

PROBLEMS ON INCOME FROM SALARIES

P1. Mr.Z has joined ICC Ltd. on 1st July 2004 in the scale of Rs.15,000-1,500-21,000-2,500-31,000. Compute gross salary for the previous year 2007-08.

Solution:

Previous Year: 2007-08

Salary for (i) April 2007 to June 2007 = $18,000 \times 3 = 54,000$

(ii) July 2007 to March 2008 = $19,500 \times 9 = 1,75,500$

Gross Salary **2,29,500**

Workings:

Previous Year	April to June	July to March
2004-05	Nil	15,000
2005-06	15,000	16,500
2006-07	16,500	18,000
2007-08	18,000	19,500

P2. Mr.Khan is getting a salary of Rs.12,000 p.m. w.e.f. 1.4.2007. He is promoted w.e.f. 31.12.2005 and got arrears of Rs.75,000. Bonus for the year 2007-08 is Rs.15,000 remains outstanding but bonus of Rs.12,000 for the year 2006-07 was paid on 1st January 2008. In March 2008, he got two months salary i.e. April and May 2008 in advance. Compute the gross salary for the assessment year 2008-09.

Solution:

Gross Salary for the Assessment Year 2008-09

Salary : Rs.12,000 x 12	1,44,000
Arrears of Salary	75,000
Bonus for the year 2007-08: (Receivable)	-----
Bonus for the year 2006-07: (Received)	12,000
Advance of Salary: April & May 2008 ($12,000 \times 2$)	<u>24,000</u>
Gross Salary	<u>2,55,000</u>

P3. Mr.Pradip, a foreign technician is employed with an Indian company. His contract of service was approved by the Government. He was in receipt of bonus from the said Company where he is working. The Assessing Officer subjected the amount to tax on the ground that bonus receipt falls outside the purview of the contract of service. Is the Assessing Officer justified?

Answer: U/s 9(1)(ii) salary earned in India is deemed to accrue or arise in India and is taxable in India.

The salary and bonus paid to a foreign technician for services rendered in India is taxable in India and the same is not entitled for any exemption from the Assessment Year 2005-06 onwards.

P4. Amal Kumar, an Indian citizen, is posted in the Indian High Commission at Nairobi during the previous year 2007-08.

His emoluments consist of Basic Pay of Rs.1,50,000 per month and overseas allowance of Rs.,60,000 per month. Besides, he is entitled to & fro journey to India and also use Government's car at Nairobi. He has no taxable income except salary income stated above. Compute tax liability if (i) he is a non-resident during the previous year 2007-08 and (ii) he is a foreign citizen.

Solution:

- (1) U/s 9(1)(iii), Salary paid by the Government of India to an Indian citizen for services rendered outside India is deemed to accrue or arise in India and is therefore taxable in India.
- (2) U/s 10(7), allowances or perquisites paid by the Government of India to an Indian citizen for services rendered outside India, is fully exempt from tax.

(3) Computation of Taxable Salary for the Previous Year 2007-08

Particulars	Rs	Rs
Salary (1,50,000 x 12)		18,00,000
Overseas Allowance (60,000 x 12)	7,20,000	
Less: Exempt u/s 10(7)	<u>7,20,000</u>	<u>Nil</u>
Gross Salary		18,00,000
Less: Deduction u/s 16		Nil
Income under the head Salaries		18,00,000

HOUSE RENT ALLOWANCE [Sec.10(13A) Rule 2A]

P5. A, is entitled to a basic salary of Rs.5,000 p.m. and dearness allowance of Rs.1,000p.m., 40% of which forms part of retirement benefits. He is also entitled to HRA of Rs.2,000 p.m. He actually pays Rs.2,000 p.m. as rent for a house in Delhi. Compute the taxable HRA.

Computation:

Salary for HRA = Basic Pay + D.A.(considered for retirement benefits) + Commission (if received as a fixed percentage on turnover as per terms of employment)
= (5,000 x 12) + (40% x 1,000 x 12) = 64,800

Taxable HRA:

Particulars	Rs	Rs
Amount received during the financial year for HRA		24,000
Less: Exemption u/s 10(13A) Rule 2A Least of the followings:		
(a) Actual amount received	24,000	
(b) 50% of Salary of Rs.64,800	32,400	
(c) Rent paid less 10% of Salary [2,000 x 12 – 10% of 64,800]	17,520	17,520
Taxable HRA		6,480

P6. X, is employed at Delhi as Finance Manager of R Ltd. The particulars of his salary for the previous year 2007-08 are as under: Basic Salary Rs.16,000 p.m.. Dearness allowance Rs.12,000 p.m. Conveyance Allowance for personal purpose Rs.2,000p.m.; Commission @2% of the turnover achieved which was Rs.9,00,000 during the previous year and the same was evenly spread. HRA Rs.6,000 pm. The actual rent paid by him Rs.5,000 pm for an accommodation at till 31.12.07. From 1.1.08 the rent was increased to Rs.7,000 pm. Compute taxable HRA.

Note: If there is an increase in rent paid, it is advisable to calculate the exemptions separately based on the time period. Rent before and after increase.

Salary for HRA (for 9 months) = Basic Pay + DA(considered for retirement benefits) + Commission (if received as a fixed percentage on turnover as per terms of employment)
= (16,000 x 9) + (12,000 x 9) + (2% of 9,00,000 x 9/12) = 2,65,500

Taxable HRA: (April to December 2007). Total time=9 months

Particulars	Rs	Rs
Amount received during the financial year for HRA		54,000
Less: Exemption u/s 10(13A) Rule 2A. Least of the followings:		
(a) Actual amount received	54,000	
(b) 50% of Salary	1,32,750	
(c) Rent paid less 10% of Salary [5,000 x 9 – 10% of 2,65,500]	18,450	18,450
Taxable HRA		35,550

Salary for HRA (for 3 months) = Basic Pay + DA(considered for retirement benefits) + Commission (if received as a fixed percentage on turnover as per terms of employment)
= (16,000 × 3) + (12,000 × 3) + (2% of 9,00,000 × 3/12)=88,500

Taxable HRA:

Particulars	Rs	Rs
Amount received during the financial year for HRA		18,000
Less: Exemption u/s 10(13A) Rule 2A. Least of the followings:		
(a) Actual amount received	18,000	
(b) 50% of Salary	44,250	
(c) Rent paid less 10% of Salary [7,000 × 3 – 10% of 88,500]	12,150	12,150
Taxable HRA		5,850

P7. Z is employed in A Ltd. As on 31.3.08, his basic salary Rs.6,000 p.m. He is also entitled to a dearness allowance of 50% of basic salary. 70% of the dearness allowance is considered for retirement benefits. The company gives him HRA Rs.3,000pm. With effect from 1/1/07 he receives an increment of Rs.1,000 in his basic salary. was staying with his parents till 31.10.2007. From 1.11.07 he takes an accommodation on rent in Delhi and pays Rs.2,500 pm as rent for the accommodation. Compute taxable HRA for the assessment year 2008-09.

