave standing to credit at the time of retirement is 11 months (computed @ 30 days' leave per year of service) and leave encashment received amounted to Rs. 64,000.

(a) Rs. 84,000 (b) Rs. 92,400

(c) Rs. 3,00,000 (d) Rs. 64,000

Correct answer (d)

Justification of correct answer

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

1. Period of earned leave in months × Average monthly salary (this will come to Rs. 92,400 : Rs. 8,400 × 11 months)
2. Average monthly salary × 10 (this will come to Rs. 84,000 : Rs. 8,400 × 10 months).
3. Maximum amount as specified by the Central Government, *i.e.*, Rs. 3,00,000
4. Actual amount of leave encashment (this will come to Rs. 64,000)

Exemption will be Rs. 64,000 being lower of above. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives correct amount of exempted leave salary. Other options, viz., options (a), (b) and (c) giving incorrect amounts are not correct.

Q20. What will be the amount of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if average monthly salary (basic + DA in terms + commission based on fixed percentage of turnover) for ten months preceding the retirement is Rs. 8,400? Leave standing to credit at the time of retirement is 2 months (computed @ 30 days' leave per year of service) and leave encashment received amounted to Rs. 64,000.

(a) Rs. 84,000 (b) Rs. 16,800

(c) Rs. 3,00,000 (d) Rs. 64,000

Correct answer (b)

Justification of correct answer

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

1. Period of earned leave in months × Average monthly salary (this will come to Rs. 16,800 : Rs. 8,400 × 2 months)
2. Average monthly salary × 10 (this will come to Rs. 84,000 : Rs. 8,400 × 10 months).
3. Maximum amount as specified by the Central Government, *i.e., Rs. 3,00,000*
4. Actual amount of leave encashment (this will come to Rs. 64,000)

Exemption will be Rs. 16,800, being lower of above. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives correct amount of exempted leave salary. Other options, viz., options (a), (c) and (d) giving incorrect amounts are not correct.

Q21. What will be the amount of exemption in respect of leave encashment at the time of retirement in the case of a non-Government employee if average monthly salary (basic + DA in terms + commission based on fixed percentage of turnover) for ten months preceding the retirement is Rs. 8,400? He is entitled to 45 days leave per year of service. Leave standing to credit at the time of retirement is *nil* months (computed @ 30 days' leave per year of service) and leave encashment received amounted to Rs. 64,000.

(a) Rs. 84,000 (b) *Nil*

(c) Rs. 3,00,000 (d) Rs. 64,000

Correct answer (b)

Justification of correct answer

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

1. Period of earned leave in months × Average monthly salary (this will come to *Nil*. : Rs. 8,400 × 0 months)
2. Average monthly salary × 10 (this will come to Rs. 84,000 : Rs. 8,400 × 10 months).
3. Maximum amount as specified by the Central Government, *i.e.*, Rs. 3,00,000
4. Actual amount of leave encashment (this will come to Rs. 64,000)

Exemption will be *Nil*, being lower of above. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives correct amount of exempted leave salary. Other options, viz., options (a), (c) and (d) giving incorrect amounts are not correct.

Q22. Mr. Sunil retired from Government job and received leave encashment of Rs. 1,84,000. After retirement from Government service, he joined Essem Ltd., a private sector company. In this case what will be the tax treatment of Rs. 1,84,000 in the hands of Mr. Sunil?

(a) Entire amount will be exempt from tax (b) Entire amount will be charged to tax

Correct answer (a)

Justification of correct answer

Leave encashment received by a Government employee will be exempt from tax even if the employee joins private sector after retirement. Thus, in this case, Rs. 1,84,000 will be exempt from tax.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of leave encashment. Other option, viz., option (b) giving incorrect tax treatment is not correct.

Q23. Mr. Sunil retired from Eseem Ltd. in March, 2000 and received leave encashment of Rs. 1,84,000. Entire amount was eligible for exemption. After retirement from Essem Ltd., he joined Shyamal Ltd. At the time of retirement from Shyaml Ltd. he received leave encashment of Rs. 2,00,000. In this case what will be the maximum amount of exemption in respect of leave encashment received from Shyamal Ltd.?

