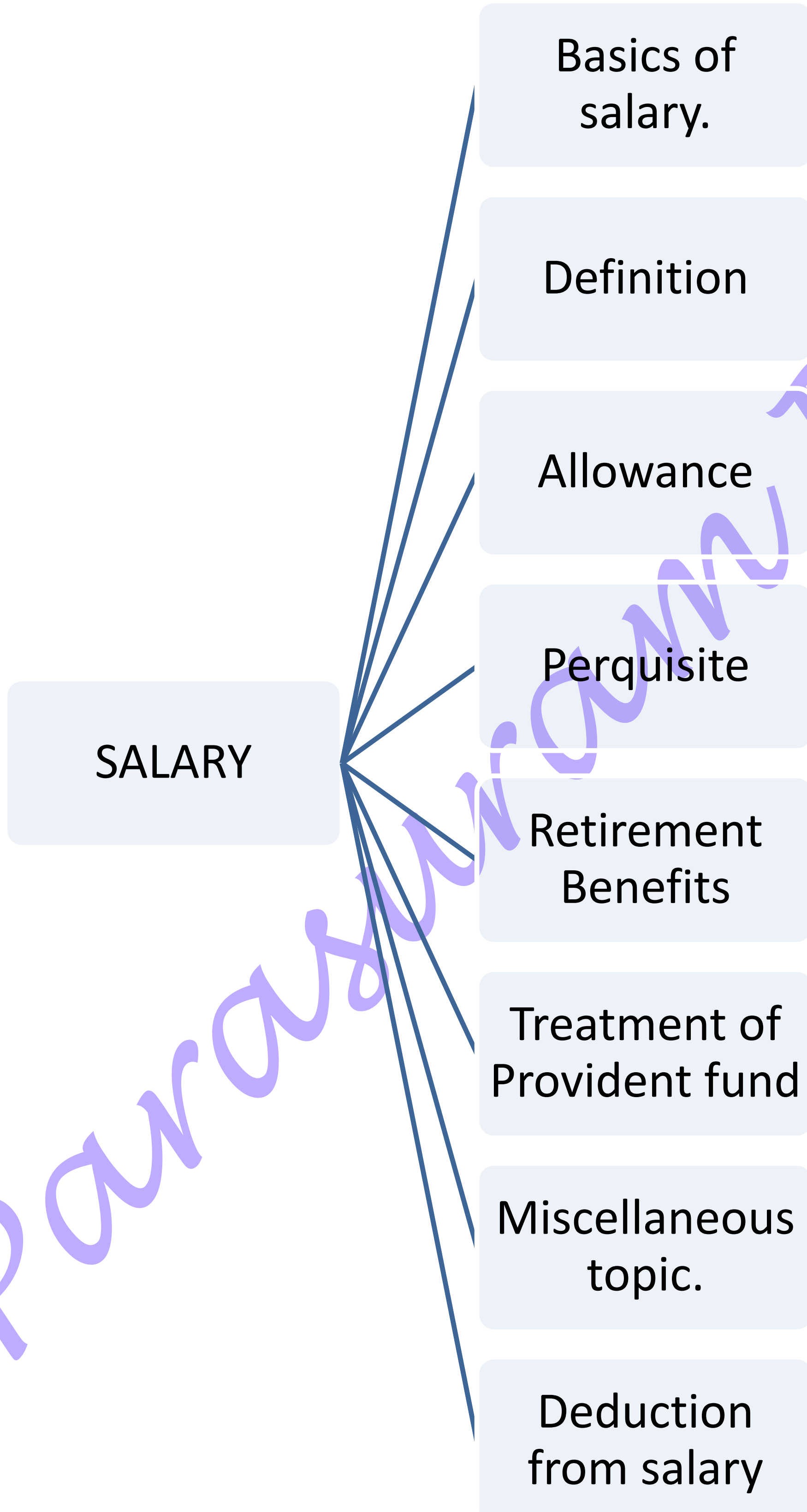
SALARY
Basics of salary.
Definition
Allowance
Perquisite
Retirement Benefits
Treatment of Provident fund
Miscellaneous topic.
Deduction from salary

	TO BE TAXED UNDERTHE HEAD SALARY EMPLOYEE EMPLOYER RELATIONSHIP IS MUST
Section 15 Basis of Charge:	• Salary due from employer or former employer in the previous year (PY)(paid or due.) • Any Salary paid or allowed in the PY by or on behalf of the employer or former employer though not due(i.e. advance salary) • Any arrears of salary paid or allowed in the PY by or on behalf of an employer or former employer.(Taxable on Due or receipt basis whichever is earlier) • i.e. every sum of money received from employer is taxed as salary. **EXCEPTION:** 1. Arrears of salary is taxable on receipt basis. **2.** Refund of salary by the director to comply with Companies Act 1956, is not treated as salary hence to be deducted from salary due or receipt.
Section 17(1) Salary includes	• Wages • Any annuity or pension • Any gratuity • Fees, commission, perquisite or profit in lieu of or in addition to salary or wages • Any advance of salary • Leave encashment • Contribution to RPF in excess of 12.5% • Transfer from URPF to RPF • Contribution to Pension scheme referred under section 80CCD.

Illustration 1

Hemant joins the service in the grade of ₹ 24,000 - 800 – 28,000-1000-36,000 on 01.07.2003. Compute his basic salary for assessment year 2013-14.

Illustration 2

A joined a service on 01.5.2005 in the grade ₹ 24,000 – 400 – 26,000-600-32,000 and his salary was fixed at ₹ 26,400. Compute his basic salary for assessment year 2013-14.

CLASSIFICATION OF ALLOWANCES:

EXEMPT TO EXTENT OF EXPENDITURE: section 10(14)(i)	EXEMPT MAXIMUM UPTO CERTAIN LIMIT: section 10(14)(ii)		EXEMPT AS % OF AMOUNT RECEIVED
❖ Travelling allowance ❖ Daily allowance ❖ Conveyance allowance ❖ Helper allowance ❖ Academic allowance ❖ Uniform allowance	**NAME**	**EXTENT OF EXEMPTION**	Allowance to transport employee's exempt upto 70% of amount received or ₹ 10000/- p.m. w.e.is less.
	❖ Children Education Allowance	₹ 100/- per child per month(max 2 child)	
	❖ Hostel Expenditure Allowance	₹ 300/- per child per month(max 2 child)	
	❖ Tribal/Schedule/Agency area Allowance	₹ 200/- per month	
	❖ Special compensatory Hilly area allowance or High altitude allowance	₹ 300/- to ₹ 7000/- p.m.	
	❖ Boarder/Remote/Disturbed Area Allowance	₹ 200 to ₹ 1300/- p.m.	
	❖ Compensatory field area Allowance	₹ 2600/- p.m.	
	❖ Compensatory, modified field area Allowance	₹ 1000/- p.m.	
	❖ Counter Insurgency Allowance (Armed force Members)	₹ 3900 /- p.m.	
	❖ Transport Allowance	₹ 800/- p.m. ₹ 1600/- incase of blind or orthopedically handicapped.	
	❖ Underground Allowance	₹ 800/- p.m.	
	❖ High altitude(unrecognized climate) Allowance	9000 to 15000 fts. ₹ 1060/-p.m. Above 15000 fts. ₹ 1600/-	
	❖ Special Compensatory highly active field area allowance (Armed Force)	₹ 4200/- p.m.	
	❖ Island (duty)Allowance (Andaman & Nicobar and Lakshadweep)	₹ 3250/- p.m.	

ALLOWANCE WHICH ARE FULLY EXEMPT:

Indians employed abroad (employed by Indian govt.)	This allowance is paid to the government employees employed by govt. of India to work as the representatives of the nation and render their services there.
High court &	Allowance paid by whatever name is exempt.

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Supreme Court Judges	
UNO	Allowance from UNO to its employees is fully exempt.
UPSC	Notified allowance paid to both serving and retired chairman and members of UPSC. Following are exempt Perquisites & Allowances: • Value of rent free official residence. • Value of concessional facilities including transport allowance. • Sumptuary allowance. • Value of LTC In case of retired chairman & retired member: • A maximum sum of 14,000 per month for defraying the services of an orderly and for meeting expenses incurred towards secretarial assistance on contract basis. • The value of residential telephone free of cost & the number of free call to the extent of 1,500 p.m. (over & above free calls p.m. allowed by telephone authorities).

LIST OF ALLOWANCE FULLY TAXABLE

1. Dearness Allowance (DA)
2. City Compensatory Allowance (CCA)
3. Medical Allowance: Fully taxable irrespective of expenditure.
4. Lunch Allowance/ Tiffin Allowance
5. Overtime Allowance
6. Servant Allowance
7. Warden Allowance
8. Non – Practicing Allowance
9. Family Allowance.

Illustration 3

Appu is in receipt of the following allowances from his employer during the previous year 2012-13;

1. Conveyance allowance ₹ 600 p.m. He spend ₹ 5000 during the previous year for the official purpose.
2. Transport allowance ₹ 1,100 p.m. for commuting from residence to office and bank. He spends ₹ 600 p.m. during the year.
3. Uniform allowance ₹ 5,000 p.a. He spend ₹ 4,000 on the purchase and maintenance of uniform.
4. Education and Hostel Expenditure allowance ₹ 450 p.m. per child for 3 children.
5. Personal assistant allowance ₹ 2,000 p.m. He engaged the personal assistant for official work and paid him salary of ₹ 1,500 p.m. for 9 months. Personal assistant spends 60% of his time for official work Appu.

Compute how much of the above allowances are taxable.

Illustration 4

Rio is employed as a pilot in Air India. He is in receipt of the following during the previous year 2012-13;

		₹
(i)	Basic Salary	50,000 p.m.
(ii)	Bonus	2 months basic salary
(iii)	Entertainment Allowance	1,500 p.m.
(iv)	Uniform Allowance He has spent ₹ 8,000 for purchase and maintenance of uniform for official purpose	1,200 p.m.