Computation:

Salary for the purpose of HRA shall cover the time period for which the assessee, who is in receipt of HRA, resided in a rented accommodation and the rent paid by such assessee, is more than 10% of salary.

Salary for HRA (for 5 months) = Basic Pay + DA(considered for retirement benefits) + Commission (if received as a fixed percentage on turnover as per terms of employment)

Basic Pay = (5,000 × 2) + (6,000 × 3) = 28,000

DA = 50% of Basic Pay x 70% forming part of retirement benefits
[50 % x 28,000 x 70%] = 9,800

Total Salary for HRA **37,800**

Taxable HRA:

Particulars	Rs	Rs
Amount received during the financial year for HRA (3,000 × 12)		36,000
Less: Exemption u/s 10(13A) Rule 2A. Least of the followings:		
(d) Actual amount received	36,000	
(e) 50% of Salary	18,900	
(f) Rent paid less 10% of Salary [2,500x 5 – 10% of 37,800]	8,720	8,720
Taxable HRA		27,280

GRATUITY

P8. Mr. Hari retires on 15th October 2007, after serving 30 years and 7 months. He gets Rs.3,80,000 as gratuity. His salary details are given below:

FY 2007-08	Salary pm	Rs.16,000	D.A. 50% of salary. 40% forms part of retirement benefits.
FY 2006-07	Salary pm	Rs.15,000	D.A. 50% of salary. 40% forms part of retirement benefits

Determine his gross salary in the following cases:

- He retires from government service
- He retires from seasonal factory in a private sector, covered under Payment of Gratuity Act, 1972.
- He retires from non-seasonal factory, covered by Payment of Gratuity Act, 1972
- He retires from private sector, not covered by payment of Gratuity Act

Computation:

- (i) The amount of gratuity received as a Government employee is fully exempt from tax u/s 10(10)(i)
- (ii) As an employee of a seasonal factory, in a private sector, covered under the Payment of Gratuity Act, 1972

Computation of Taxable Gratuity

Particulars	Rs	Rs
Amount received as Gratuity		3,80,000
Less: Exemption u/s 10(10)(ii) Least of the followings:		
(i) Actual amount received	3,80,000	
(ii) $7/26 \times$ Last drawn salary $\times$ No. of years of completed service or part thereof in excess of 6 months [$31 \times 7/26 \times 24,000$]	2,00,308	
(iii) Maximum Limit	3,50,000	2,00,308
Taxable Gratuity		1,79,692

- (iii) As an employee of a non-seasonal factory, covered by Payment of Gratuity Act, 1972

Computation of Taxable Gratuity

Particulars	Rs	Rs
Amount received as Gratuity		3,80,000
Less: Exemption u/s 10(10)(ii) Least of the followings:		
(i) Actual amount received	3,80,000	
(ii) $15/26 \times$ Last drawn salary $\times$ No. of years of completed service or part thereof in excess of 6 months [$15/26 \times 31 \times 24,000$]	4,29,231	
(iii) Maximum Limit	3,50,000	3,50,000
Taxable Gratuity		30,000

Note: Salary = Basic Pay + Dearness Allowance

In case of seasonal employment, instead of 15 days, 7 days shall be considered.

- (iv) As an employee of a private sector, not covered by Payment of Gratuity Act, 1972

Computation of Taxable Gratuity

Particulars	Rs	Rs
Amount received as Gratuity		3,80,000
Less: Exemption u/s 10(10)(iii) Least of the followings:		
(i) Actual amount received	3,80,000	
(ii) $1/2 \times$ Average salary $\times$ No. of fully completed years of service [$1/2 \times 18,720 \times 30$]	2,80,800	
(iii) Maximum Limit	3,50,000	2,80,800
Taxable Gratuity		99,200

Note: Salary = 10 months average salary preceeding the month of retirement.

= Basic Pay + Dearness Allowance considered for retirement benefits + commission (if received as a fixed percentage on turnover)

Salary for the months December '06 till September '07 shall have to be considered.

Basic Salary:

December '06 to March '07 = $15,000 \times 4$

April '07 to September '07 = $16,000 \times 6$

Total Basic Salary

Add: D.A. [50% of 1,56,000 $\times$ 40%, forming part of superannuation benefits]

Salary for 10 months

Rs.
= 60,000
= 96,000
1,56,000

31,200
1,87,200

Therefore, **Average salary for 10 months = 1,87,200/10 = 18,720**

P9. Mr. Surya was an employee of IAWCI. After 38 years of service, he retired on 29.2.08. He was drawing a monthly salary of Rs.15,000 in 2005, Rs.16,500 in 2006 and Rs.18,000 from 1.1.07 to 29.2.08. On retirement he received a gratuity of Rs.4,00,000. Compute taxable gratuity.

Computation: Assuming employee **not covered** by Payment of Gratuity Act, 1972

Computation of Taxable Gratuity

Particulars	Rs	Rs
Amount received as Gratuity		4,00,000
Less: Exemption u/s 10(10)(iii) Least of the followings:		
(i) Actual amount received	4,00,000	
(ii) $1/2 \times \text{Average salary} \times \text{No. of fully completed years of service}$ [$1/2 \times 18,000 \times 38$]	3,42,000	
(iii) Maximum Limit	3,50,000	3,42,000
Taxable Gratuity		58,000

Note: Salary = 10 months average salary preceeding the month of retirement.
= Basic Pay + Dearness Allowance considered for retirement benefits + commission (if received as a fixed percentage on turnover)

In this case, Average salary for 10 months preceeding the month of retirement is Rs.18,000 only.