(a) Rs. 3,00,000 (b) Rs. 1,16,000

Correct answer (b)

Justification of correct answer

If an employee has claimed exemption in respect of leave encashment and again he joins another employment, then in this case, the maximum limit of amount of exemption, *i.e.*, Rs. 3,00,000 will be reduced by the amount of exemption claimed earlier. In this case, Rs. 1,84,000 was claimed as exemption in the year 2000, hence, the limit of Rs. 3,00,000 will be reduced by Rs. 1,84,000. The limit applicable to the employee in this case will be Rs. 1,16,000 (Rs. 3,00,000 – Rs. 1,84,000).

Comment on incorrect answer : Option (b) is the correct option since it gives the correct limit. Other option, viz., option (a) giving incorrect limit is not correct.

Q24. Gratuity received by a Government employee at the time of retirement or termination of service is charged to tax.

(a) True (b) False

Correct answer (b)

Justification of correct answer :

Gratuity received by a Government employee at the time of retirement or termination of service is fully exempt from tax.

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.

Q25. Gratuity received by a non-Government employee at the time of retirement or termination of service is fully exempt from tax.

(a) True (b) False

Correct answer (b)

Justification of correct answer :

Gratuity received by a non-Government employee at the time of retirement or termination of service is not fully exempt from tax. Exemption in this case will depend on the status of the employee, *i.e.*, whether he is covered by the Payment of Gratuity Act, 1972 or is not covered by the Payment of Gratuity Act, 1972.

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.

Q26. Mr. Sunil retired from Central Government service in December, 2012 and received Rs. 1,84,000 on account of gratuity. In this case Rs. 1,84,000 will be ______.

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

Correct answer (b)

Justification of correct answer

Gratuity received by a Government employee at the time of retirement or termination of service is fully 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 gratuity. Other option, viz., option (a) giving incorrect tax treatment is not correct.

Q27. Mr. Sunil retired from State Government service in December, 2012 and received Rs. 1,84,000 on account of gratuity. In this case Rs. 1,84,000 will be ______.

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

Correct answer (b)

Justification of correct answer

Gratuity received by a Government employee at the time of retirement or termination of service is fully 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 gratuity. Other option, viz., option (a) giving incorrect tax treatment is not correct.

Q28. Exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972 will be _______ of following ;

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.

(a) Lower (b) Higher

Correct answer (a)

Justification of correct answer

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.

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct manner of computation of exemption. Other option, viz., option (b) giving incorrect manner of computation is not correct.

Q29. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, salary to be used will include _____.

(a) Basic salary only

(b) Basic salary + DA in terms

(c) Basic salary + DA (whether or not in terms)

(d) Salary will include any sort of payment received by the employee from the employer

Correct answer (c)

Justification of correct answer

While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, salary to be used will include basic salary and dearness allowance only (whether or not in terms). Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct manner of computation of salary. Other options, viz., options (a), (b) and (d) giving incorrect manner of computation are not correct.

Q30. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, 15 days' salary to be used will be computed on the basis of ten months' average salary.

(a) True (b) False

Correct answer (b)

Justification of correct answer :

While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, 15 days' salary to be used will be computed on the basis of salary last drawn and not on the basis of ten months' average salary.

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.

Q31. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, 15 days' salary to be used will be computed by dividing the monthly salary by 30 days.

(a) True (b) False

Correct answer (b)

Justification of correct answer :

While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, 15 days' salary to be used will be computed on the basis of salary last drawn and it will be divided by 26 and not 30.

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.

Q32. While computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, 15 days' salary is to be used, however, in case of an employee of a seasonal establishment salary of 7 days is to be used.

(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, 1972, 15 days' salary is to be used, however, in case of an employee of a seasonal establishment salary of 7 days is to be used.

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.

Q33. While computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, salary to be used will include _____.

(a) Basic salary only

(b) Basic salary + DA in terms

(c) Basic salary + DA (whether or not in terms)

(d) Basic salary + DA in terms + Commission based on fixed percentage of turnover achieved by the employee

Correct answer (d)

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, 1972, salary to be used will include Basic salary + DA in terms + Commission based on fixed percentage of turnover achieved by the employee. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct manner of computation of salary. Other options, viz., options (a), (b) and (c) giving incorrect manner of computation are not correct.