(v) He has been given ₹ 6,000 p.m. as allowance to meet personal expenses during the personal of his duties in the transport system.

Compute his gross salary for the assessment year 2013-14.

HOUSE RENT ALLOWANCE (HRA) SECTION 10(13A) & RULE 2A:

This allowance is paid by the employer to his employee to meet out the expenditure of the rent paid by him for the purpose of living by the employees. The employees are allowed the exemption of the amount of the received by them to the least of following:

a. Actual amount received as HRA.
b. Rent Paid – 10% of Salary
c. 50% of salary in case of HRA received for living in Metro (Delhi, Mumbai, Kolkata, Chennai) or 40% of salary in case of any other city.

Salary: Salary + DA forming part of employment + Commission as fixed percentage of turnover if provided in terms of Contract of employment.

Illustration 5

Ashwin is entitled to a basic salary of ₹ 50,000 p.m. and dearness allowance of ₹ 10,000 p.m., 40% of which forms part of retirement benefit. He is also entitled to HRA ₹ 20,000 p.m. as rent for a house in Delhi. Compute the taxable HRA.

Illustration 6

Amisha is employed at Delhi as Finance Manager of Vikram Ltd. The particulars of her salary for the previous year 2012-13 are as under:

		₹
(i)	Basic Salary	30,000 p.m.
(ii)	Dearness Allowance (forming part of basic salary)	10,000 p.m.
(iii)	Conveyance Allowance for personal purpose	5,000 p.m.
(iv)	Commission @2% of the turnover achieved which was ₹ 22,50,000 during the previous year and the same was evenly spread.	45,000
(v)	House Rent Allowance	15000 p.m.

The actual rent paid by him is ₹ 10,000 p.m. for an accommodation at Noida till 31.12.2012. From 01.01.2013 the rent was increased to ₹ 20,000 p.m. Compute the taxable HRA.

Illustration 7

Ranjeet is employed with Houseful Ltd. on a basic salary of ₹ 30,000 p.m. He is also entitled to a dearness allowance of 20% of basic salary. 70% of dearness allowance is included in salary for retirement benefits. The company gives him HRA of ₹ 15,000 p.m.

With effect from 01.01.2013 he receives an increment of ₹ 5,000 in the basic salary.

During the previous year 2012-13 he has received arrears of salary pertaining to earlier years amounting to ₹ 40,000.

Ranjeet was staying with his parents till 31.10.2012. From 01.11.2012 he takes an accommodation on rent in Delhi and pays ₹ 12,500 p.m. as rent for the accommodation.

Compute his gross salary for assessment year 2013-14.

Illustration 8

Akansha furnishes you the following for the previous year 2012-13:

		₹
(i)	Basic Salary	15,000 p.m.
(ii)	Dearness Allowance (60% form part of salary)	6,000 p.m.
(iii)	Entertainment Allowance for personal purpose	500 p.m.
(iv)	House Rent Allowance	6,000 p.m.
(v)	Actual Rent Paid for house in Delhi	7,000 p.m.
(vi)	Education Allowance for 3 Children	200 p.m. per child
(vii)	Transport Allowance for commuting from residence to office and back (he spend ₹ 700 p.m. for such purpose)	1,200 p.m.
(viii)	Medical Allowacne (he spent ₹ 5,000 for his medical treatment)	1,000 p.m.
(ix)	Lunch Allowacne (he spent ₹ 200 for his medical treatment)	200 p.m.

Compute the taxable salary of Akansha for the Assessment year 2013-14.

DEFINITION OF PERQUISITE SECTION 17(2):

"Perquisite includes" :

i. Rent Free Accommodation or Concessional Rent (Including Furnished or unfurnished).
ii. Value of any benefit or amenity granted or provided free of cost or at concessional rate to **specified employees**.
iii. Employee obligation borne by Employer.
iv. Sum payable by the employer whether directly or indirectly or through fund for assurance on the life of the assessee or to effect a contract for an annuity.(except RPF, Superannuation or deposit linked insurance fund.)
v. Value of ESOP if provided at concessional rate or free of cost.
vi. Contribution to an superannuation fund in excess of ₹ 1,00,000/-.
vii. The value of any other Fringe Benefit or amenity as may be prescribed.

Specified Employees:

i. By a company to a director.
ii. By company to an employee being a person who has a substantial interest in the company i.e. 20% voting Rights.
iii. By any employer (including Company) to an employee to whom the provision of (i & ii) do not apply & whose total income under the head salary excluding the value of all benefits or amenities not provided for by way of monetary payment, exceeds ₹50,000/-

Illustration 9

Isha is employed on part time basis with two companies i.e. Fardeen Ltd. & Aftab Ltd. The particulars of his income for the previous year 2012-13 are as under:

Particulars	Fardeen Ltd. ₹	Aftab Ltd. ₹
Basic Salary	32,000	13,000
Education allowance for one Child	___	1,800
Reimbursement of electricity bills	2,000	___
Medical Allowance	___	2,400
Employer's contribution to recognized provident fund	1,800	1,500
Value of rent accommodation taken by the employer on rent	3,000	___

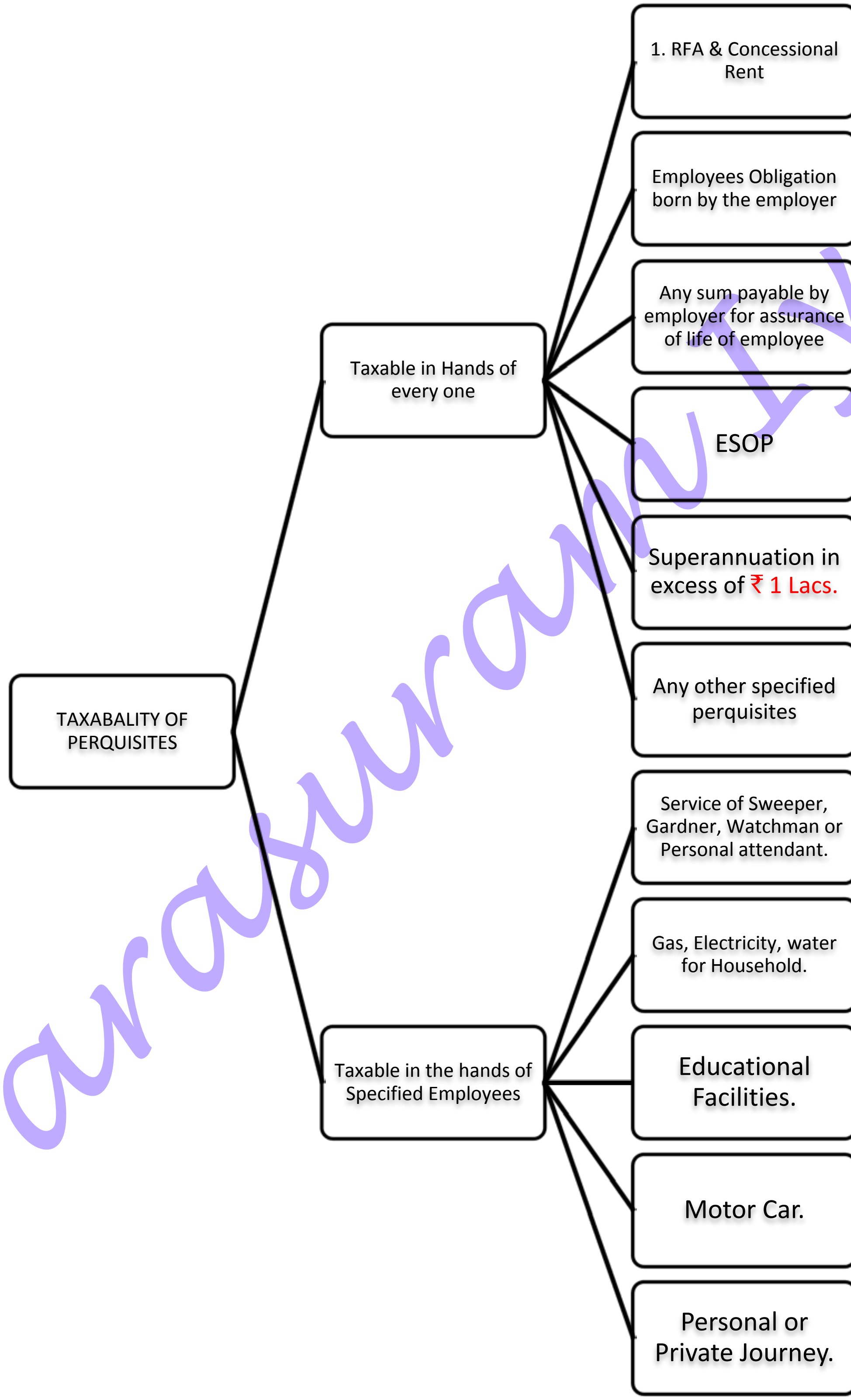
Isha is neither a Director nor a substantial shareholder of either Fardeen Ltd or Aftab Ltd. Is she a specified employee?