PENSION

P10. Mr. King is getting a salary of Rs.5,400 pm since 1.1.07 and dearness allowance of Rs.3,500 pm, 50% of which is a part of retirement benefits. He retires on 30 November 2007 after 30 years and 11 months of service. His pension is fixed at Rs.3,800 pm. On 1st February 2008 he gets 3/4ths of the pension commuted at Rs.1,59,000. Compute his gross salary for the previous year 2007-08 in the following cases:

- (i) If he is a government employee, getting gratuity of Rs.1,90,000
- (ii) If he is an employee of a private company, getting gratuity of Rs.1,90,000
- (iii) If he is an employee of a private company but gets no gratuity.

Computation:

Previous Year 2007-08. Tenure of Service: 1.4.07 to 30.11.07 = 8 months

Post-retirement period: December '07 to March '08 = 4 months

Particulars	Case (i)	Case (ii)	Case (iii)
Salary	43,200	43,200	43,200
D.A	28,000	28,000	28,000
Taxable Gratuity	Exempted	82,750	Nil
Uncommuted Pension [$(3,800 \times 2) + (950 \times 2)$]	9,500	9,500	9,500
Commuted Value of Pension	Exempted	88,333	
Gross Salary			

Case(ii) Gratuity received by an employee of a private company **Rs.**

Actual amount received 1,90,000

Less: Exempted amount (least of the followings):

(i) Actual amount received 1,90,000

(ii) $1/2 \times \text{Avg. Salary} \times \text{No. of years of Completed service}$

 [$1/2 \times 7,150 \times 30$] 1,07,250

(iii) Maximum Limit 3,50,000

Taxable Gratuity 1,07,250

82,750

Commuted Value of Pension

(Non-govt employee, gratuity received)

Actual commuted value of pension received 1,59,000
 Less: Exempted u/s 10(10A)

1/3rd of Full Value of Commuted Pension
 [$1/3 \times 2,12,000$] 70,667
 Full Value of Commuted Pension

Amount received on commutation
 Percentage of pension commuted

= $1,59,000 / 75\% = 2,12,000$

Taxable Commuted Value of Pension **88,333**

Case(iii) Commuted Value of Pension

(Non-govt employee, gratuity not received)

Actual commuted value of pension received 1,59,000
 Less: Exempted u/s 10(10A)

1/2 of Full Value of Commuted Pension
 [$1/2 \times 2,12,000$] 1,06,000
 Full Value of Commuted Pension

Amount received on commutation
 Percentage of pension commuted

= $1,59,000 / 75\% = 2,12,000$

Taxable Commuted Value of Pension **53,000**

LEAVE ENCASHMENT

P11. Mrs. Vandana retires on 16th October 2007 after 30 years and 8 months of service. Salary structure is given below:

FY 2007-08	Salary pm	Rs.15,000	D.A.Rs.7,500 pm
FY 2006-07	Salary pm	Rs.12,000	D.A.Rs.6,000 pm

40% of dearness allowance forms a part of superannuation benefits. Record of Earned Leave is given below:

Leave allowed for one year of completed service -20 days; Leave taken while in service-150 days; Leave encashed during the year-60 days.

Determine the gross salary in the following cases:

- (i) He retires from government service
- (ii) He retires from the service of Delhi Municipal Corporation
- (iii) He retires from the service of Life Insurance Corporation of India
- (iv) He retires from private sector

Particulars	Case(i)	Case(ii)	Case(iii)	Case(iv)
Salary for 6 months & 16 days	98,000	98,000	98,000	98,000
Dearness Allowance	49,000	49,000	49,000	49,000
Taxable amount of Leave encashment	Exempted	1,24,980	1,24,980	1,24,980
Gross Income from Salary	1,47,000	2,71,980	2,71,980	2,71,980

Working Notes:

Average monthly salary for 10 months, prior to retirement:

Salary of 6 months 16 days: (1st April 2007 to 16th October 2008) = 98,000Salary of 3 months 14 days: (14th December 2006 to 31st March 2007) = 41,600**Total Basic Salary** 1,39,600**Add:** Dearness allowanceFor 6 months 16 days: (1st April 2007 to 16th October 2008) = 49,000For 3 months 14 days: (14th December 2006 to 31st March 2007) = 20,800**Total D.A.** 69,800D.A. [40% of 69,800, forming part of retirement benefits] 27,920**Total salary of 10 months** **1,67,520****Average Salary** = 1,67,520 / 10 = 16,752**Taxable amount of Leave Encashment:**

Amount of encashment received:

(30 x 20) – (150 + 60) x (15,000 + 7,500)/ 30 = 2,92,500

Less: Exempted u/s 10(10AA) [Least of the followings]

(i) Actual amount received 2,92,500

(ii) 10 months salary(preceding the month of retirement) 1,67,520

(iii) Leave credit on the date of retirement
[(30 x 20) – (150 + 60) x (16,752 / 30)] 2,17,776(iv) Maximum Limit 3,00,000 1,67,520**Taxable amount of Leave encashment** **1,24,980**

P12. Ms. Parineeta retired from service after 28 years from ABC Ltd. Leave sanctioned by employer 45 days p.a. Leave availed during service 400 days. Leave encashment received: Rs. 4,30,000. Average salary for 10 months preceding the month of retirement Rs.15,000. Compute taxable amount of Leave encashment for the Previous year 2007-08.

Computation: Since leave sanctioned by the employer is more than 30 days p.a., the following calculation is required, to determine the amount of leave credit on the date of retirement.