Q34. While computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, half month's average salary to be used will be computed on the basis of ten months' average salary.

(a) True (b) False

Correct answer (a)

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, 1972, half month's average salary to be used will be computed on the basis of average monthly salary computed on the basis of average of salary for 10 months immediately preceding the month (not the day) of 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.

Q35. While computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, half month's average salary to be used will be computed by dividing the monthly salary by 2.

(a) True (b) False

Correct answer (a)

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, 1972, half month's average salary to be used will be computed by dividing the monthly salary by 2.

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.

Q36. What will be 15 days' salary to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, if basic salary is Rs. 84,000 per month and dearness allowance is Rs. 20,000 (not in terms)?

(a) Rs.42,000 (b) Rs. 52,000

(c) Rs. 1,04,000 (d) Rs. 60,000

Correct answer (d)

Justification of correct answer

15 days' salary to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, will be computed on the basis of basic salary and DA (whether or not in terms). 15 days' salary = Salary last drawn × 15/26. In this case, monthly salary will come to Rs. 1,04,000 (Rs.

84,000 + Rs. 20,000). 15 days' salary = Rs. 1,04,000 × 15/26 = Rs. 60,000. Thus, option (d) is the correct option.

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

Q37. What will be 15 days' salary to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, if basic salary is Rs. 84,000 per month, dearness allowance is Rs. 10,000 (not in terms) and dearness allowance (in terms) Rs. 10,000?

(a) Rs. 42,000 | (b) Rs. 54,231

(c) Rs. 1,04,000 | (d) Rs. 60,000

Correct answer (d)

Justification of correct answer

15 days' salary to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, will be computed on the basis of basic salary and DA (whether or not in terms). 15 days' salary = Salary last drawn × 15/26. In this case, monthly salary will come to Rs. 1,04,000 (Rs. 84,000 + Rs. 10,000 + 10,000). 15 days' salary = Rs. 1,04,000 × 15/26 = Rs. 60,000. Thus, option (d) is the correct option.

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

Q38. What will be 15 days' salary to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, if basic salary is Rs. 84,000 per month, dearness allowance is Rs. 10,000 (not in terms) and dearness allowance (in terms) Rs. 10,000 and commission based on fixed percentage of turnover achieved by the employee amounted to Rs. 5,000 per month?

(a) Rs. 42,000 | (b) Rs. 57,115

(c) Rs. 1,04,000 | (d) Rs. 60,000

Correct answer (d)

Justification of correct answer

15 days' salary to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, will be computed on the basis of basic salary and DA (whether or not in terms). 15 days' salary = Salary last drawn × 15/26. Apart from basic and DA, salary will not include any other item. In this case, monthly salary will come to Rs. 1,04,000 (Rs. 84,000 + Rs. 10,000 + 10,000). 15 days' salary = Rs. 1,04,000 × 15/26 = Rs. 60,000. Thus, option (d) is the correct option.

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

Q39. What will be half month's average salary to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, if basic salary is Rs. 84,000 per month and dearness allowance is Rs. 20,000 (not in terms)?

(a) Rs. 42,000 (b) Rs. 52,000

(c) Rs. 1,04,000 (d) Rs. 48,417

Correct answer (a)

Justification of correct answer

Half month's average salary to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, will be computed on the basis of Basic salary + DA (in terms) + Commission based on fixed percentage of turnover achieved by the employee. Half month's average salary will be computed by dividing the average monthly salary by 2. In this case, average monthly salary will come to Rs. 84,000 (basic salary only). Half month's average salary = Rs. 84,000/2 = Rs. 42,000. Thus, option (a) is the correct option.

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

Q40. What will be half month's average salary to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, if basic salary is Rs. 84,000 per month, dearness allowance is Rs. 10,000 (not in terms) and dearness allowance (in terms) Rs. 10,000?