Illustration 10

Compute the exemption available under section 10(13A) in the following cases:

Name of the Employee	Rajesh	Suresh	Mahesh	Ramesh	Ganesh
Place of Residence	Gurgaon	Delhi	Thane	Mumbai	Bangalore
Salary P.M.	6000	8000	12000	13000	10500
H.R.A. P.M.	2500	2100	3000	10000	7500
Rent Paid P.M.	Nil	2000	5000	8000	3200

TAXABILITY OF PERQUISITE



VALUATIONOF PERQUISITES: A. TAXABLE IN HANDS OF EVERY EMPLOYEE

1. RENT FREE ACCOMMODATION (RFA) OR CONCESSIONAL RENT (RULE 3(1)):

- Provided to Government Employees
  - License fees determined by Union or State Government according to Rule Framed
- Other Employees
  - Other than Hotel
    - Owned by Employer
      - Population as per 2001 Census
        - Less than 10lacs → 7.5 % of Salary for the period of accommodation provided.
        - More than 10 lacs but less than 25 lacs → 10 % of Salary for the period of accommodation provided
        - More Than 25 Lacs → 15 % of Salary for the period of accommodation provided
    - Taken on Rent by Employer
      - Rent or Leased Paid or 15% of Salary Whichever is Less
  - Hotel
    - Rent or Leased Paid or 24% of Salary Whichever is Less

All of the above → Value of Furniture = 10% of Cost or Actual Rent as the case may be

Note:

The Above Rules Shall not apply in the following cases:

i. Where the accommodation is of temporary in nature and having area less than 800 sq. feet, is also located 8 km away from city limits, municipality or cantonment or in remote area in case of such accommodation is provided to employees working at mining site, power generation site or offshore site.

ii. Such accommodation is provided in more than one place. Then in such case value of both the accommodation is taxable except such accommodation is due to transfer then for 90 days the value of accommodation having lower value will be taxable thereafter both will be taxable. (in case of Hotel accommodation this 90 days will be 15 days.)

Meaning of Salary:

Salary + DA forming part of employment +allowances +bonus or commission + any other monetary payment (dose not includes perquisites or any lump-sum pay e.g. Gratuity, leave encashment, perquisite, Contribution to PF, exempted allowance or amount exempted of such allowance, any payment or expenditure in the nature of ESOP).

Illustration 11

Roopa furnishes the following particular of her remuneration for the previous year 2012-13:

		₹
(i)	Basic Salary	12,000 p.m.
(ii)	Dearness Allowance (40% of which form part of retirement benefit)	1,000 p.m.
(iii)	Lunch Allowance	200 p.m.
(iv)	Medical Allowance	500 p.m.
(v)	City Compensatory Allowance	300 p.m.
(vi)	Children Education Allowance for 2 Children	230 p.m.

He is provided with a rent-free accommodation in Delhi. The cost of furniture provided is ₹ 1,00,000 and two air – conditioners, which have been taken on hire by the company, have also been provided in the accommodation. The hire charges for each air conditioner is ₹ 200 p.a.

Compute the value of rent-free accommodation if the accommodation is provided by:

i. The government & the value of the accommodation as per Govt. rule is ₹ 500.

ii. Reserve Bank of India & the accommodation has been taken on rent by RBI at ₹ 5000 p.m.

iii. Pankaj Ltd. and the accommodation has been taken on rent by the company at ₹ 5,000.

Illustration 12

R is working as General Manager of P Co. Ltd. Particulars of his salary for the financial year 2012-13are as under:

		₹
(i)	Salary	10,000 p.m.
(ii)	Conveyance Allowance (70% spent on official duties)	14,000
(iii)	Bonus	19,200
(iv)	Medical Allowance	500 p.m.
(v)	Employer's contribution to recognized provident fund	20% of salary

He is provided with a rent-free accommodation in Moradabad whose population exceeds 10 lakhs but does not exceed 25 lakhs .Compute the value of rent-free accommodation to be including salary income of A for the assessment year 2013-14, if:

a) The accommodation is owned by the company

b) The accommodation has been taken on rent by the company at ₹ 7000p.m.

Illustration 13

Ajay submits following information regarding his salary income for the year 2012-13.

		₹
(i)	Basic Salary	₹15,000 p.m.
(ii)	D.A. (forming part of salary)	40% of basic salary
(iii)	C.C.A.	₹300p.m.
(iv)	Children Education Allowance	₹200 p.m. per child for 2 children
(v)	Transport Allowance	₹1000 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 ₹ 24000 p.a.

Compute the gross salary assuming accommodation is provided in a city having population:

(a) Not exceeding 10 lakhs as per 2001 census.
(b) Exceeding 10 lakhs but not exceeding 25 lakhs as per the census of 2001
(c) Exceeding 25 lakhs

Illustration 14

In the above illustration, assume the house was not owned by the employer but was taken on rent @24000 p.a. Compute the value of rent free accommodation.

Illustration 15

Akash submits the following information regarding his salary income which he gets from ABC Co. Ltd.

		₹
(i)	Basic Salary	11,000 p.m.
(ii)	C.C.A.	150 p.m.
(iii)	Children Education Allowance	400p.m.(for 3children)
(iv)	Reimbursement of Medical Exp.	25000

He was entitled to HRA of ₹6000 p.m. from 1.4.2012 to 31.8.2012. He was paying a rent of ₹ 7000 p.m. for a house in Delhi.W.e.f.1.9.2012 he was provided with an accommodation by the company for which the company was paying the rent of ₹ 5000 p.m. The company charge him ₹1,000 p.m. as rent for the accommodation. Compute the gross salary of Akash for the assessment year 2013-14.

2. **EMPLOYEE OBLIGATION BORNE BY THE EMPLOYER:**
   Employee obligation such as payment of **CREDIT CARD BILLS, ELECTRICITY BILLS, STUDENTS EDUCATION, MEDICAL EXPENDITURE EXCEDING ₹ 15000/-(Discussed Later)** etc. is valued at actual amount of payment made by the employer or reimbursed by him.

3. **VALUATION OF LIFE INSURANCE PREMIUM/ DEFERRED ANNUITY PREMIUM PAID/PAYABLE:**
   Any amount payable by the employer directly/indirectly or through a fund other than a RPF or an approved superannuation fund or Deposit Linked Insurance Fund.
   a. To effect the assurance of the life of the assessee or
   b. To effect a contract for annuity is a perquisite
   Is taxable in the hands of all the employees and its value will be actual liability of payment but the amount is taxable as soon as the liability is due.

4. <u>VALUATION OF ANY SPECIFIED SECURITY (RULE 3(9)) OR SWEAT EQUITY SHARE (RULE 3(8)):</u>

The value of any specified security or ESOP is allotted in the hands of employee either free of cost or at concessional rate as the case may be the Fair Market Value (FMV) shall be the Value of Perquisite as reduced by any amount received from the employees on the **date of exercise of option**.

<u>Merchant Banker:</u> Category I banker registered with SEBI.

<u>Specified Date:</u> date of exercising of option or any date earlier than that date but not being a date which is more than 180 days earlier than that date. Both the terms are of relevance where the security is not a equity share.

VALUATION OF SPECIFIED SECURITIES OR ESOP = (F.M.V- Consideration).
Calculation of F.M.V.

Security is Other Share → VALUE DETERMINED BY MERCHANT BANKER

Security is Share

- Security is Not Listed on Any Recognized Stock Exchange → VALUE DETERMINED BY MERCHANT BANKER
- Security is Listed on Recognized Stock Exchange
  - SINGLE STOCK EXCHANGE: Average of Opening & Closing Value.
  - MULTIPLE STOCK EXCHANGE: Average of Opening & Closing Value of that stock exchange which recognizes Highest Volume of Trade.

If no trading on the date of exercise of Option then Closing value of share on the stock exchange on which it was last time traded (whether on single or Multi Stock Exchange

5. **CONTRIBUTION TO SUPERANNUATION FUND:**
   Any contribution to superannuation fund by the employer in excess of ₹ 1,00,000/- shall be taxable in the hands of the employee.

6. **LIST OF OTHER FRINGE BENEFITS OR PERQUISITES TAXABLE IN HANDS OF ALL EMPLOYEES:**

SPECIFIED FRINGE BENEFITS TAXABLE IN HANDS OF ALL.

- Interest free or Concessional Rate of loan.
- Travelling, Touring, accommodation,and any other expenses paid for or borne by the employer for any holiday availed by the employee or any member of his house hold.
- Value of Free Food and Non-alcoholic beverages.
- Value of any gift, vouchers,or token.
- Expenses on Credit Card.
- Club Membership and expenses incurred in a clube
- Use of Movable Assetes
- Transfer of Moveable Assetes.
- Any other benefit or amenity service, right or privilege provided by the employer.

6a. Interest Free or concessional rate Loan (RULE 3(7)(i)):
The value of the Benefit = Sum of(SBI Rate of Interest as on the 1st Day of the P.Y. **X** Amount of maximum outstanding at the end of every month**–** Amount recovered by the employer towards Interest by the employer)
The Value of interest will not be taxable in the hands of the employee if the loan amount in total dose not exceeds ₹ **20,000**. or where the loan is for treatment of the specified decease & he has not received insurance claim for the said decease.
Maximum outstanding Means: the aggregate outstanding balance for each loan as on the last day of each month.

Illustration 16

Re-gainer Ltd. has advance the interest free loan of ₹ 5,00,000 to Sachin for purchase of car on 1.5.2012. R has been regularly repaying the loan in installment of ₹ 20,000 p.m. at the end of each month.
Compute the value of perquisite on account of interest assuming the interest charged by SBI is 10% p.a.

Illustration 17

In the above illustration and assume that the loan is being regularly repaid on the 1st of next month instead of the end of the month.

Illustration 18

In Illustration 16 compute the value of perquisite if Re-gainer Ltd. is recovering interest @ 6%p.a. from Sachin.

Illustration 19

In above Illustration if the loan is given for purchase of house and the rate of interest charged by SBI is 9% p.a. compute the value of perquisite if Re-gainer Ltd. is recovering interest @ 6%p.a. from Sachin.

Illustration 20

What will be your answer if such loan is given for treatment of cancer, a disease specified in rule 3A.

Illustration 21

What will be your answer if Sachin has recovered a sum of ₹ 3,00,000 from insurance company on 25.11.2012 (the rate of interest charged by SBI may assumed at 13% p.a.).

