

UNIT - 1: INCOME FROM SALARIES

Question 1

Following benefits have been granted by Ved Software Ltd. to one of its employees Mr. Badri:

- (i) Housing loan @ 6% per annum. Amount outstanding on 1.4.2007 is Rs. 6,00,000. Mr. Badri pays Rs. 12,000 per month, on 5th of each month.
- (ii) Air-conditioners purchased 4 years back for Rs. 2,00,000 have been given to Mr. Badri for Rs. 90,000.

Compute the chargeable perquisite in the hands of Mr. Badri for the A.Y. 2008-09.

The lending rate of State Bank of India as on 1.4.2007 for housing loan may be taken as 10%.

(6 Marks)(May 2008)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Perquisite value for housing loan

The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month	Perquisite value at 4% for the month
April, 2009	5,88,000	1,960

Taxation

May, 2009	5,76,000	1,920
June, 2009	5,64,000	1,880
July, 2009	5,52,000	1,840
August, 2009	5,40,000	1,800
September, 2009	5,28,000	1,760
October, 2009	5,16,000	1,720
November, 2009	5,04,000	1,680
December, 2009	4,92,000	1,640
January, 2010	4,80,000	1,600
February, 2010	4,68,000	1,560
March, 2010	4,56,000	<u>1,520</u>
Total value of this perquisite		<u>20,880</u>

Perquisite Value of Air Conditioners

	Rs.
Original cost	2,00,000
Depreciation on SLM basis for 4 years @10% i.e. Rs.2,00,000 x10% x 4	<u>80,000</u>
Written down value	1,20,000
Amount recovered from the employee	<u>90,000</u>
Perquisite value	<u>30,000</u>

Chargeable perquisite in the hands of Mr. Badri for the assessment year 2010-11

	Rs.
Housing loan	20,880
Air Conditioner	<u>30,000</u>
Total	<u>50,880</u>

Question 2

Mr. Narendra, who retired from the services of Hotel Samode Ltd., on 31.1.2008 after putting on service for 5 years, received the following amounts from the employer for the year ending on 31.3.2008:

- ◆ Salary @ Rs. 16,000 p.m. comprising of basic salary of Rs. 10,000, Dearness allowance of Rs. 3,000, City compensatory allowance of Rs. 2,000 and Night duty allowance of Rs. 1,000.
- ◆ Pension @ 30% of basic salary from 1.2.2008.

Income from Salaries

- ◆ Leave salary of Rs. 75,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year.
- ◆ Gratuity of Rs. 50,000.

Compute the total income of Mr. Narendra for the assessment year 2008-09.

(6 Marks)(May 2008)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of total income of Mr. Narendra for A.Y. 2010-11

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salaries		
Gross salary received during 1.4.09 to 31.1.10 @ Rs. 16,000 p.m. (Rs. 16,000 x 10)		1,60,000
Pension for 2 months @ 30% of the basic salary of Rs.10,000 p.m.		6,000
Leave Salary	75,000	
Less: Exempt under section 10(10AA) (Note1)	50,000	25,000
 Gratuity	 50,000	
Less: Exempt under section 10(10) (Note2)	25,000	25,000
Total Income		2,16,000

Notes:

1. Leave encashment is exempt to the extent of least of the following:

Particulars	Amount (Rs.)
(i) Statutory limit	3,00,000
(ii) Cash equivalent of leave for 30 days (30/45 x Rs.75,000)	50,000
(iii) 10 months average salary (10 x Rs.10,000)	1,00,000
(iv) Actual amount received	75,000

Therefore, Rs.50,000 is exempt under section 10(10AA).

Taxation

2. Gratuity is exempt to the extent of least of the following:

Particulars	Amount (Rs.)
(i) Statutory limit	3,50,000
(ii) Half month's salary for 5 years of service (5 x Rs.5,000)	25,000
(iii) Actual gratuity received	50,000

Therefore, Rs.25,000 is exempt under section 10(10). It is assumed that the employee is not covered under The Payment of Gratuity Act, 1972.

Question 3

How is advance salary taxed in the hands of an employee? Is the tax treatment same for loan or advance against salary? (4 Marks)(May 2008)

Answer

Advance Salary

Advance salary is taxable when it is received by the employee, irrespective of the fact whether it is due or not.

It may so happen that when advance salary is included and charged in a particular previous year, the rate of tax at which the employee is assessed may be higher than the normal rate of tax to which he would have been assessed. Section 89(1) provides for relief in these types of cases.

Loan or Advance against Salary

Loan is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified installments, the loan amount cannot be brought to tax as salary of the employee.

Similarly, advance against salary is different from advance salary. It is an advance taken by the employee from his employer. This advance is generally adjusted against his salary over a specified time period. It cannot be taxed as salary.