Particulars	
(i) Leave credit available on the date of retirement = Total Leave sanctioned during tenure of employment – Total leave availed during service = [(28 x 45) – 400]	860
Less: Excess leave sanctioned by the employer [(45– 30 days) per year x 28]	420
Leave credit on the basis of 30 days credit for completed years of service	440
(ii) Leave salary on the basis of 30 days credit = Step (i) x Average Salary= 440 x (15,000/30)	2,20,000

Taxable Leave Salary on Retirement

Particulars	Rs	Rs
Amount Received on Leave Encashment		4,30,000
Less: Exemption u/s 10(10AA) Least of the followings:		
(i) Actual amount of Leave encashment received	4,30,000	
(ii) Average salary of the individual for the past 10 months x 10 months	1,50,000	
(iii) Maximum Limit	3,00,000	
(iv) Leave at credit at the rate of 30 days p.a. for every Completed year of service as calculated in Step (ii)	2,2,000	1,50,000
Taxable Value of Leave Encashment		2,80,000

RETRENCHMENT COMPENSATION

P13. Mr.Clever was retrenched from service of UGLY Ltd. The scheme of retrenchment is approved by the Central Government. Retrenchment compensation received Rs.8 lakhs. What is the taxability?

Answer: When retrenchment compensation is received in accordance with any scheme, which is approved by the Central Government, it is fully exempted from tax.

P14. Mr.Flemming was retrenched from service of "GO SLOW Ltd". Retrenchment compensation received Rs.6,00,000. Amount determined under the Industrial Disputes Act,1947 Rs.4,75,000. What is the taxability?

Computation of Taxable Retrenchment Compensation

Particulars	Rs	Rs
Amount received as Retrenchment Compensation		6,00,000
Less: Exemption u/s 10(10B): Least of the followings:		
(i) Actual amount received	6,00,000	
(ii) Amount determined under the Industrial Disputes Act,1947	4,75,000	
(iii) Maximum Limit	5,00,000	4,75,000
Taxable Value		1,25,000

VOLUNTARY RETIREMENT COMPENSATION

P15. Mr.Hitesh, after serving Z Ltd. for 23 years 7 months, opted the Voluntary Retirement Scheme. Total tenure of service:30 years Compensation received Rs.8,00,000. Last drawn Salary (i.e. Basic pay + D.A, forming part of retirement benefits) Rs.15,000.

Computation of Exemption:

Total tenure of service = 30 x 12=360 months

Actual length of service = 23 years 7 months = 283 months

No.of months of service left= (360 – 283) months = 77 months

Taxable VRS compensation

Particulars	Rs	Rs
Amount received as VRS Compensation		8,00,000
Less: Exemption u/s 10(10C): Least of the followings:		
(i) Actual amount received	8,00,000	
(ii) Maximum Limit	5,00,000	
(iii) The highest of the following:		
• Last drawn salary x 3 x No.of fully completed years of service		
= 15,000 x 3 x 23= 10,35,000		
• Last drawn salary x Balance of no.of months of service left.	11,55,000	
= 15,000 x 77 months= 11,55,000		5,00,000
Taxable Value		3,00,000

DEDUCTIONS AGAINST SALARY

P16. Ms.Neha is a Senior Accountant in the Ministry of Defence,Govt. of India. She received entertainment allowance Rs.5,000 p.m. Her basic salary is Rs.35,000 p.m. Professional tax paid Rs.5,000. Compute Income from Salary.

Computation of Income from Salary

Basic Salary : 35,000 x 12	Rs. = 4,20,000
Entertainment Allowance: 5,000 x 12	= <u>60,000</u>
Gross Income from Salary	4,80,000

Less: Deduction u/s 16(ii): Entertainment allowance:
Least of the following will be allowed as a deduction:

(i) Actual amount of entertainment allowance received	60,000	
(ii) 20% of Basic salary of the Individual [20% of 4,20,000]	84,000	
(iii) Statutory limit:	5,000	
Exempted amount being the least		5,000

Less: Professional Tax paid u/s 16(iii) 5,000

Income from Salary **4,70,000**

VALUATION OF PERQUISITE FOR MEDICAL TREATMENT

P17. Calculate the perquisite value of the expenditure on medical treatment, which is assessable in the hands of an employee of a company, inclusive of the conditions to be satisfied:

- Gross total income, inclusive of salary Rs.2,00,000
- (a) amount spent on treatment of the employee's wife in a hospital maintained by the employer Rs.20,000
- (b) amount paid by the employer on treatment of the employee's child in a hospital Rs.14,000
- (c) medical insurance premium reimbursed by the employer on a policy covering the employee, his wife and dependent parents Rs.7,000
- (d) (i) amount spent on medical treatment of the employee outside India Rs.2,50,000
(ii) amount spent on travel and stay abroad Rs.90,000
- (e) amount spent on travel and stay abroad of attendant Rs.60,000

Nature of Perquisites	Amount Taxable	Taxability/Non-taxability
Treatment of employee's wife in a hospital Maintained by employers	Nil	Fully exempted
Reimbursement of expenses incurred on treatment of employee's child in hospital	Nil	Not taxable: since the amount is less than Rs.15,000
Reimbursement of medical insurance premium paid	Nil	Not taxable: since medical insurance premium referred to u/s 80D is paid on the employee and members of his family
Medical treatment outside India	Nil	It is assumed that the whole of such expenditure is permitted by RBI
Amount spent on travel and stay abroad for the employee (herein referred as the patient)	Nil	Not taxable: as the Gross total income does not exceed Rs.2,00,000
Amount spent on travel and stay abroad of the attendant	Nil	Not taxable: as the Gross total income does not exceed Rs.2,00,000

PERQUISITE VALUATION OF ACCOMODATION FACILITIES

P18. Mr.Goutam is a Central Govt.employee. He is provided with an accommodation. The Licence fee determined by the Government is Rs.500 p.m. An amount of Rs.50 is deducted from his salary towards such rent. Determine the taxable value of perquisite.