(a) Rs. 47,000 (b) Rs. 52,000

(c) Rs. 1,04,000 (d) Rs. 48,417

Correct answer (a)

Justification of correct answer

Half month's average salary to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, will be computed on the basis of Basic salary + DA (in terms) + Commission based on fixed percentage of turnover achieved by the employee. Half month's average salary will be computed by dividing the average monthly salary by 2. In this case, average monthly salary will come to Rs. 94,000 (Rs. 84,000 + Rs. 10,000). Half month's average salary = Rs. 94,000/2 = Rs. 47,000. Thus, option (a) is the correct option.

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

Q41. What will be half month's average salary to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, if basic salary is Rs. 84,000 per month, dearness allowance is Rs. 10,000 (not in terms), dearness allowance (in terms) Rs. 10,000 and commission based on fixed percentage of turnover achieved by the employee amounted to Rs. 5,000 per month?

(a) Rs. 47,000 (b) Rs. 52,000

(c) Rs. 1,04,000 (d) Rs. 49,500

Correct answer (d)

Justification of correct answer

Half month's average salary to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, will be computed on the basis of Basic salary + DA (in terms) + Commission based on fixed percentage of turnover achieved by the employee. Half month's average salary will be computed by dividing the average monthly salary by 2. In this case, average monthly salary will come to Rs. 99,000 (Rs. 84,000 + Rs. 10,000 + Rs. 5,000). Half month's average salary = Rs. 99,000/2 = Rs. 49,500. Thus, option (d) is the correct option.

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

Q42. What will be the amount of monthly salary to be used in deriving 15 days' salary to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, if he retires in the month of December, 2012 and last drawn salary is Rs. 84,000, however, average monthly salary based on the salary of past 10 months amounted to Rs. 80,000?

(a) Rs. 80,000 (b) Rs. 84,000

Correct answer (b)

Justification of correct answer

Amount of monthly salary to be used in deriving15 days' salary to be used while computing exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, will be salary last drawn. Last drawn salary in this case is Rs. 84,000. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct amount of salary. Other option, viz., option (a) giving incorrect amount is not correct.

Q43. What will be the amount of monthly salary to be used in deriving half month's average salary to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, if he retires in the month of April, 2012 and last drawn salary is Rs. 25,200, however, average monthly salary based on the salary of past 10 months amounted to Rs. 25,000?

(a) Rs. 25,200 (b) Rs. 25,000

Correct answer (b)

Justification of correct answer

Amount of monthly salary to be used in deriving half month's average salary to be used while computing exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, will be average monthly salary based on the salary of past 10 months. Average monthly salary based on the salary of past 10 months is Rs. 25,000. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct amount of salary. Other option, viz., option (a) giving incorrect amount is not correct.

Q44. What will be the amount of exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, if he retires after rendering service of 21 years and 5 months? Salary last drawn is Rs. 26,000. Average monthly salary based on the salary of past 10 months is Rs. 25,200. Gratuity received Rs. 1,84,000.

(a) Rs. 1,84,000 (b) Rs. 3,15,000

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

Correct answer (a)

Justification of correct answer

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

1. 15 days' salary × years of service [Rs. 15,000 (Rs. 26,000 × 15/26) × 21 years] = Rs. 3,15,000
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received Rs. 1,84,000.

Exemption will be Rs. 1,84,000 being lower of above amounts. Thus, option (a) is the correct option.

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

Q45. What will be the amount of exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, if he retires after rendering service of 21 years and 9 months? Salary last drawn is Rs. 26,000. Average monthly salary based on the salary of past 10 months is Rs. 25,200. Gratuity received Rs. 3,84,000.

(a) Rs. 3,84,000 (b) Rs. 3,30,000

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

Correct answer (b)

Justification of correct answer

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

1. 15 days' salary × years of service [Rs. 15,000 (Rs. 26,000 × 15/26) × 22 years] = Rs. 3,30,000
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received Rs. 3,84,000.

Exemption will be Rs. 3,30,000 being lower of above amounts. Thus, option (b) is the correct option.

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

Q46. What will be the amount of exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, if he retires after rendering service of 25 years and 5 months? Salary last drawn is Rs. 52,000. Average monthly salary based on the salary of past 10 months is Rs. 25,200. Gratuity received Rs. 10,84,000.