Question 4

Mr. M is an area manager of M/s N. Steels Co. Ltd. During the financial year 2007-08, he gets the following emoluments from his employer:

Basic Salary	
Up to 31.8.2007	Rs. 20,000 p.m.
From 1.9.2007	Rs. 25,000 p.m.
Transport allowance	Rs. 2,000 p.m.
Contribution to recognised provident fund	15% of basic salary and D.A.
Children education allowance	Rs. 500 p.m. for two children

Income from Salaries

City compensatory allowance	Rs. 300 p.m.
Hostel expenses allowance	Rs. 380 p.m. for two children
Tiffin allowance (actual expenses Rs. 3,700)	Rs. 5,000 p.a.
Tax paid on employment	Rs. 2,500

Compute taxable salary of Mr. M for the Assessment year 2008-09. (6 Marks)(Nov 2008)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of taxable salary of Mr. M. for the Assessment Year 2010-11

Particulars	Amount (Rs.)	Amount (Rs.)
Basic Salary (Rs.20,000 x 5) +(Rs.25,000 x 7)		2,75,000
Transport allowance (Rs.2,000 x 12)	24,000	
Less : Exempt under section 10(14) (Rs.800 x 12)	9,600	14,400
Children education allowance (Rs.500 x 12)	6,000	
Less: Exempt under section 10(14) (Rs.100 x 2 x 12)	2,400	3,600
City Compensatory Allowance (Rs.300 x 12)		3,600
Hostel Expenses Allowance (Rs.380 x 12)	4,560	
Less: Exempt under section 10(14) (Rs.300 x 2 x 12 i.e. Rs.7,200 but restricted to the actual allowance of Rs.4,560)	4,560	Nil
Tiffin allowance (fully taxable)		5,000
Tax paid on employment		2,500
Employer's contribution to R.P.F in excess of 12% of salary (i.e 3% of Rs.2,75,000)		8,250
Gross Salary		3,12,350
Less : Tax on employment under section 16(iii)		2,500
Taxable salary		3,09,850

Taxation

Notes:

- (i) The question states that contribution to recognised provident fund is at 15% of Basic salary + D.A. However, since neither the amount nor rate of D.A. has been given in the question, contribution to recognised provident fund has been taken as 15% of basic salary.
- (ii) Professional tax paid by employer should be included in the salary of Mr. M as a perquisite since it is discharge of monetary obligation of the employee by the employer. Thereafter, deduction of professional tax paid is allowed to the employee from his gross salary.

Question 5

Mr. Ashok Kumar, an employee of a PSU, furnishes the following particulars for the previous year ending 31.3.2009:

	Rs.
i. Salary income for the year	5,25,000
ii. Salary for Financial Year 2006-07 received during the year	40,000
iii. Assessed Income for the Financial Year 2006-07	1,40,000

You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961, in terms of tax payable for assessment year 2009-10.

The rates of Income-tax for the assessment year 2007-08 are:

	Tax Rate (%)
On first Rs. 1,00,000	Nil
On Rs. 1,00,000 - Rs. 1,50,000	10
On Rs. 1,50,000 - Rs. 2,50,000	20
Above Rs. 2,50,000	30
Education cess	2

(7 Marks)(June 2009)

The provisions of the Income-tax Act, 1961 relevant for A.Y. 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to P.Y. 2009-10 i.e. relief under section 89 is required to be calculated for A.Y. 2010-11, assuming that the salary income of Rs.5,25,000 is for the P.Y. 2009-10 and arrears of salary for P.Y. 2006-07 is received during the P.Y. 2009-10.

Income from Salaries

Answer

Computation of Relief under section 89 for the Assessment Year 2010-11

Particulars	Rs.	Rs.
Salary Income for the year excluding the arrears		5,25,000
Add: Arrears relating to Financial Year 2006-07		40,000
Total Income		<u>5,65,000</u>

Assessment year 2010-11

Tax on Rs.5,65,000

First Rs.1,60,000	Nil	0
Next Rs.1,40,000	10%	14,000
Next Rs.2,00,000	20%	40,000
Balance <u>65,000</u>	30%	19,500
<u>5,65,000</u>		<u>73,500</u>
Add: Education cess @ 2%		1,470
Secondary and higher education cess @1%		735
Tax on total income (including arrears) (A)		<u>75,705</u>

Total Income excluding arrears 5,25,000

Tax on Rs.5,25,000		
First Rs.1,60,000	Nil	0
Next Rs.1,40,000	10%	14,000
Next Rs.2,00,000	20%	40,000
Balance <u>25,000</u>	30%	7,500
<u>5,25,000</u>		<u>61,500</u>
Add : Education cess @ 2%		1,230
Secondary and higher education cess @ 1%		615
Tax on total income (excluding arrears) (B)		<u>63,345</u>

Difference between A & B 12,360

Taxation

Assessment Year 2006-07

Total Income assessed		1,40,000
-----------------------	--	----------

Add: Arrears relating to Financial year 2006-07		40,000
---	--	--------

Total income (including arrears)		1,80,000
----------------------------------	--	----------

Tax on Rs.1,80,000	11,000	
--------------------	--------	--

Add: Education Cess @ 2%	220	
--------------------------	-----	--

Tax on total income (including arrears)	(C)	11,220
---	-----	--------

Total Income excluding arrears		1,40,000
--------------------------------	--	----------

Tax on Rs.1,40,000	4,000	
--------------------	-------	--

Add: Education Cess @ 2%	80	
--------------------------	----	--

Tax on total income (excluding arrears)	(D)	4,080
---	-----	-------

Difference between C & D	II	7,140
--------------------------	----	-------

Relief under section 89	(I – II)	5,220
-------------------------	----------	-------

Tax payable for A.Y. 2010-11 (Rs.75,705 – Rs.5,220)		70,485
---	--	--------