Taxable Value of Unfurnished Accommodation: Explanation 1 to Sec.17(2) Rule 3(1)

Licence fee determined by the Government (500 x 12)	= 6,000
Less: Rent recovered from employee (50 x 12)	= 600
Taxable value of perquisite	= 5,400

P19. R submits the following information regarding his salary income for the year 2006-07: Basic salary Rs.15,000p.m.; D.A(forming part of salary) 40% of basic salary;City Compensatory Allowance Rs.300p.m.; Children Education Allowance Rs.400 pm per child for 3 children; Transport Allowance Rs.1,000 p.m. He is provided with a rent free unfurnished accommodation which is owned by the employer. The fair rental value of the house is Rs.24,000 p.a. Compute the gross salary assuming accommodation is provided in a city where population is (a) exceeding 25 lakhs (b) exceeding 10 lakhs but not exceeding 25 lakhs (c) less than 10 lakhs

Computation of Income from Salary

Particulars	Amount	Amount
Basic salary 15,000 x 12		1,80,000
D.A. (40% of 1,80,000)		72,000
City Compensatory Allowance (fully taxable) (300 x 12)		3,600
<u>Children Education Allowance</u>		
Actual amount received (400 x 12 x 3)	14,400	
Less: Exemption u/s 10(14)		
@ Rs.100 per month per child subject to a maximum of 2 children	<u>2,400</u>	12,000
(100 x 12 x 2)		
<u>Transport Allowance</u>		
Actual amount received (1,000 x 12)	12,000	
Less: Exemption u/s 10(14) @ Rs.800 p.m. (800 x 12)	<u>9,600</u>	2,400
Gross Income from Salary u/s 17(1)		2,70,000
Add: Value of Unfurnished accommodation u/s 17(2) rule 3(1) explanation 1		
Case (a) Population exceeding 25 lakhs		
15% of salary		
Salary = Basic pay + DA(forming part of retirement benefits) + all other taxable allowances		
= 1,80,000 + 72,000 + 3,600 + 12,000 + 2,400		
= 2,70,000		
Total Income from Salary		<u>40,500</u> 3,10,500

Note: Case (b): where population is exceeding 10 lakhs but not exceeding 25 lakhs

10% of Salary shall be considered as the value of taxable perquisite
= 10% of Rs.2,70,000 = Rs.27,000

Case (c) : where population is less than 10 lakhs

7.5 % of salary shall be considered as the value of taxable perquisite
= 7.5% of Rs.2,70,000 = Rs.20,250

P20. Mr. Mohan submits the following information regarding his salary income which he gets from ABC Ltd. Basic salary Rs.15,000 pm; D.A. 40% of basic salary(forming part of retirement benefits);City Compensatory Allowance Rs.300pm; Children Education Allowance Rs.400pm(for 3 children); Transport allowance Rs.1,000 p.m.;Reimbursement of Medical Expenses Rs.25,000. He is also entitled to HRA of Rs.6,000 p.m. from 1.4.2007 to 31.8.2007. He was paying a rent of Rs.7,000 p.m. for a house in Delhi. From 1.9.2007 he was provided with an accommodation by the company for which the company was paying the rent of Rs.5,000 pm. The company charged him Rs.1,000 pm as rent for the accommodation. Compute gross salary for the a.y.2008-09.

Computation of Income from Salary		
Particulars	Amount	Amount
Basic salary 15,000 x 12		1,80,000
D.A. (40% of 1,80,000)		72,000
City Compensatory Allowance (fully taxable) (300 x 12)		3,600
<u>House Rent Allowance (April to August 2007)</u>		
Actual amount received (6,000 x 5)	30,000	
Less: Exemption u/s 10(13A) Rule 2A		
Least of the followings:		
(a) Actual amount received	30,000	
(b) 50% of salary	52,500	
(c) Rent paid – 10% of Salary		
[7,000 x 5 – 10% of 1,05,000]	24,500	5,500
<u>Note:</u> Salary for HRA (5 months)		
Basic salary : 15,000 x 5 = 75,000		
D.A. = 40% of 75,000 = 30,000		
Total 1,05,000		
<u>Children Education Allowance</u>		
Actual amount received (400 x 12 x 3)	14,400	
Less: Exemption u/s 10(14)		
@ Rs.100 per month per child subject to a maximum of 2 children	2,400	12,000
(100 x 12 x 2)		
<u>Transport Allowance</u>		
Actual amount received (1,000 x 12)	12,000	
Less: Exemption u/s 10(14) @ Rs.800 p.m. (800 x 12)	9,600	2,400
Gross Income from Salary u/s 17(1)		2,75,500
Add: Value of Unfurnished accommodation u/s 17(2) rule 3(1) explanation 1		
Assuming Population exceeding 25 lakhs (as accommodation provided in a Metro city)		
15% of salary for 7 months(September 2007 to March 2008)		
Salary = Basic pay + DA(forming part of retirement benefits) + all other taxable allowances		
= [(15,000 x 7) + (40% of 1,05,000) + (300 x 9)+		
{(400 x 9 x 3) – (100 x 9 x 2)}+ {(1000 – 800) x 9}]		
= 1,60,500		
Total Income from Salary		2,99,575

P21. Mr.Sambhu was provided an accommodation in a hotel by his employer for 22 days before providing him a rent free accommodation which is owned by the employer. The hotel charges paid Rs.6,000. Salary for the purpose of accommodation for the period of 22 days is Rs.11,000. Compute the value of accommodation.

Computation:

In case of accommodation provided to the assessee on account of transfer, which is exceeding 15 days cumulatively, such shall be taxable as a perquisite. The company recovered Rs.1,000 from the employee. Compute taxability.

Lower of the following:

(i) 24% of salary paid/payable= 24% of 11,000 = 2,640	2,640
(ii) Actual charges paid/payable = 6,000	1,000
Less Amount paid or payable by the employee	1,640
Taxable value of perquisite	

P22. Value of unfurnished accommodation (computed) Rs.50,000. Cost of furniture provided by the employer Rs.80,000. Hire charges of furniture provided in the accommodation Rs.500 p.m. Amount recovered from employee Rs.200 p.m. Compute taxability.

Computation: Value of Furnished Accommodation (provided at Concessional rates)

Particulars	Rs.
Value of unfurnished accommodation as above	50,000
Add: Value of Furniture provided:	
• 10%p.a. of original cost of such furniture	8,000
• If hired from third party, then Actual hire charges	6,000
Less: Any charges paid or payable by the employee (200 x 12)	(2,400)
Value of Furnished Accommodation	61,600

P23. Mr.Ritesh is provided with an accommodation in Kolkata since April 2007. Salary Rs.40,000 p.m. Cost of furniture provided Rs.80,000 On 1st September,2007, following a promotion with a increase in Salary by Rs.15,000,he was transferred to Jharkhand (population less than 25 lakhs but more than 10 lakhs),and was also provided an accommodation there. Mr.Ritesh was allowed to retain the Kolkata accommodation till March,2008. Compute taxability.