(a) Rs. 7,50,000 (b) Rs. 10,00,000

(c) Rs. 10,84,000 (d) *Nil*

Correct answer (a)

Justification of correct answer

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

1. 15 days' salary × years of service [Rs. 30,000 (Rs. 52,000 × 15/26) × 25 years] = Rs. 7,50,000
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received Rs. 10,84,000.

Exemption will be Rs. 7,50,000 being lower of above amounts. Thus, option (a) is the correct option.

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

Q47. What will be the amount of exemption in respect of gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972, if he retires after rendering service of 34 years and 9 months? Salary last drawn is Rs. 65,000. Average monthly salary based on the salary of past 10 months is Rs. 25,200. Gratuity received Rs. 10,84,000.

(a) Rs. 13,12,500 (b) Rs. 10,00,000

(c) Rs. 10,84,000 (d) *Nil*

Correct answer (b)

Justification of correct answer

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

1. 15 days' salary × years of service [Rs. 37,500 (Rs. 65,000 × 15/26) × 35 years] = 13,12,500
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received Rs. 10,84,000.

Exemption will be Rs. 10,00,000 being lower of above amounts. Thus, option (b) is the correct option.

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

Q48. What will be the amount of exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, if he retires after rendering service of 21 years and 5 months? Salary last drawn is Rs. 26,000. Average monthly salary based on the salary of past 10 months is Rs. 25,200. Gratuity received Rs. 1,84,000.

(a) Rs. 1,84,000 (b) Rs. 2,64,600

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

Correct answer (a)

Justification of correct answer

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

1. Half month's salary (based on average salary) × completed years of service [Rs. 12,600 (Rs. 25,200 /2) × 21 years] = Rs. 2,64,600
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received Rs. 1,84,000.

Exemption will be Rs. 1,84,000 being lower of above amounts. Thus, option (a) is the correct option.

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

Q49. What will be the amount of exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, if he retires after rendering service of 21 years and 9 months? Salary last drawn is Rs. 26,000. Average monthly salary based on the salary of past 10 months is Rs. 25,200. Gratuity received Rs. 3,84,000.

(a) Rs. 3,84,000 (b) Rs. 2,64,600

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

Correct answer (b)

Justification of correct answer

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

1. Half month's salary (based on average salary) × completed years of service [Rs. 12,600 (Rs. 25,200 /2) × 21 years] = Rs. 2,64,600
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received Rs. 3,84,000.

Exemption will be Rs. 2,64,600 being lower of above amounts. Thus, option (b) is the correct option.

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

Q50. What will be the amount of exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, if he retires after rendering service of 21 years and 9 months? Salary last drawn is Rs. 90,000. Average monthly salary based on the salary of past 10 months is Rs. 84,000. Gratuity received Rs. 10,84,000.

(a) Rs. 8,82,000 (b) Rs. 10,00,000

(c) Rs. 10,84,000 (d) *Nil*

Correct answer (a)

Justification of correct answer

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

1. Half month's salary (based on average salary) × completed years of service [Rs. 42,000 (Rs. 84,000 /2) × 21 years] = Rs. 8,82,000
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received Rs. 10,84,000.

Exemption will be Rs. 8,82,000 being lower of above amounts. Thus, option (a) is the correct option.

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

Q51. What will be the amount of exemption in respect of gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972, if he retires after rendering service of 35 years and 9 months? Salary last drawn is Rs. 84,000. Average monthly salary based on the salary of past 10 months is Rs. 80,000. Gratuity received Rs. 12,84,000.

(a) Rs. 14,00,000 (b) Rs. 10,00,000

(c) Rs. 12,84,000 (d) *Nil*

Correct answer (b)

Justification of correct answer

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

1. Half month's salary (based on average salary) × completed years of service [Rs. 40,000 (Rs. 80,000 /2) × 35 years] = Rs. 14,00,000
2. Maximum amount specified by the Central Government, *i.e.*, Rs. 10,00,000.
3. Gratuity actually received Rs. 12,84,000.

