RETIREMENT BENEFITS

Key points

GRATUITY [Sec. 10(10)]

- Gratuity is a part of salary that is received by an employee from his/her employer **in gratitude for the services offered by the employee** in the company. Gratuity is a defined benefit plan and is one of the many retirement benefits offered by the employer to the employee upon leaving his job.

TAXABILITY OF GRATUITY

Sec. 10(10)Gratuity received by

Employees Covered Under Gratuity Act

A] Actual gratuity received;

B] 15/26 × Last Drawn salary × Number of years of service of completed Service or part there of in excess of six months

C] Rs. 10,00,000

(Salary = Basic + D.A.)

Other Employees

A] Actual gratuity received;

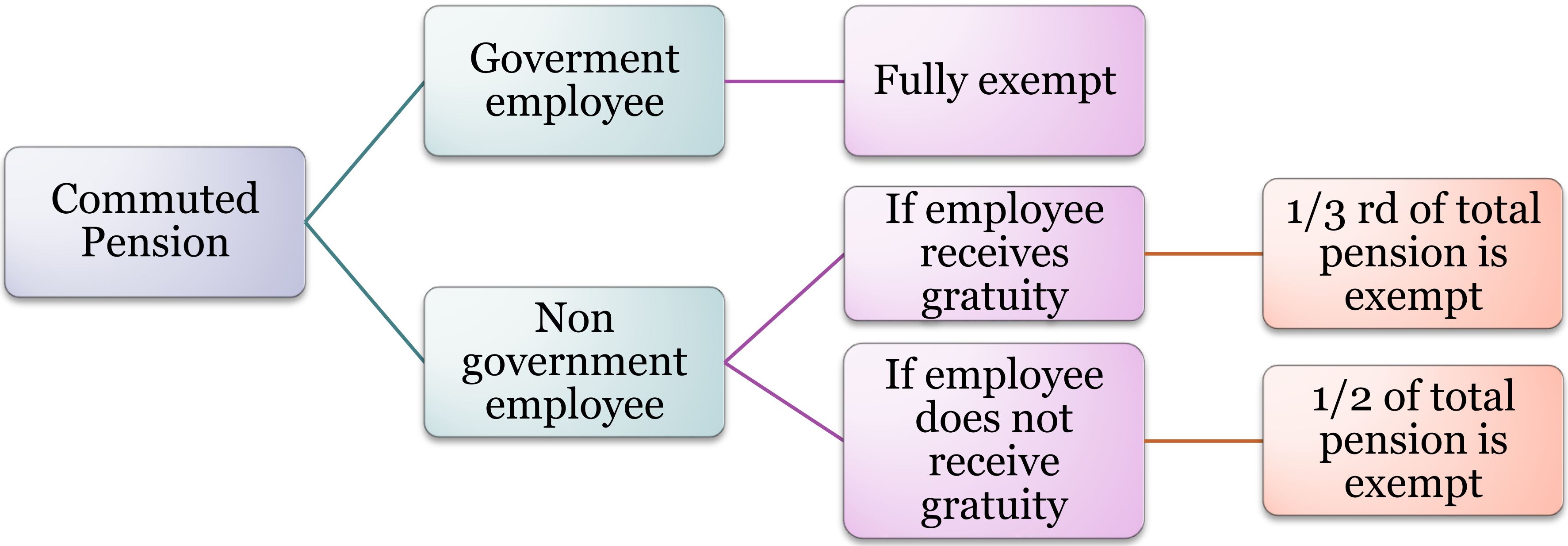
B] 1/2 × Average salary for 10 months preceding the month of retirement × Number of fully completed years of Service

C] Rs. 10,00,000

Salary = Basic + D.A.(if forming part of Retirement benefits) + Commission on Turnover.

Note:- Gratuity received by government employee is fully exempt.

PENSION [Sec.10 (10A)]



Uncommuted (periodical) pension is fully taxable in the hands of any employee whether government employee or non government employee.

Leave encashment (Sec.10 (10AA)

- Generally, employees are allowed leaves during the period of service. Employee may avail such leaves or in case the leaves are not availed, **then the leaves may either be lapsed or accumulated for future or allowed to be encashed every year or at the time termination/ retirement.**

Leave Encashment

- Encashment of leave during tenure of service

  (Fully taxable)

- Encashment of accumulated leave at the time of retirement

  - Non Government employees

    Least of the following is exempt:

    (a) Amount actually received

    (b) Rs. 3,00,000/-

    (c) Average salary * 10

    (d) (Maximum 30 days for each COMPLETED year of service **minus** leave availed) * Average salary.

  - Government employees

    Fully exempt

RETRENCHMENT COMPENSATION[Sec. 10 (10B)]

Least of the following is exempted:

- A) Amount received
- B) Rs. 5 Lac
- C) 15/26 x Average salary of last 3 months x Completed years of service and part thereof in excess of 6 months

Meaning of Salary = Basic + All Allowances + All Perquisites which can be expressed in monetary terms. It excludes Bonus, Gratuity and Contribution to retirement benefit scheme.

VRS [Sec. 10 (10C)]

Least of the following is exempted:

Actual amount received.	Rs.5,00,000	Higher of 1)Last Drawn Salary X 3 X **Completed** years of service or 2) Last Drawn Salary X Balance Months of Service Left.

Meaning of salary : Basic + DA (if forming part of retirement benefit) + Fixed commission on turnover.

Once in lifetime: This exemption can be claimed by assessee only once in lifetime.

Quick tax notes:-

- **1. Gratuity and leave encashment received during the period of service are fully taxable.**

- 2. Gratuity and leave encashment received by government employee upon retirement are fully exempt.

- 3. Maximum exemption available in case of gratuity is Rs. **10, 00,000** and in case of leave encashment is Rs. **3,00,000.**

- **4. Uncommuted pension is fully taxable** irrespective of whether employee is government employee or non government employee.

- 5. Commuted pension received by government employee is fully exempt and received by non government employee is partly exempt. (1/2 or 1/3rd is exempt.)

- 6. Family pension received by the legal heirs after the death of the employee is taxable in the hand of legal heirs under **'Income from other sources'.**