Computation:

Phase 1: Value of Furnished Accommodation (Kolkata) (April to September 2007)

Particulars	Rs.
Value of unfurnished accommodation (15% of 40,000 x 6 months)	36,000
Add: Value of Furniture provided:	
• 10%p.a. of original cost of such furniture (10% of 80,000 x 6 months)	8,000
Value of Furnished Accommodation	44,000

Phase 2: Valuation of accommodation (October 2007 to December 2007)

(a) For the first 90 days of transfer: Where accommodation is provided both at existing place of work and in new place, the accommodation, which has lower value, shall be taxable.

(b) After 90 days: Both accommodations shall be taxable.

Computation for the first 90 days of transfer: (October 2007 to December 2007)

Lower of:

- (i) Value of accommodation at existing place of work
- (ii) Value of accommodation at new place

Value of accommodation at existing place of work (Kolkata)

15% of salary for 3 months (i.e. 90 days) = 15% of 55,000 x 3 months = 24,750

Add: Cost of furniture provided: 10% of 80,000 x 3 months = 24,000

Total Value of Perquisite **48,750**

Value of accommodation at new work place(Jharkhand)

10% of salary for 3 months (i.e. 90 days) = 10% of 55,000 x 3 months = 16,500

Therefore, the assessee shall be assessed to tax on Rs.16,500 (being the lower)

Phase 3: Valuation of accommodation (after 90 days) (January 2008 to March 2008)

For Kolkata accommodation: 15% of 55,000 x 3 months = Rs.24,750

Add: Cost of furniture provided: 10% x 80,000 x 3 months = Rs.24,000

Total value of perquisite **Rs.48,750**

For Jharkhand accommodation: 10% of 55,000 x 3 months = Rs.16,500

Total value of perquisite:

Particulars	Taxable value of perquisite
Phase 1: Accommodation in Kolkata	44,000
Phase 2: Accommodation in Jharkhand (being the lower during 90 days)	16,500
Phase 3: Accommodation in Kolkata	48,750
	16,500
Total Value of Taxable Perquisite	1,25,750

OTHER FACILITIES AND PERQUISITES TO EMPLOYEE AND HIS HOUSEHOLD

P24. Mr.E is employed with N Ltd. he also gets the services of sweeper and watchman. Determine his gross salary in the following cases:

- 1) His salary is Rs.4,200 pm. Employer provides the services of sweeper and watchman. He pays them Rs.600 pm and Rs.500pm;
- 2) His salary is Rs.4,200 pm. Sweeper and watchman are engaged by N at the rates given in clause(1) above but their wages are reimbursed by the employer;
- 3) His salary is Rs.4,210 pm. Employer provides the services of sweeper and watchman at the above rates but he recovers from N Rs.200 pm and Rs.300 pm respectively.

E has paid employment tax of Rs.400.

Computation:

Particulars	Case (1)	Case (2) [Ref.Sec.17(2)(iv), Rule 3(3)]	Case (3) [Ref.Sec.17(2)(iii) Rule 3(3)]
Salary	50,400	50,400	50,520
Wages of sweeper	Sec.17(2)(iii) not taxable	7,200	4,800
Wages of watchman	Sec.17(2)(iii) not taxable	6,000	2,400
Gross salary	50,400	63,600	57,720

Working Note:

Case (1): He is a non-specified employee. Perquisites provided by employer u/s 17(2)(iii) are not chargeable to tax:

Salary: $4,200 \times 12 = 50,400$
Less: Professional tax paid u/s 16(iii) $= 400$
Monetary income not exceeding Rs.50,000 **= 50,000**

Case (2): If the facility is engaged by the employee but reimbursed by the employer, it is an obligation of employee, discharged by employer u/s 17(2)(iv), it is always taxable.

Case (3): He is a specified employee, as his monetary income, chargeable under the head "salaries" exceeds Rs.50,000.

Gross salary; $4,210 \times 12 = 50,520$
Less: Professional tax paid u/s 16(iii) $= 400$
Monetary income exceeding Rs.50,000 **Rs.50,120**

P25. G Ltd. provides electricity to its employee, P. Annual consumption as per meter reading comes to 2,250 units. Determine the value of the perquisite in the following cases:

- 1) Electricity meter is in the name of P and the rate of electricity is Rs.3 per unit
- 2) Electricity meter is in the name of G Ltd. the rate of electricity is Rs.3 per unit.
- 3) G Ltd. is a power-generating company. Manufacturing cost is 90 paise per unit but supplied to public @ Rs.2 per unit. However, it charges 30 paise per unit from employees.

Solution: With reference to Rule 3(4)

- 1) Perquisite value of free electricity is Rs.6,750 ($2,250 \times 3$). As the electric meter is in the name of the employee, it is his obligation to pay the bill. However, as the bill has been paid by the employer, it is an obligation of employee, discharged by the employer. It is always taxable u/s 17(2)(iv).
- 2) Perquisite value of free electricity will be Rs.6,750. It shall be assessed to tax, if the employee is a specified employee as per Sec.17(2)(iii)
- 3) Perquisite value of electricity supplied = $2,250 (0.90 - 0.30) = \text{Rs.1,350}$

P26. Determine the value of education facility in the following cases:

- 1) Three children of G, an employee of S Ltd., are studying in a school, run by S Ltd. School fees is Rs.2,500 pm and hostel fees is Rs.2,000 pm. But the employer recovers only Rs.600 pm and Rs.500 pm respectively. However, a similar school or a hostel around the locality charges Rs.1,800 pm and Rs.1,200 pm respectively.
- 2) The employer has also reimbursed the school fees of Rs.1,200 pm of his nephew, fully dependent on him after the death of his brother.

Computation of taxable value of education facility [As per Rule 3(5)]

Particulars	Taxable value of perquisite
1)(a) School fees of his children, studying in a school run by employer: (Rs.1,800 x 3 x 12) – (1,000 x 3 x 12) – (600 x 3 x 12)	7,200
(b) Hostel fees: (2,000 x 3 x 12) – (500 x 3 x 12)	54,000
2) School fee of nephew (1,200 x 12)	14,400
Total value of taxable perquisite	75,600

P27. Mr. Z is the manager of F Ltd. his son is a student of Amity International School. School fees of Rs.4,000 pm and hostel fees of Rs.3,000 pm., are directly paid by Z Ltd. to the school but it recovers from Z only 30%. F also joins an advanced course of Marketing Management for 4 months at IIM, Ahmedabad, fees of the course, Rs.2,50,000 is paid by F Ltd. Determine the perquisite value of the education facility.