6.b. THEVALUE OF TRAVELLING, TOURING, ACCOMMODATION AND ANY OTHER EXPENSES PAID FOR OR BORNE OR REIMBURSED BY THE EMPLOYER FOR ANY HOLIDAY AVAILED OF BY THE EMPLOYEE OR ANY MEMBER OF HIS HOUSEHOLD (EXCEPT LTC) (RULE 3(7)(ii)):

CIRCUMSTANCES	VAULE OF BENEFIT OR AMENITY
1. Maintained by the employer & is not allowed to every employee	Value at which the facilities provided by other Agencies.
2. The expenditure is for official tour & expenses also incurred on household of the employees	The amount of expenditure so incurred by the employer in respect of the member of household so accompanying the employees.
3. Official tour extended as vacation(holiday)	The value will be equal to the amount expended in such extended period of vacation.
4. In any other case where the facility given to the employee or member of the household.	A sum equal to the amount of expenditure incurred by the employer.

6.c. THE VALUE OF FREE FOOD OR NON ALCOLOHIC BEVERAGES(RULE 3(7)(iii)):

CIRCUMSTANCES	VAULE OF BENEFIT OR AMENITY
1. Tea or snacks provided during working hour	NIL
2. Free food and non-alcoholic beverages during the working hour provided in: a. Remote area or b. An offshore installation.	NIL
3. Free food & non-alcoholic beverages provided by the employer during the working hour: a. At office or business premises or b. Through paid voucher which are not transferable and usable only at eating joints.	NIL, if the value do not exceed Rs. 50/- per meal.
4. In any other case.	Actual amount of expenditure incurred by the employer as reduced by amount recovered.

6.d. THE VALUE OF ANY GIFT, VOUCHER OR TOKEN (RULE 3(7)(iv)):
Value of perquisites = sum of all amount received as gift on any occasion or ceremony. Value shall be NIL if the total of gift does not exceed ₹ 5,000/- i.e. amount exceeding ₹ 5,000/-.

6.e. THE VALUE OF EXPENDITURE INCURRED ON CREDIT CARD (RULE 3(7)(v)):

CIRCUMSTANCES	VAULE OF BENEFIT OR AMENITY
A. Where expenses including membership fees & annual fees are incurred by the employee or any member of his household which is charged to a Credit Card (including Add-on-card) provided by the employer or otherwise, are paid for or reimbursed by the employer and such expenses are incurred for any other purposes other than those mentioned in B.	Amount paid or reimbursed by the employer
B. Where such expenditure are incurred wholly and exclusively for official purpose.	NIL. Provided the specified conditions are satisfied.

SPECIFIED CONDITION:

1. Complete details in respect of such expenditure are maintained by the employer which may include date & nature of expenditure.
2. Employer gives certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

6.F. THE VALUE OF CLUB MEMBERSHIP AND EXPENSES INCURREED IN A CLUB (RULE 3(7)(vi)):

CIRCUMSTANCES	VAULE OF BENEFIT OR AMENITY
A. Where the payment or reimbursement by the employer of any expenditure incurred (including the amount of annual or periodical fees) in club by the employee or by any member of his household for any purpose other than mentioned in B.	Amount paid or reimbursed by the employer
B. Where such expenditure are incurred wholly and exclusively for official purpose.	NIL. Provided the specified conditions are satisfied.

SPECIFIED CONDITION:

1. Complete details in respect of such expenditure are maintained by the employer which may include date & nature of expenditure.
2. Employer gives certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

6.g. THE VALUE OF USE OF MOVALBLE ASSETS (RULE 3(7)(vii)):

CIRCUMSTANCES	VAULE OF BENEFIT OR AMENITY
A. Use of Laptop & Computers	NIL
B. Moveable Assets other than Laptop/Computers & those already specified in this rules.	1. If owned by employer 10% cost of asset. 2. If Rented or Hired actual rent paid or Hire charges paid.

6.h. THE VALUE OF TRANSFER OF MOVALBLE ASSETS (RULE 3(7)(viii)):	
CIRCUMSTANCES	**VAULE OF BENEFIT OR AMENITY**
A. Compute or Electronic items	Actual Cost of asset – 50% of cost on WDV basis for ever completed year of asset during which the asset was put to use by the employer.
B. Motor Car.	Actual Cost of asset – 20% of cost on WDV basis for ever completed year of asset during which the asset was put to use by the employer.
C. Any other asset	Actual Cost of asset – 10% of cost on SLM basis for ever completed year of asset during which the asset was put to use by the employer.
6.i. THE VALUE OF ANY OTHER BENEFIT, AMENITY ETC. PROVIDED BY THE EMPLOYER (RULE 3(7)(ix)):	
Value of perquisites = Cost to the employer	

Illustration 22

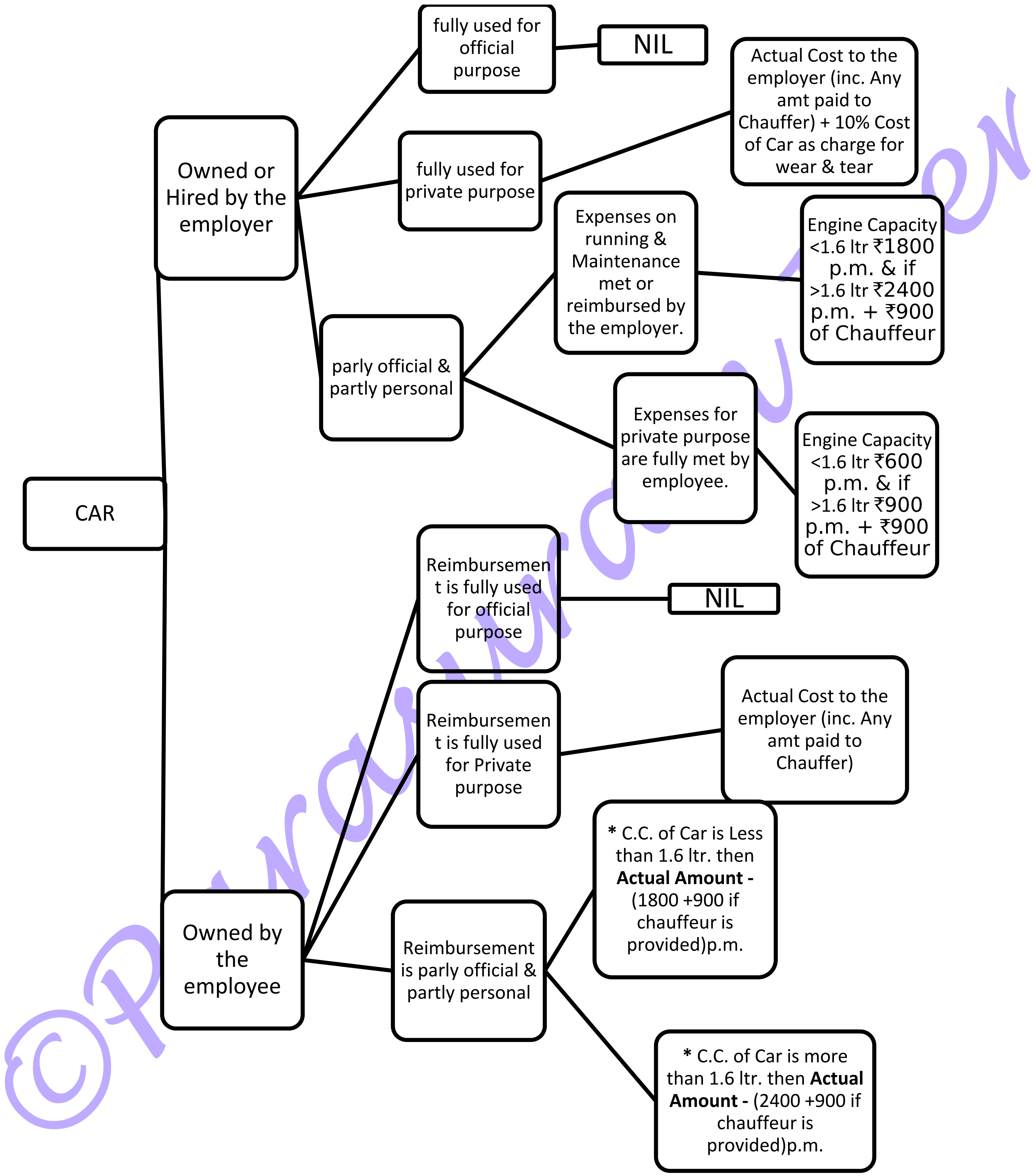
Suchit is employed with Simmar Ltd. on a monthly salary of ₹ 25,000 p.m. The company provides him with the following benefits:

i. A company owned accommodation is provided to him in Delhi.
ii. The company has given him a housing loan of ₹ 5,00,000 on 01.04.2012 on which it charges interest @ 6% p.a. The entire loan is still outstanding (Assume the interest charged by SBI is 10% p.a.)
iii. The company gave him a gift worth ₹ 15,900 on his 50th birthday on 21.10.2012.
iv. He is allowed to use the video camera belonging to the company. The company had purchased this camera for ₹ 60,000 on 01.05.2009. This camera was sold to him on 01.08.2012 for ₹ 30,000.
v. The company had purchased a car on 16.07.2009 for ₹ 2,50,000 . This car is sold to Suchit on 14.07.2012 for ₹ 80,000. The car was not being used by Suchit.
vi. The company pays the telephone bills of ₹ 24,000 for the telephone installed at the residence of Suchit.

Compute the Gross income from Salary of Mr. Suchit for the Assessment Year 2013-14.