Exemption will be Rs. 10,00,000 being lower of above amounts. Thus, option (b) is the correct option.

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

Q52. Mr. Kapoor retired in the month of March, 2013 from Government employment. From April, 2013 he received monthly pension of Rs. 8,400. In this case what will be the tax treatment of Rs. 8,400 in the hands of Mr. Kapoor?

(a) Fully taxed (b) Exempt from tax

Correct answer (a)

Justification of correct answer

Monthly pension of Rs. 8,400 received by Mr. Kapoor is called un-commuted pension. Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Hence, Rs. 8,400 will be fully charged to tax in the hands of Mr. Kapoor. 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 pension. Other option, viz., option (b) giving incorrect tax treatment is not correct.

Q53. Mr. Kumar retired in the month of March, 2013 from Essem Ltd., a private sector company. From April, 2013 he received monthly pension of Rs. 8,400. In this case what will be the tax treatment of Rs. 8,400 in the hands of Mr. Kumar?

(a) Fully taxed (b) Exempt from tax

Correct answer (a)

Justification of correct answer

Monthly pension of Rs. 8,400 received by Mr. Kumar is called un-commuted pension. Un-commuted pension is fully charged to tax in the hands of Government as well as non-Government employee. Hence, Rs. 8,400 will be fully charged to tax in the hands of Mr. Kumar. 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 pension. Other option, viz., option (b) giving incorrect tax treatment is not correct.

Q54. Mr. Kumar retired in the month of March, 2013 from Essem Ltd., a private sector company. At the time of retirement he waived his monthly pension, *i.e.*, un-commuted pension and opted for commuting his full pension. In lieu of commutation of his full pension he received Rs. 1,84,000. He has also received gratuity of Rs. 1,00,000. What will be the tax treatment of Rs. 1,84,000 received on account of commutation of pension?

(a) Fully taxed (b) Exempt from tax

(c) Rs. 92,000 will be exempt (d) Rs. 61,333 will be exempt

Correct answer (d)

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).

In this case the employee has received gratuity and, hence, exemption will be 1/3rd of Rs. 1,84,000, which will amount to Rs. 61,333. Thus, option (d) is the correct option.

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

Q55. Mr. Kumar retired in the month of March, 2013 from Essem Ltd., a private sector company. At the time of retirement he waived his monthly pension, *i.e.*, un-commuted pension and opted for commuting his full pension. In tune of commutation of his full pension he received Rs. 1,84,000. He has not received any gratuity. What will be the tax treatment of Rs. 1,84,000 received on account of commutation of pension?

(a) Fully taxed
(b) Exempt from tax
(c) Rs. 92,000 will be exempt
(d) Rs. 61,333 will be exempt

Correct answer (c)

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).

In this case the employee has not received gratuity and, hence, exemption will be 1/2 of Rs. 1,84,000, which will amount to Rs. 92,000. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of pension. Other options, viz., option (a), (b) (d) giving incorrect tax treatment are not correct.

Q56. Mr. Kumar retired in the month of March, 2013 from Essem Ltd., a private sector company. At the time of retirement he waived his 40% of monthly pension and opted for commuting 40% of pension. In tune of commutation of his 40% of pension he received Rs. 84,000. He has not received any gratuity. What will be the tax treatment of Rs. 84,000 received on account of commutation of 40% of pension?

(a) Fully taxed
(b) Fully exempt from tax
(c) Rs. 42,000 will be exempt
(d) Rs. 28,000 will be exempt

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).

Rs. 84,000 is 40%, hence, 100% will come to Rs. 2,10,000. In this case the employee has not received gratuity and hence exemption will be 1/2 of full value of commuted pension, *i.e.*, ½ of Rs. 2,10,000, which will amount to Rs. 1,05,000. However, he has received only Rs. 84,000, hence, entire amount will be exempt. 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 pension. Other options, viz., option (a), (c) (d) giving incorrect tax treatment are not correct.

Q57. Mr. Kumar retired in the month of March, 2013 from Essem Ltd., a private sector company. At the time of retirement he waived his 40% of monthly pension and opted for commuting 40% of pension. In lieu of commutation of his 40% of pension he received Rs. 84,000. He received gratuity of Rs. 1,00,000. What will be the tax treatment of Rs. 84,000 received on account of commutation of 40% of pension?