Computation:

Computation of taxable value of education facility [As per Rule 3(5)]

Particulars	Taxable value of perquisite(Rs.)
1)(a) School fees of his children, studying in a school run by employer: (Rs.4,000 x 12) - (1,200 x 12)	33,600
(b) Hostel fees: (3,000 x 12) – (900 x 12)	25,200
2) Fees paid for Marketing Management course for Mr.Z (it is a fully exempted perquisite)	Nil
Total value of taxable perquisite	58,800

P28. Mr.D takes interest-free loan of Rs.2,50,000 on 1.11.07 from his employer to construct his house. The loan is repayable in 50 monthly installments from January 2007. Compute the value of interest free loan. SBI Lending rate 8.5% p.a. (for housing loans not exceeding 5 years).

Computation of taxable value of Loan provided by employer [As per Rule 3(7)(i)]

Time period during which loan remains outstanding	Balance on the last day of the month
November	2,50,000
December	2,50,000
January	2,45,000
February	2,40,000
March	2,35,000
Total	12,20,000
Perquisite value of interest-free loan:	
12,20,000 x 8.5% x 1/12 = Rs.8,642	

P29. Mr.Prabir Nandy is a Manager in H Ltd. He gets salary @ Rs.30,000 pm. He is also allowed free use of computer, video-camera and television of the company. H Ltd. has purchased (i) Computer for Rs.1,00,000 (ii) Video-camera for Rs.30,000. Their written down value on 1.4.07 is Rs.60,000 and Rs.30,000 respectively. Television set has been taken on lease rent @ Rs.100 pm. The employer recovers Rs.500 per month for use of the assets. Compute his gross salary for the assessment year 2008-09.

Computation of taxable value of Loan provided by employer [As per Rule 3(7)(vii)]

Salary : 30,000 x 12	3,60,000
Add: Free use of computer, u/s 17(2)(vi) read with Rule 3(7)(vii)	Nil
Add: Free use of video camera, u/s 17(2)(vi) read with rule 3(7)(vii) [10% of 30,000]	3,000
Add: Free use of telephone, u/s 17(2)(vi) read with rule 3(7)(vii) (100 x 12)	1,200
Gross Salary	3,64,200

P30. Mr.C is an accountant of D Ltd. He gets salary of Rs.25,000 pm. He has purchased motor car and washing machine from the company on 1 February 2008. Particulars of cost and sale price of the two assets are given below:

Year of Purchase	Particulars of the Asset	Purchase Price(Rs)	Sale price(Rs)
01.07.2004	Motor car	2,50,000	85,000
15.09.2003	Washing Machine	10,000	5,000

Compute the taxable value of perquisites for the assessment year 2008-09

Computation of taxable value of perquisites on transfer of moveable assets [As per Rule 3(7)(viii)]

TRANSFER OF MOVABLE ASSET TO EMPLOYEES

Nature of Assets transferred		Amount
Motor car (Actual Cost)		2,50,000
Less:	Depreciation @ 20% on WDV from 01.07.2004 to 30.06.2005	<u>50,000</u>
	WDV	2,00,000
Less:	Depreciation @ 20% on WDV from 01.07.2005 to 30.06.2006	<u>40,000</u>
	WDV	1,60,000
Less:	Depreciation @ 20% on WDV from 01.07.2006 to 30.06.2007	<u>32,000</u>
	WDV	1,28,000
Washing Machine (Actual Cost)		10,000
Less:	Depreciation @ 10% on SLM from 15.09.2003 to 14.09.2004	<u>1,000</u>
	WDV	9,000
Less:	Depreciation @ 10% on WDV from 15.09.2004 to 14.09.2005	<u>1,000</u>
	WDV	8,000
Less:	Depreciation @ 10% on WDV from 15.09.2005 to 14.09.2006	<u>1,000</u>
	WDV	7,000
Less:	Depreciation @ 10% on WDV from 15.09.2006 to 14.09.2007	<u>1,000</u>
	WDV	6,000

Particulars	Motor Car	Washing Machine
WDV on the Asset	1,28,000	6,000
Less: Amount recovered from employee	85,000	5,000
Taxable value of perquisite	43,000	1,000

TREATMENT OF TAX ON NON-MONETARY BENEFITS PAID BY EMPLOYER

1. Payment of tax by employer on non-monetary perquisites:

(a) U/s 192(1A), the employer may, at his option, pay income tax on the whole or part of perquisite provided by way of non-monetary payments.

(b) Such payment of tax is not taxable as a perquisite in the hands of the employee [Sec.10 (10CC)]

(c) The payment of income tax in such case is not allowable as expenditure in the hands of the employer. [Sec. 40(a)(v)]

(d) Such tax shall be determined at the average rate of income tax computed on the basis of the rates in force for the financial year, on the income chargeable under the head "Salaries" including non-monetary payments. The tax so payable shall be construed as if it were, a tax deductible at source, from income under the head "Salaries" and shall be subject to the provisions of Chapter XVII [COLLECTION AND RECOVERY OF TAX].

2. Determination of tax payable by employer u/s 192(1B) i.e. Tax on Non-monetary benefits:

Step 1: Average Rate of Income Tax =

$$\frac{\text{Tax on Income under "Salaries" (including non-monetary benefits)}}{\text{Income under the head Salaries}} \times 100$$

Step 2: Tax payable on Non-monetary benefits=

$$\text{Average Rate of Income Tax (Step 1)} \times \text{Value of Non-monetary benefits}$$

P31. Income from Salary Rs.5,00,000(including perquisites). Income Tax 99,000. Income from salary Rs.3,80,000 (excluding perquisites). Determine the tax payable by employer u/s 192(1B) on non-monetary benefits.