VALUATIONOF PERQUISITES: B. TAXABLE IN HANDS OF SPECIFIED EMPLOYEE	
a. SERVICE OF SWEPER, GARDNER, WATCHMAN,OR PERSONAL ATTENDENT RULE 3(3): Value of perquisite = cost to employer (i.e. salary or wages of sweeper, gardener, watchman or personal attendant)	
b. VALUE OF BENEFIT TO THE EMPLOYEES RESULTING FORM THE SUPPY OF GAS, ELECTRIC ENERGY OR WATER FOR HOUSEHOLD CONSUMPTION RULE 3(4):	
CIRCUMSTANCES	**VALUE OF BENEFIT**
Where such supply is made from resources owned by the employer without purchasing from the outside agency.	It shall be the manufacture cost per unit incurred by the employer.
In any other case	Amount paid on this account by the employer to the agency supplying the gas, electric energy or water.

c. **VALUATION OF MOTOR CAR / OTHER VEHICLE RULE 3(2):**



In Case of any other motor vehicle other than car Reimbursement of expenses for personal purpose is taxable to the extent of Actual Payment Less 900 p.m. & totally exempt in case of official purpose.

* If assessee want to claim more deduction in such a case he has to show the documents to prove that he has expended more than ₹ (1800+900)/(2400+900)/900.

If the assessee is provided with more than one car then the value shall be calculated as one is partly for personal & partly for official purpose (1800/2400 +900) & other one is totally for personal purpose and the total will be taken to charge it is perquisite.

And if the employer provided any vehicle for commuting from residence to office & back shall not be regarded as perquisite.

Illustration 23

Aishwaria has been provided with the benefit of a car by her employer. Compute the perquisite value of the car for the assessment year 2013-14 in the following situation if the taxable monetary emoluments of Aishwaria are ₹ 3,00,000:

i. The Car is owned by Aishwaria but the running and maintenance expenses amounting to ₹ 40,000 during the previous year are met by the employer. The car is used
   a. For personal use
   b. Only for official duties
   c. 30%for personal benefit & 70% for official use.

ii. The employer provides a car of 1.5 ltr. Engine capacity costing ₹ 5,00,000 exclusively for the personal benefit of Aishwaria. The expenses incurred on the car are ₹ 52,000.

iii. The employer provides a car (below 1.6 ltr.) along with a driver to Aishwaria partly for official and partly for personal purpose. The expenses incurred by the company are:
   a. Running and maintenance expense ₹ 32,000
   b. Driver's salary ₹ 36,000

iv. In case (iii) the employer maintains a log book and it is established than 30% of the total coverage of car is for personal use of Aishwaria & 70% for official duties.

v. The employer provides a car (above 1.6 lt.) to Aishwaria which is used for official work and is also used by Aishwaria for commuting from her home to office & back.

vi. Aishwaria is provided with 2 cars to be used for official & personal work and the following information is available from the companies record:

	Car I Exceeding 1.6 lt ₹	Car I Below 1.6 lt ₹
Cost of the car	6,00,000	4,00,000
Running & Maintenance	60,800	98,000
Salary of driver	44,000	44,000

d. VALUE IN RESPECT OF CONCESSIONAL OR FREE EDUCATION RULE 3(5):	
CIRCUMSTANCES	**VALUE OF BENEFITS**
Educational institution owned by employer.	Cost of education in similar institution in near locality. **(Cost = Nil if education is of child & it is not more than ₹ 1000 p.m. per Child)**
Where the education facility is allowed in any other institution by reason of employment of that employer.	Cost of education in similar institution in near locality. **(Cost = Nil if education is of child & it is not more than ₹ 1000 p.m. per Child)**
Provision of free or concessional education facilities.	Amount of expenditure incurred.

e. FREE OR CONCESSIONAL JOURNEYGIVEN TO TRANSPORT EMPLOYEES & THEIR FAMILY MEMBER RULE 3(6):	
PARTICULARS	**VALUE**
a. In case of employee of airline or railway	NIL
b. In case of other employees i. Provided Free of Cost ii. At Concessional Rate	 Value at which the benefit or amenity is offered by such employer to the public. Above Value (–) Amount Recovered.

f. One golden Rule to be remembered in respect of perquisite is that any amount recovered from the employee is to be deducted from the value of perquisite to be a taxable perquisite.

MEDICAL EXPENDITURE (REIMBURSEMENT) BY THE EMPLOYER:

HOSPITAL MAINTAINED BY THE EMPLOYER	MEDICAL TREATMET IN INDIA	MEDICAL TREATMENT OUTSIDE INDIA

• Fully Exempt	• Any Sum incurred inexcess of Rs. 15000/- in any hospital in India.
	• In the following 2 Cases it is totally tax free:
	  • Expenditure In Govt. Hospital or hospital approved by Govt. for medical treatment of Govt. employees.
	  • Expenditure Incured for treatment of Specified decease under rule 3A in hospital approved by CHIEF COMMISSIONER OF INCOME TAX.
	• Insurance premium paid under a scheme approved by Central Govt. or IRDA
	• Reimbursement of Insurace Premium piad for himself & his family approved by Central Govt. or IRDA
		• Medical treatment of employee or any member of his family if fully exempt to the extent approved by RBI.
		• Accommodation along with 1 attendent is also exempt to the extent approved by RBI.
		• Travelling expenditure of the Patient & his Attendent is also exempt it the GTI of the employee (before adding travelling as perquisite) DOES NOT EXCEED ₹ 2,00,000/-.

Family Means:

i. The spouse & children of the employee. Children may be dependent or independent, married or unmarried.

ii. Parents, brothers & sisters of the employee, who are wholly or mainly dependent on such employee.

Illustration 24

Compute the taxable value of the perquisite in respect of the medical facilities of Mr. Ravikishan from his employer in the following situations:

i. The employer reimburses the following expenses:
   a. Treatment of Ravikishan by his family physician ₹ 4,200.
   b. Treatment of Mrs. Ravikishan in a private nursing home ₹ 3,600.
   c. Treatment of Ravikishan's Mother (dependent upon him) ₹ 1,200 by a private doctor
   d. Treatment of Ravikishan's Brother (not dependent on him) ₹ 400
   e. Treatment of Ravikishan's Grandfather (dependent on him) ₹ 1,500.

ii. The employer pays an insurance premium of ₹ 3,000 under a health insurance scheme on the health of Ravikishan.

iii. The employer maintains a hospital for the employees where they and their family members are provided free treatment. The expenses on treatment of Ravikishan and his family members during the previous year 2012-13 were as under:

		₹
a.	Treatment of Ravikishan' major son (dependent upon him)	2,200
b.	Treatment of Ravikishan	5,200
c.	Treatment of Ravikishan's uncle	4,600
d.	Treatment of Mrs. Ravikishan	8,000
e.	Treatment of Ravikishan's widowed sister (dependent on him)	4,100
f.	Treatment of Ravikishan's handicapped nephew	2,500

iv. Expenses on cancer treatment of married daughter of Ravikishan at Tata Memorial Hospital, Bombay paid by the employer ₹ 50,000 and reimbusementof expenses for the medical treatment of himself amounting to ₹ 20,000.

v. The following expenses on treatment of Ravikishan's major son outside India were paid by the employer.

		Actual Expense ₹	Expenses permitted by RBI ₹
a.	Actual medical expenses	75,000	60,000
b.	Expenses on stay abroad of Ravikishan's son & brother who accompanied the patient	65,000	45,000
c.	Travelling expenses of Ravikishan's son & his brother	1,20,000	

Assuming that the other income of Ravikishan is a. ₹ 1,50,000 & b. ₹ 1,80,000.

RETIREMENT BENEFITS:

A. GRATUITY sec 17(1)(iii):

Gratuity is paid by the employer to his employee as an appreciation for his past services rendered by him. Gratuity can be received by employee himself or his legal heir. When it is received by the employee himself it is Taxed "Under the Head Salary" but when received by Heir it is taxable "Under the Head Other Sources". But in both the cases exemption under section 10(10) of income tax act is available and any income above that is taxable.

- **Gratuity received by Govt. Employees or Local Authority. Sec10(10)(i).**
  - FULLY EXEMPT
- **Gratuity received Person Covered under Payment of Gratuity Act, 1972 Sec10(10)(ii).**
  - Actual Amount Received
  - 15 days salary for every completed year of service or part there off in excess of 6 month. (7 days for seasonal employment) i.e. 15* last salary Drawn/26
  - ₹10,00,000
  - Least of above is exempt.
  - Salary means: Basic + DA
  - Person is entitled to gratuity only on completion of 5 year of service or on attainment of 40 years.
- **Gratuity received Person Not Covered under Payment of Gratuity Act, 1972 Sec10(10)(iii).**
  - Actual Amount Received
  - Half months average salary for every completed year of service
  - ₹ 10,00,000 Less any amount exempt earlier.
  - Least of above is exempt.
  - Salary means: Basic + DA forming part of employment commission as % of turnover.
  - Completed year of service includes service of previous employer if he hadn't paid gratuity.

Illustration 25

Raghubir retires on 04.01.2013 after serving Gunjan Ltd. for a period of 16 years and 11 months. At the time of retirement his basic salary was ₹ 44,000 p.m. and he was entitled to Dearness Allowance of ₹ 8,000 p.m. On his retirement he received ₹ 6,00,000 as gratuity. Compute the amount of gratuity exempt from tax and the amount to be included in gross salary. He is covered under the Payment of Gratuity Act.

Illustration 26

Smeetpal joined the service on 01.06.1994. She retired from her service on 17.11.2012 and received ₹ 11,20,000 as gratuity. At the time of her retirement her basic salary was ₹ 70,000 p.m. and dearness allowance ₹ 35,000 p.m. (60% of which was part of salary). Compute the amount of gratuity exempt from tax and the amount to be included in gross salary. She is covered under the Payment of Gratuity Act.