(a) Fully taxed

(b) Fully exempt from tax

(c) Rs. 70,000 will be exempt

(d) Rs. 28,000 will be exempt

Correct answer (c)

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).

Rs. 84,000 is 40%, hence, 100% will come to Rs. 2,10,000. In this case the employee has received gratuity and hence exemption will be $1/3^{rd}$ of full value of commuted pension, *i.e.*, 1/3 of Rs. 2,10,000 which will amount to Rs. 70,000. Thus, option (c) is the correct option.

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

Q58. Mr. Kumar retired in the month of March, 2013 from Essem Ltd., a private sector company. At the time of retirement he waived his 60% of monthly pension and opted for commuting 60% of pension. In lieu of commutation of his 60% of pension he received Rs. 1,84,000. Apart from Rs. 1,84,000, he received Rs. 10,000 per month. He received gratuity of Rs. 1,00,000. What will be the tax treatment of monthly pension of Rs. 10,000?

(a) Fully taxed

(b) Fully exempt from tax

Correct answer (a)

Justification of correct answer

Un-commuted pension is fully charged to tax and, hence, entire monthly pension of Rs. 10,000 will be fully charged to 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 pension. Other option, viz., option (b) giving incorrect tax treatment is not correct.

Q59. Family pension received by the family members of the employee after the death of the employees is charged to tax in the hands of recipient under the head "Income from other sources".

(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". 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.

Q60. After the death of Mr. Raj his wife received Rs. 8,400 per month as family pension (Rs. 1,00,800 per year). What will be the amount of exemption which can be claimed by his wife from family pension?

(a) *Nil* (b) Rs. 15,000 per year

(c) Rs. 33,600 per year (d) Rs. 1,00,800 per year

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". In such a case, deduction of lower of 1/3rd of the amount of pension or Rs. 15,000 is available from such income. In this case $1/3^{rd}$ of Rs. 1,00,800 will come to Rs. 33,600, hence, Rs. 15,000 will be exempt from tax.

Thus, option (b) is the correct option.

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

Q61. An employee can claim relief under section 89 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.

Q62. Maximum amount of exemption in respect of compensation received at the time of voluntary retirement or separation is ______.

(a) Rs. 3,00,000 (b) Rs. 5,00,000

(c) Rs. 10,00,000 (d) Rs. 15,00,000

Correct answer (b)

Justification of correct answer

Maximum amount of exemption in respect of compensation received at the time of voluntary retirement or separation is Rs. 5,00,000. Thus, option (b) is the correct option.

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

Q63. Mr. Rupesh took voluntarily retirement from his job under voluntarily retirement scheme (VRS) and received Rs. 8,84,000 on account of (VRS) compensation. Out of Rs. 8,84,000 he claimed exemption of Rs. 5,00,000. In this case he can claim relief under section 89 in respect of balance taxable amount of Rs. 3,84,000.

(a) True (b) False

Correct answer (b)

Justification of correct answer :

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

Q64. Employer of Mr. Krunal annually contributes Rs. 1,84,000 (being 13% of salary) to the statutory provident fund account of Mr. Krunal. What will be the tax treatment of Rs. 1,84,000?

(a) Entire amount will be charged to tax (b) Entire amount will be exempt from tax.

Correct answer (b)

Justification of correct answer

Employers' contribution to statutory provident fund is not charged to tax in the hands of employee. 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 the contribution. Other option, viz., option (a) giving incorrect tax treatment is not correct.

Q65. Employer of Mr. Kripal annually contributes Rs. 1,84,000 (being 13% of salary) to the recognised provident fund account of Mr. Kripal. What will be the tax treatment of Rs. 1,84,000?

(a) Entire amount will be charged to tax (b) Entire amount will be exempt from tax.

(c) Exemption will be upto 12% of salary (d) Exemption will be upto 9.5% of salary

Correct answer (c)

Justification of correct answer

Employers' contribution to recognised provident fund is not charged to tax upto 12% of the salary of the employee. Thus, option (c) is the correct option.