Computation of Tax on Non-monetary Benefits:

Step 1: Average Rate of Income Tax = $\frac{99,000}{5,00,000} \times 100 = 19.8\%$

Step 2: Tax payable on Non-monetary benefits= $19.8\% \times 1,20,000 = 23,760$

TAXABILITY OF PERQUISITES PROVIDED BY EMPLOYERS WHO ARE SUBJECT TO FBT (FRINGE BENEFIT TAX)

Taxability of other perquisites provided to employee or his household members by an Employer who is not liable to pay FBT [Rule 3]

Taxability of Motor Car Benefits [Rule 3(2)(A)]

Owner of Car	Expenses borne by	Purpose	Taxable Value of Perquisite
1(a) Employer	Employer	Fully official	Not a perquisite provided the documents as specified in Rule 3(2)(B) are maintained.
1(b) Employer	Employer	Fully private	Total of: (i) Actual expenditure on car (ii) Remuneration to chauffeur (iii) 10% of the cost of car (normal wear & tear) Less: Amount charged from employee
1(c)(i) Employer	Employer	Partly official and partly personal	<u>Cubic Capacity of Car Engine upto 1.6 litres</u> Rs.1,200 p.m.+ Rs.600 p.m. for chauffeur <u>Cubic Capacity of Car Engine above 1.6 litres</u> Rs.1,600 p.m. + Rs.600 p.m. for chauffeur
1(c)(ii) Employer	Employee	Partly for official and partly for personal	<u>Cubic Capacity of Car Engine upto 1.6 litres</u> Rs.400 p.m.+ Rs.600 p.m. for chauffeur <u>Cubic Capacity of Car Engine above 1.6 litres</u> Rs.600 p.m. + Rs.600 p.m. for chauffeur

2(i) Employee	Employer	Fully official use	Not a perquisite provided the documents as specified in Rule 3(2)(B) are maintained.
2(ii) Employee	Employer	Partly official and partly personal	Subject to Rule 3(2)(B) Actual expenditure incurred Less: Car cubic capacity upto 1.6 litres [i.e. value as per 1(c)(i)] OR Car cubic capacity upto 1.6 litres above 1.6 litres [i.e. value as per 1(c)(i)]
3(i) Employee owns other auto-motive but not car	Employer	Fully official use	Not a perquisite provided the documents as specified in Rule 3(2)(B) are maintained.
3(ii) Employee owns other auto-motive but not car	Employer	Partly for official and partly for personal	Subject to Rule 3(2)(B) Actual expenditure incurred by employer Less: Rs.600 p.m.

Note:

1. Using cars from pool of cars owned or hired by Employer:

The employee is permitted to use any or all cars for both official and personal use:

For one car	Valued as per 1(c)(i)
For more than one car	Valued as per 1(b) as if fully used for personal purpose

2. Documents to be maintained for claiming 'not taxable perquisite' or higher deduction wherever applicable [Rule 3(2)(B)]

(a) Employer should maintain complete details of journey undertaken for official purpose, which includes date of journey, destination, mileage and amount of expenditure incurred thereon.

(b) Certificate of supervising authority of the employee, wherever applicable, to the effect that the expenditure incurred for wholly and exclusively for performance of official duties, should be provided.

TAXABILITY OF OTHER BENEFITS

Rule	Nature of Perquisite	Taxable Value of Perquisite(TVP)
3(6)	Transportation of goods or passengers at free or concessional rate provided by the employer engaged in that business (other than railways/airlines)	Value at which offered to public Less: amount recovered from the employee
3(7)(ii)	Traveling, touring, accommodation and other expenses met by the employer other than specified in Rule 2B. (this shall be calculated only for the period of vacation)	Amount recovered by employer or Value at which offered to public Less: amount recovered from the employee
3(7)(iii)	Free meals during office hours Free meal in remote area or offshore installation area is not a taxable perquisite	Actual cost to the employer in excess of Rs.50 per meal or tea or snacks Less: amount recovered from the employee.

		Tea or non-alcoholic beverages and snacks during working hours is not taxable.
3(7)(iv)	Value of any gift or voucher or taken other than gifts made in cash or convertible into money (e.g. gift cheques) on ceremonial occasion	Value of gift In case the aggregate value of gift during the previous year is less than Rs.5,000 , then it is not a taxable perquisite
3(7)(v)	Expenditure incurred on credit card or add on card including membership fee and annual fee	Actual expenditure to employer is taxable Less: amount recovered from employee If it is incurred for official purpose and supported by necessary documents then it is not taxable.
3(7)(vi)	Expenditure on club other than health club or sports club or similar facilities provided uniformly to all employees	Actual expenditure incurred by the employer Less: amount recovered from employee If the expenditure is incurred exclusively for official purposes and supported by necessary documents then it is not taxable. Initial fee of corporate membership of a club is not a taxable perquisite
3(7)(ix)	Any other benefit or amenities or service or right or privilege provided by the employer other than telephone or mobile phone	Cost to the employer Less: amount recovered from employee

Note: Members of household includes: spouse(s), children and their spouses, parents, servants and dependents.

PROVIDENT FUNDS

Particulars	Statutory	Recognized	Unrecognized	Public
Constituted under	Provident Funds Act, 1952	EPF and Misc, Provisions Act, 1952 & recognized by the Commissioner of PF and CIT	Not recognized by the Commissioner of Income Tax	Public Provident Fund Act, 1968 Account in SBI or Post Offices
Contribution by	Employer and Employee	Employer and Employee	Employer and Employee	All assessees independently
Assessee's Contribution	Deduction u/s 80C	Deduction u/s 80C	No Income Tax Benefit	Deduction u/s 80C
Employer's Contribution	Not taxable	Amount exceeding 12% of salary is taxable	Not taxable at the time of contribution	Not applicable
Interest credited	Fully exempted	Exempted upto 9.5% p.a. Any excess is taxable	On Employee's contribution taxable under the head "Other Sources" On Employer's contribution not taxable at the time of credit	Fully exempt
Withdrawal at the time of retirement /resignation /termination, etc	Exempted u/s 10(11)	Exempted u/s 10(12) Subject to conditions	Employee's contribution and interest thereon is not taxable. Employer's contribution and interest thereon is taxable as Profits in lieu of Salary, under "Salaries"	Exempted u/s 10(11)

Note: Sum received by an Employee under approved Superannuation Fund is also exempt from tax u/s 10(13).