Illustration 27

Sukhbinder, who was employed with Raghu Ltd. retired on 21.10.2012, received ₹ 1,20,000 as gratuity. He served the company for 26 year & 8 months. At the time of his retirement, his salary was ₹ 5,000 p.m. However, the average salary for 10 months preceding the month of retirement is ₹ 4,800p.m. He is not covered under the Payment of Gratuity Act1972. Compute the amount of taxable gratuity.

Illustration 28

Rupender, a General Manager of Perminder Ltd., retired from the company on 15.06.2012. At the time of such retirement, his basic Salary was ₹ 70,000 p.m. He was entitled to dearness allowance @ 20% of his basic salary. 60% of the dearness allowance form part of the salary for retirement benefits. He had worked with the company for 10 years 11 months and 15 days. He got an increment of ₹ 5,000 in his basic salary w.e.f. 01.02.2012. At the time of his retirement, the company paid him a gratuity of ₹ 10,00,000. Rupender had earlier worked with Shamender Ltd. from where he had received gratuity and had availed exemption of ₹ 3,00,000. Compute the amount of exemption available out of the gratuity received from Perminder Ltd. He is not covered under the Payment of Gratuity Act 1972. Also compute his gross salary for assessment year 2013-14.

Illustration 29

Mr. Jagrup, retires from his job w.e.f. 01.09.2012. He had joined the employment on 01.01.1997. He gets an increment in his basic salary amounting to ₹ 2,500 every year on 1st January. At the time of his retirement he was getting a basic salary of ₹ 50,000 p.m. He was also entitled to dearness allowance @10% of basic salary and commission @1% of the total sales achieved by him. His turnover for the 12 months ending on 31.08.3012 was ₹ 30,00,000, spread evenly over the year. He received a sum of ₹ 8,00,000 as gratuity on the date of his retirement. Compute his gross salary for assessment year 2013-14.

Illustration 30

Mr. Satinder, who has been in part time employment with Ratinder Ltd. & Maninder Ltd. submits the following information:

	Ratinder Ltd.	Maninder Ltd.
Basic Salary (on the date of retirement)	₹ 9,000	₹ 5,000
Dearness Allowance	20%	20% (60% forms part of Salary for retirement benefits)
Date of retirement	15.09.2012	01.01.2013
Period of service	20 years & 11 months	16 years & 5 months
Amount of gratuity received	₹ 1,80,000	₹ 80,000

Although he has been drawing the same salary from Ratinder Ltd. for the last one year, but from Maninder Ltd. he received an increment of ₹ 500 w.e.f. 01.08.2012.

Compute the gratuity exempt under section 10(10). Also compute his Gross Salary.

B. TREATMENT OF PENSION SECTION 17(1)(ii):

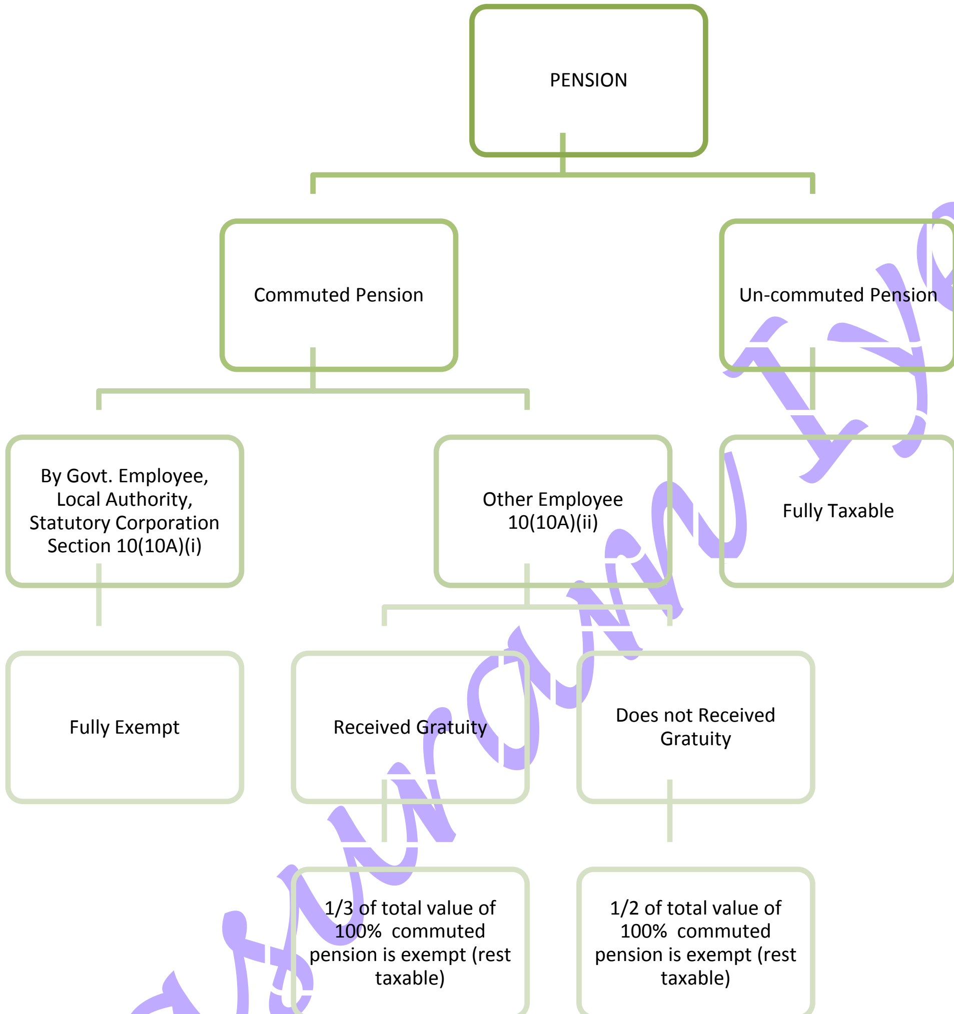


Illustration 31

Ramesh retired on 15.4.2012 from B Company Ltd. He was entitled to a pension of ₹ 4,000 p.m. At the time of retirement he got 75% of the pension commuted and received ₹ 1,20,000 as commuted pension. Compute the taxable portion of the commuted pension if –

(1) He is also entitled to gratuity.
(2) He is not entitled to gratuity.

Illustration 32

A retired from service w.e.f. 1.11..2012 after saving for 18 years and 9 months. At the time of retirement he was entitled to the following remuneration :

(a) Salary ₹ 25,000 per month.
(b) Dearness Allowances @20% of Salary (60% of which forms part of salary for retirement benefits).
On retirement, he received a sum of ₹ 6,00,000 as gratuity. He was entitled to a pension of ₹ 12,500 per month w.e.f. 1.11.2012. From 1.1.2013 he got 60% of his pension commuted and received a sum of ₹ 7,50,000 as commuted pension.
Compute his Gross Salary for the assessment year 2013 – 14.

C. LEAVE SALARY(LEAVE ENCASHMENT) SECTION 17(1)(va):

ENCASHMENT DURING EMPLOYMENT

- FULLY TAXABLE(Releifu/s 89 available)

ENCASHMENT AT RETIREMENT

- Govt. Employee (Central & State)u/s 10(10AA)(i)
  - Fully Exempt
- Other than Govt. Employee u/s 10(10AA)(ii)
  - Actual Received.
  - 10 Total Months Average Salary
  - Max. 30 days cash equivalent for every year of completed service.
  - ₹300000/-
  - Whichever is less
  - Salary = basic + DA(part of employment) + commission as % of turnover.
  - Avg. Salary = avg. of last 10 Months.

Illustration 33

Manoj, an employee of XYZ Pvt. Ltd. retired from company on 30.11.2012. At the time of his retirement, he received ₹ 1,44,000 as leave salary from his employer. The following information is provided by the employee:

1	Salary at the time of retirement (per month)	₹ 9,000
2	Period of Service	20 year & 8 months
3	Leave encashment	
4	Leave availed while in service	14 months
5	Balance un-availed leave at the time of retirement	16 months
6	Average salary for the months of February, 2012 to November, 2012	₹ 8,800
7	Leave entitlement	1 and half month for every year of service

Compute the amount of taxable leave encashment

Illustration 34

Sujay, was employed with Reliacne. Ltd. He retired w.e.f. 01.02.2013 after service of 24 years and 4 months. He submits the following information:

1	Basic Salary	₹ 25,000 per month (at the time of retirement)
2	Dearness Allowance	100% of Basic Salary (40% of which forms Part of salary for retirement benefits)
3	Last increment	₹2,500 w.e.f. 1.7.2012

His pension was determined at ₹ 15,000 per month. He got 50% of the pension commuted w.e.f.1.3.2013 and received a sum of ₹ 5,00,000 as commuted pension. In addition to this, he received a gratuity of ₹ 6,00,000 and leave encashment amounting to ₹ 2,80,000 on account of accumulated leaves of 240 days. He was entitled to 40 days leave for every year of service.

Compute his Gross Salary for Assessment Year 2013-14 assuming that he is not covered under Payment of Gratuity Act.

D. <u>RETRENCHMENT COMPENSATION SECTION 10(10B):</u>

Compensation received by a workman at the time of retirement under Industrial Dispute Act, 1947 or under:

a. Any other Act or Rule or any order or notification issued there under or
b. Any standing order or
c. Any award, contract of service or otherwise,

Shall be exempt to the least of the three.

i. Actual amount received as compensation
ii. 15 days average pay for every completed year of service or part in excess of 6 months (section 25F(b) of Industrial Dispute Act, 1947)
iii. ₹ 5,00,000/-

Average Pay = Wages of 3 calendar months (if monthly wages) or Wages of 4 completed weeks (if weekly wages) or Wages of 12 full day (if daily wages)

Wages = Wages means all remuneration that can be expressed in monitory terms **&**

Includes:

i. Allowance (including DA)
ii. RFA with amenities & concessional supply of food grain or other article
iii. Concessional travelling

Excludes:

i. Bonus
ii. Payment in relation PF or for workman benefits
iii. Gratuity payable on retirement.