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

Q66. Employer of Mr. Raju annually contributes Rs. 1,84,000 (being 13% of salary) to the un-recognised provident fund account of Mr. Raju. What will be the tax treatment of Rs. 1,84,000?

(a) Entire amount will be charged to tax (b) Entire amount will be exempt from tax.

(c) Exemption will be upto 12% of salary (d) Exemption will be upto 9.5% of salary

Correct answer (b)

Justification of correct answer

Employers' contribution to un-recognised provident fund is not charged to tax at the time of contribution. 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 the contribution. Other options, viz., option (a), (c) and (d) giving incorrect tax treatment are not correct.

Q67. Interest of Rs. 18,400 is credited to the statutory provident fund account of Mr. Raja. What will be the tax treatment of interest of Rs. 18,400?

(a) Entire amount will be charged to tax (b) Entire amount will be exempt from tax.

(c) Exemption will be upto 12% (d) Exemption will be upto 9.5%

Correct answer (b)

Justification of correct answer

Interest credited to statutory provident fund account is not 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 of interest. Other options, viz., option (a), (c) and (d) giving incorrect tax treatment are not correct.

Q68. Interest (@ 14%) of Rs. 18,400 is credited to the recognised provident fund account of Mr. Rahul. What will be the tax treatment of interest of Rs. 18,400?

(a) Entire amount will be charged to tax (b) Entire amount will be exempt from tax.

(c) Exemption will be upto 12% (d) Exemption will be upto 9.5%

Correct answer (d)

Justification of correct answer

Interest credited to recognised provident fund account is not charged to tax upto 9.5%. Thus, option (d) is the correct option.

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

Q69. Interest (@ 14%) of Rs. 18,400 is credited to the un-recognised provident fund account of Mr. Rahul. What will be the tax treatment of interest of Rs. 18,400?

(a) Entire amount will be charged to tax

(b) Entire amount will be exempt from tax.

(c) Exemption will be upto 12%

(d) Exemption will be upto 9.5%

Correct answer (b)

Justification of correct answer

Interest credited to un-recognised provident fund account is not 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 of interest. Other options, viz., option (a), (c) and (d) giving incorrect tax treatment are not correct.

Q70. On termination of service, Mr. Kumar received Rs. 18,40,000 on account of refund of amount standing to credit of his statutory provident fund. What will be the tax treatment of Rs. 18,40,000?

(a) Entire amount will be charged to tax

(b) Entire amount will be exempt from tax.

Correct answer (b)

Justification of correct answer

Amount received on account of refund of amount standing to credit of the statutory provident fund is not 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 of refund of amount standing to credit of statutory provident fund. Other option, viz., option (a) giving incorrect tax treatment is not correct.

Q71. On termination of service, Mr. Kapoor received Rs. 18,40,000 on account of refund of amount standing to credit of his recognised provident. What will be the tax treatment of Rs. 18,40,000?

(a) Entire amount will be charged to tax

(b) Entire amount will be exempt from tax.

(c) Entire amount will be exempt from tax if the employee has rendered a continuous service of 5 years or more or 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. If this criteria is not satisfied then the tax treatment will be as applicable in case of refund from un-recognised provident fund.

(d) Entire amount will be charged to tax if the employee has rendered a continuous service of 5 years or more or 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.

Correct answer (c)

Justification of correct answer

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.

Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of refund of amount standing to credit of recognised provident fund. Other options, viz., option (a), (b) and (d) giving incorrect tax treatment are not correct.

Q72. On termination of service, Mr. Kumar received Rs. 18,40,000 on account of refund of amount standing to credit of his un-recognised provident fund. What will be the tax treatment of Rs. 18,40,000?

(a) Entire amount will be charged to tax

(b) Entire amount will be exempt from tax.

(c) 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.

(d) Employee's contribution is charged to tax as capital gains; 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.

Correct answer (c)

Justification of correct answer

Treatment of payment received from un-recognised provident fund 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.

Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of refund of amount standing to credit of un-recognised provident fund. Other options, viz., option (a), (b) and (d) giving incorrect tax treatment are not correct.