E. <u>VOLUNTARY RETIREMENT SCHEME SECTION 10(10C):</u>

APPLICABILITY OF SECTION 10(10C)

Apply to person mention in the list below	i.e. does not apply to Individual,Huf, Partnership(including LLP), AOP or BOI not covered below.

Maximum Exemption Upto Rs. 5,00,000/- subject to Rule 2BA

Employee completing 10 yr of employement or 40 yr of age	Scheme is applicable to all employes	vacancy is created is not filled up	retiring employee is not accomodated in employement in any other organisation of same Management.

Amount = 3mths Salary for every completed year of service
or
Salary at the time of retirement X Balance number of month at the time of retirement.

PERSON CAN NOT CLAIM BENEFIT OF SECTION 10(10C) IF HE CLAIMS BENEFIT OF RELEIF U/S 89 & VISE-VERSA

LIST OF PERSONS TO WHOM EXEMPTION UNDER SECTION 10(10C) ISAPPLICABLE:

1. A public sector company
2. Any other company
3. An authority established under Central, State or Provincial Act.
4. Local Authority
5. Co-operative Society
6. University established or incorporated by or under Central, State or Provincial Act and an Institution declared to be a University under section 3 of University Grant Commission Act. 1956
7. Indian Institute of Technology within the meaning of clause (g) of Section 3 of Institute of Technology Act , 1961
8. Such Institute of Management as the Central Government may, by notification in the Official Gazette, specify in this behalf
9. State Government
10. Central Government
11. Institution having importance throughout India or in any State or States as may be notified.

PROVIDENT FUND:

PARTICULARS	Statutory Provident Fund (SPF)	Recognized Provident Fund (RPF)	Unrecognized Provident Fund (URPF)	Public Provident Fund (PPF)
Meaning	Fund set up by Provident fund Act 1925 & mainly for govt. employees(inc semi govt.), university/educational institution	Organization having more than 20 employees has to register under this scheme. they can contribute directly to govt. or they can have their own trust approved by PF Commissioner & Commissioner of Income tax	If the PF trust is approved by commissioner of PF & Not by commissioner of Income tax then it is URPF	It is the scheme for public at large whether employer or self employed. min. 500 cont max ₹ 100000/- during the year w.e.f. 1st Dec. 2011 before that ₹ 70000/-.
Employees Contribution	Allowed Under Section 80C	Allowed Under Section 80C	Not allowed Under Section 80C	Allowed Under Section 80C
Employers contribution	Fully Exempt	Exempt upto 12% of salary in excess is to be added in Gross Salary. Section 17(1)(vi)	Neither exempt nor Taxable at the time of contribution.	Not Applicable
Interest on PF	Fully Exempt	Exempt upto 9.5% of salary & above that to be included in Gross Salary Section 17(1)(vi)	Neither exempt nor Taxable at the time of credit.	Fully exempt. Rate of interest w.e.f. 1st dec 2011 is 8.6%p.a.before

				that 8%.
Receipt on Maturity	Fully Exempt Under section 10(11)	Exempt but on satisfaction of certain condition mentioned below.	Interest on Employers contribution + employers contribution taxable as SALARY Interest on employees contribution taxable as OTHER SOURSES	Fully Exempt Under section 10(11)

CONDITIONS FOR CLAIMING EXEMPTION OF RPF:

- Employee has to render continuous service of 5 years
- If he has not rendered service of 5 years the service is terminated due to:
  1. Illness of the employee
  2. Due to contraction or discontinuance of employers business
  3. Other case beyond control of the employee
- On cessation of the employment the employee has obtain employment with other employer & has transferred to RPF maintained by the new employer.

TRANSFER BALANCE OF URPF WHEN IT BECOMES RPF SECTION 17(1)(vii):

- It will be assumed that such URPF was recognized from its initiation.
- Balance in excess of 10 % upto A.Y. 1997-98 will be 10% (of salary)& there after 12% (of salary) PLUS 9.5% (of salary) of interest thereon shall be taken and ADDED to the Gross Salary of the year of transfer of such balance (only to the extent of employer's contribution) if full amount is not transferred then that proportional amount is to be taken.
- Amount which is being employees contribution is not taxable but interest on that is taxable in the hands of employee under the head other sources.

APPROVED SUPERANNUATION FUND:

- The fund us usually established under the Trust for the purpose of providing annuities etc. to the employees on attainment of specified age or on becoming incapacitated prior to such retirement or for the widow, children or dependent of such employee in case of the Death.
- The trust invests such money contributed to the fund in the form and mode prescribed.
- Income earned on these investments is exempt, if any such fund is Approved Superannuation Fund.
- "Approved superannuation fund" means any superannuation fund approved by Chief Commissioner or Commissioner of Income Tax.
  1. Employees Contribution = Avail Deduction under section 80C.
  2. Employers Contribution = Contribution by the employer upto ₹ 1,00,000/- per year per employee is exempt & amount in excess of ₹ 1,00,000/- is taxable as perquisite.
  3. Interest = Any amount of interest earned on such superannuation shall be FULLY EXEMPT.

MISCELLANEOUS TOPICS:

A. **PROFIT IN LIEU OF SALARY Section 17(3):**

Profit in lieu of salary means any payment in addition to the salary.

1. **Terminal Compensation:**
   The amount of any compensation due or received by an assessee form his employer or former employer in connection with the termination of his employment or modification of the terms and conditions relating thereto is regarded as Profit in lieu of Salary. (including amount received on termination, retirement, premature termination)
2. **Payment from an URF or an Unrecognized Superannuation Fund:**
   Any payment received by the employee from URF or USF to the extent it does not form part of employees contribution will be taxable in the hand of employee as Profit in lieu of Salary.
3. **Payment under Key man Insurance Policy:**
   Any sum received by way of Key man Insurance Policy including bonus.
4. **Any amount due or received before joining or after cessation of employment:**
   Any amount due or received, whether in lump sum or otherwise by any assessee from any person:
   a. Before joining any employment with that person
   b. After cession of his employment from that person.
5. **Any other Sum received by the employee from the employer:**
   All other sum maid by the employer to an employee would be bought under the "Profit in lieu of Salary". Any payment made by virtue any legal obligation or voluntarily will be treated as "Profit in lieu of Salary" But do not include.
   a. Death –cum- retirement Gratuity Section 10(10)
   b. Commuted pension – Section 10(10A)
   c. Retrenchment compensation Section 10(10B)
   d. Payment of SPF Section 10(11)
   e. Payment of RPF Section 10(12)
   f. Any payment from Approved superannuation fund Section 10(13)
   g. HRA Section 10(13A)

B. **TREATMENT OF LEAVE TRAVEL CONCESSION (LTC) Section 10(5):**

In the following cases the concept of LTC is applicable

1. On leave to any place in India.
2. To any place in India after retirement or after termination of Service.

AMOUNT OF EXEMPTION:

Journey performed by Air	Maximum amount shall not exceed Economic Class Fare of the National Carrier by the shortest route.
Where the place of Origin and Destination both are connected by Rail & journey is performed by any mode other than Air.	Maximum amount shall not exceed AC First Class Rail fare by the shortest route.
Where the place of Origin and Destination or a part is not connected by Rail & journey is performed.	a. Where a recognized public transportation is available then amount not exceeding 1st Class or deluxe class fare of that transport system by the shortest route.

	b. Where no recognized public transportation is available then amount equivalent to AC First Class Rail fare for the distance of journey.

NUMBER OF JOURNEY EXEMPT:

Two journeys in a block of four is exempt. To 1st block of 4 year had been 1986-1989 considering this number of block system 2010 to 2013 is seventh block & 2014 to 2017 will be the eight block of four year.

If the assessee has not availed LTC in preceding block of four year he can carry forward one such journey to the next block of four year provided that he utilize it in the first year itself.

Important Note:

This Exemption is applicable in respect of 2 children born after 1.10.1998. Hence the same is not applicable in respect of children born before 1.10.1998.

C. **RELIEF UNDER SECTION 89 (ALONG WITH RULE 21A& 21AA):**

This relief is granted to assess when he receives any arrears of salary or in advance or by reason of his having received in any one financial year salary for more than 12 months or payment under provisions of section 17(3) i.e. profit in lieu of Salary, his income is assessed at higher rate than that at which it would have been assessed.

This relief is in payment of tax.

In Case of Arrears of Salary	In Case of Gratuity (Rule 21A(3)). (other than those exempt under 10(10)) (Service more than 15 years)
Step 1.: Calculate Tax payable in the year of receipt of arrear. a. Including Arrears b. Excluding Arrears **Step 1** = (a-b)	**Step 1:** a. Average Tax Rate= $\frac{\text{Total tax(Including Gratuity)}}{\text{Total Income(Including Gratuity)}}$ b. Tax on gratuity = Gratuity X Average tax rate **Step 1**= Tax on Gratuity
Step 2.: Calculate Taxable payable of every PY in respect of which arrear is received. a. Including Arrears b. Excluding Arrears **Step 2** = (a-b)	**Step 2:** Calculate Average of Average tax rate for 3 immediately preceding years by adding 1/3 rd gratuity in each year. a. Average Tax Rate (1) = $\frac{\text{Total tax(Including Gratuity)}}{\text{Total Income(Including Gratuity)}}$ b. Average tax rate (2)= sum Avg. tax rate (1) for 3 yr/3 c. Tax on gratuity = Gratuity X Average tax rate **Step 2** = Tax on Gratuity
Step 3.: **Step 3**= Step1-Step2 a. If result is positive then relief is applicable. b. If result is negative then relief is not applicable.	**Step 3.:** **Step 3**= Step1-Step2 a. If result is positive then relief is applicable. b. If result is negative then relief is not applicable. (in case the service is more than 5 year but less than 15 year the same calculation is to be done by adding 1/2 gratuity in 2 year & there average)

In Case of payment in nature of Termination Compensation Rule 21A(4), Commuted Pension Rule 21A(5):

The calculation relief under section 89 will be the Same as it was computed under Rule 21A(3) for payment of gratuity if the employee had served the employment for more than 15 years i.e. adding 1/3 in each year preceding the year of receipt of the retirement benefit and then computing average of average tax rate for last 3 years.

ADDITIONAL CONDITION TO BE SATISFIED IN CASE OF TERMINATION COMPENSATION:

a. Compensation is received only after serving minimum period of 3 years
b. Balance period of employment is also not less than 3 years.

RULE 21AA:

If this benefit is availed by Government Servant or an employee of a company, co-operative society, local authority, university, institution, association or body. He may furnish to the person responsible for making the payment referred under section 192(1) the particulars of relief in Form 10E .

But in case of any other assessee this form is to be directly submitted to Assessing Officer instead of employer.

Illustration 35

Hemant, an employee furnishes the particulars for the previous year ending 31.3.2013:

(a) Salary income as computed (after all deductions) for the year ₹ 6,60,000
(b) Arrears of salary received during the year (not included in the above) relating to financial year 2011 – 12 ₹ 50,000
(c) Assessed income of financial year 2011-12 ₹ 4,40,000

Compute the relief under section 89 of the Income-tax Act, 1961

The rates of income-tax for the assessment year 2012 – 13 are :

	Tax Rate
On first ₹ 1,80,000	Nil
On ₹ 1,80,010 - ₹ 5,00,000	10%
On ₹ 5,00,010 - ₹ 8,00,000	20%
Above ₹ 8,00,000	30%
Education cess + SHEC	2% + 1% (of tax payable)

Illustration 36

Laxmi, an employee furnishes the particulars for the previous year ending 31.3.2013:

(a) Salary income as computed (after all deductions) for the year ₹ 7,14,220
(b) Gratuity received by her during the year (not included in the above) on the date of retirement i.e. 31.01.2013 amounted to ₹ 7,60,000
(c) Salary for computation of gratuity is ₹ 32,000 p.m. she is covered under payment of gratuity act.
(d) Salary for the Assessment year 2012-13 :- 5,82,970/-, 2011-12 :- 4,99,320/-, 2010-11 :- 4,38,350/-

Compute the relief under section 89 of the Income-tax Act, 1961 assuming 1. She had been employed on 01.05.1991 & 2. She had been employed on 01.05.2002

The rates of income-tax for the assessment year 2012 – 13 are :

	Tax Rate
On first ₹ 1,80,000	Nil
On ₹ 1,80,010 - ₹ 5,00,000	10%
On ₹ 5,00,010 - ₹ 8,00,000	20%
Above ₹ 8,00,000	30%
Education cess + SHEC	2% + 1% (of tax payable)

AY 2011-12

	Tax Rate
On first ₹ 1,60,000	Nil
On ₹ 1,60,010 - ₹ 5,00,000	10%
On ₹ 5,00,010 - ₹ 8,00,000	20%
Above ₹ 8,00,000	30%
Education cess + SHEC	2% + 1% (of tax payable)

AY 2010-11

	Tax Rate
On first ₹ 1,60,000	Nil
On ₹ 1,60,010 - ₹ 3,00,000	10%
On ₹ 3,00,010 - ₹ 5,00,000	20%
Above ₹ 5,00,000	30%
Education cess + SHEC	2% + 1% (of tax payable)

DEDUCTIONS FROM SALARY SECTION 16:

There are Basically two deduction from salary:

1. **Entertainment Allowance section 16(ii):**

   The deduction of entertainment allowance is only allowed to the government employees. But in case of entertainment allowance assessee is not entitle to any exemption, it is initially added to the gross salary of the assessee then deduction can be claim to the following extent:

   a. Actual Entertainment Allowance Received
   b. 20% of his salary excluding any allowance, benefit or perquisite.
   c. ₹ 5000/

2. **Tax on Employment (Professional Tax) section 16(iii):**

   Indian Constitution allows State Govt./ Local Authority to impose tax on employment.
   The deduction of amount paid to any extent is allowed in the year of payment.

Illustration 36

Abhishek an employee of the Central Government, gets ₹ 6,000 p.m. as basic salary and is entitled to ₹ 1,500 p.m. as entertainment allowance. Compute the deduction under section 16(ii) from gross salary in respect of entertainment allowance.

Illustration 37

Ritu furnishes the following particulars of his remuneration for the previous year 2012 – 13 from R Company Ltd. where he is employed as an Accountant:

Basic salary	₹ 14,300 p.m.
Dearness allowance (forming part of salary for retirement benefits)	₹ 2,000 p.m.
Children Education Allowance	₹ 250 p.m.
He is entitled to use a car (below 1.6 ltrs.) for official and personal work.	₹ 250 p.m.

He has paid ₹ 400 towards professional tax to the State government. Compute his income from salary for the assessment year 2013 – 14.

What happen if employer pays the professional tax?

SUM ON CALCULATION OF TOTAL SALARY

Illustration 38

Mr. Ankit is Asst. Manager of a Textile Company of Jaipur, since 1988. He has submitted the following particulars of his income for the financial year 2012 – 13 :

(1) Basic salary ₹2,40,000.
(2) Dearness Allowance ₹5,000 per month (₹200 p.m. enters into retirement benefits).
(3) Education allowance for two children at ₹150 p.m. per child.
(4) Commission on sales of turnover of ₹10,00,000.
(5) Entertainment allowance ₹700 p.m.
(6) Travelling Allowance for his official tours ₹30,000. The entire amount is spent on the official tour.
(7) He was given cloth worth ₹1,000 by his employer free of cost.
(8) He resides in the flat of the company. Its market rent is ₹12,000 p.m. A watchman and a cook have been provided by the company at the bungalow who are paid ₹400 p.m. per month each.
(9) He has been provided with a motor car of 1.8 ltr. engine capacity for his official as well as personal use. The running and maintenance costs are borne by the Company.
(10) Employer's contribution to R.P.F. is ₹40,000 and the interest credited to this fund at 13% rate amounted to ₹16,250.
(11) Contribution by Ankit to recognized provident fund ₹40,000.
(12) Rent of house recovered from Ankit ₹1,500 p.m.
(13) Tax deducted at source from the above payments ₹6,000.

Compute income from salaries for the assessment year 2013 – 14. Assume the population of Jaipur is 26 lakhs as per 2001 census.

Illustration 39

Miss. Aditi is an employee of a private college in Moradabad (whose population is 10 lakhs) which is not registered as a charitable trust with the Income-tax Department. She is in the grade of ₹14,500-400-16,500-600-19,500 since 1.1.2011.She gets ₹2,000 per month as a dearness allowance and CCA is ₹100 p.m. She has been provided with a furnished accommodation by the college. The college is not the owner of the house. The rental value of the house is ₹2,500 p.m. and the furniture costing ₹4,000 has been provided by the college. S he has been given car of engine capacity of 1.4 ltrs. Which is in addition to college work, is used by her for private purposes. The driver's remuneration and all the expenses relating to the use of car are borne by the college.
She has been provided with the facility of a gardener, a watchman and a servant who are paid by the college ₹ 150 per month each. She contributes 10% of her pay to the statutory provident fund to which the college also contributes 10%. She purchased books of her subject for ₹ 1,000 and paid employment tax of ₹ 500 during the financial year 2012 – 13.
Her salary becomes due on the first day of the next month. Determine her income under the heads "Salaries" for the assessment year 2013 – 14.

Illustration 40

Aakrosh, who was working with Indane Ltd. died on 31.11.2012 in an accident while going back from office. His emoluments before death were as under :
Basic salary ₹ 15,000 p.m. w.e.f. 1.1.2012, DA 100% of basic salary (20% of DA forming part of salary for retirement benefits). HRA ₹9,OOO p.m. He paid ₹3000 p.m. as rent. Children's education allowance ₹130 p.m. per child for two children. He contributed 10% of his salary to PF to which his employer contributes equally. On his death, his account of salary and allowances was settled till 30.11.2012. Besides, his widow received the following amounts :

Gratuity for 12 years and 5 month's service ₹ 1,26,000

Family pensions w.e.f. 1.12.2012	₹ 6,000
Leave encashment of accumulated leave of 210 days (He was entitled to 40 day's for each completed year of service	₹3,60,000

Will Aakrosh be liable for income-tax assessment year 2013-14. If so, compute his total income. State who will be liable to file return of the income of Aakrosh ? Also compute total income of Mrs. Aakrosh assuming she has no other income in the previous year.

Illustration 41

Compute income under the head salary for Miss. Urvashi for the assessment year 2013-14 from the following information submitted to you :

Basic Salary	20000 p.m.
D.A. (60% of which forms part of retirement benefits)	10000 p.m.
Children Education Allowance	200 p.m.
Free Lunch for 300 days in the office during office hours	80 p.m.
Reimbursement of expenses incurred on credit card provided by the employer	10,000 p.m.
Gift of Titan watch	12,000 p.m.

1. Rent free unfurnished accommodation at Delhi, the fair market rent value of which is 84,000 p.a.
2. Motor Car of 1.8. Liter with drive both for official and private purpose
3. Watch facility by the employer. Wages of watchman paid by the employer 1000 p.m.
4. Telephone facility at his residence. The employer has incurred expenses of 15000 for the same.