Salary
The meaning of the term ‘salary’ for purposes of income tax is much wider than what is normally understood. Every payment made by an employer to his employee for service rendered would be chargeable to tax as income from salaries. The term ‘salary’ for the purposes of Income-tax Act, 1961 will include both monetary payments (e.g. basic salary, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest free loans etc).

(1) Employer-employee relationship: Before an income can become chargeable under the head ‘salaries’, it is vital that there should exist between the payer and the payee, the relationship of an employer and an employee. Consider the following examples:

(a) Sujatha, an actress, is employed in Chopra Films, where she is paid a monthly remuneration of `2 lakh. She acts in various films produced by various producers. The remuneration for acting in such films is directly paid to Chopra Films by the different producers. In this case, `2 lakh will constitute salary in the hands of Sujatha, since the relationship of employer and employee exists between Chopra Films and Sujatha.

(b) In the above example, if Sujatha acts in various films and gets fees from different producers, the same income will be chargeable as income from profession since the relationship of employer and employee does not exist between Sujatha and the film producers.

(c) Commission received by a Director from a company is salary if the Director is an employee of the company. If, however, the Director is not an employee of the company, the said commission cannot be charged as salary but has to be charged either as income from business or as income from other sources depending upon the facts.

(d) Salary paid to a partner by a firm is nothing but an appropriation of profits. Any salary, bonus, commission or remuneration by whatever name called due to or received by partner of a firm shall not be regarded as salary. The same is to be charged as income from profits and gains of business or profession. This is primarily because the relationship between the firm and its partners is not that of an employer and employee.

(2) Full-time or part-time employment: It does not matter whether the employee is a fulltime employee or a part-time one. Once the relationship of employer and employee exists, the income is to be charged under the head “salaries”. If, for example, an employee works with more than one employer, salaries received from all the employers should be clubbed and brought to charge for the relevant previous years.

(3) Foregoing of salary: Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income-tax. Such waiver is only an application and hence, chargeable to tax.

Example: Mr. A, an employee instructs his employer that he is not interested in receiving the salary for April 2013 and the same might be donated to a charitable institution. In this case, Mr. A cannot claim that he cannot be charged in respect of the salary for April 2013. It is only due to his instruction that the donation was made to a charitable institution by his employer. It is only an application of income. Hence, the salary for the month of April 2013 will be taxable in the hands of Mr. A. He is however, entitled to claim a deduction under section 80G for the amount donated to the institution.
(4) **Surrender of salary**: However, if an employee surrenders his salary to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered would be exempt while computing his taxable income.

(5) **Salary paid tax-free**: This, in other words, means that the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer.

**Definition of Salary**
The term ‘salary’ has been defined differently for different purposes in the Act. The definition as to what constitutes salary is very wide. As already discussed earlier, it is an inclusive definition and includes monetary as well as non-monetary items. There are different definitions of ‘salary’ say for calculating exemption in respect of gratuity, house rent allowance etc.

‘Salary’ under section 17(1), includes the following:

(i) wages,
(ii) any annuity or pension,
(iii) any gratuity,
(iv) any fees, commission, perquisite or profits in lieu of or in addition to any salary or wages,
(v) any advance of salary,
(vi) any payment received in respect of any period of leave not availed by him i.e. leave salary or leave encashment,
(vii) the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognised provident fund to the extent it is taxable and
(viii) transferred balance in recognised provident fund to the extent it is taxable,
(ix) the contribution made by the Central Government or any other employer in the previous year to the account of an employee under a pension scheme referred to in section 80CCD.

**Basis of charge**
1. Section 15 deals with the basis of charge. Salary is chargeable to tax either on ‘due’ basis or on ‘receipt’ basis, whichever is earlier.
2. However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.
3. If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

**Examples**:

i. If A draws his salary in advance for the month of April 2014 in the month of March 2014 itself, the same becomes chargeable on **receipt basis** and is to be assessed as income of the P.Y.2013-14 i.e., A.Y.2014-15. However, the salary for the A.Y.2015-16 will not include that of April 2014.

ii. If the salary due for March 2014 is received by A later in the month of April 2014, it is still chargeable as income of the P.Y.2013-14 i.e. A.Y.2014-15 on **due basis**. Obviously, salary for the A.Y.2015-16 will not include that of March 2014.

**Place of accrual of salary**
Under section 9(1)(ii), salary earned in India is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

**Example**: If an employee gets pension paid abroad in respect of services rendered in India, the same will be deemed to accrue in India. Similarly, leave salary paid abroad in respect of leave earned in India is deemed to accrue or arise in India.
Suppose, for example, A, a citizen of India is posted in the United States as our Ambassador. Obviously, he renders his services outside India. He also receives his salary outside India. He is also a non-resident. The question, therefore, arises whether he can claim exemption in respect of his salary paid by the Government of India to him outside India. Under general principles of income tax such salary cannot be charged in his hands. For this purpose, section 9(1)(iii) provides that salaries payable by the Government to a citizen of India for services outside India shall be deemed to accrue or arise in India. However, by virtue of section 10(7), any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt.

Profits in lieu of salary [Section 17(3)]
It includes the following:

(i) The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment.

(ii) The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the modification of the terms and conditions of employment. Usually, such compensation is treated as a capital receipt. However, by virtue of this provision, the same is treated as a revenue receipt and is chargeable as salary.

Note: It is to be noted that merely because a payment is made by an employer to a person who is his employee does not automatically fall within the scope of the above provisions. The payment must be arising due to master-servant relationship between the payer and the payee. If it is not on that account, but due to considerations totally unconnected with employment, such payment is not profit in lieu of salary.

Example: A was an employee in a company in Pakistan. At the time of partition, he migrated to India. He suffered loss of personal movable property in Pakistan due to partition. He applied to his employer for compensating him for such loss. Certain payments were given to him as compensation. It was held that such payments should not be taxed as ‘profit in lieu of salary’ - Lachman Dass Vs. CIT [1980] 124 ITR 706 (Delhi).

(iii) Any payment due to or received by an assessee from his employer or former employer from a provident or other fund, to the extent to which it does not consist of employee’s contributions or interest on such contributions.

Example: If any sum is paid to an employee from an unrecognised provident fund it is to be dealt with as follows:

(a) that part of the sum which represents the employer’s contribution to the fund and interest thereon is taxable under salaries.

(b) that part of the sum which represents employee’s contribution and interest thereon is not chargeable to tax since the same have already been taxed under the head ‘salaries’ and ‘other sources’ respectively on an yearly basis.

Note: It does not include exempt payments from superannuation fund, gratuity, commuted pension, retrenchment compensation, HRA.

(iv) Any sum received by an assessee under a Keyman Insurance policy including the sum allocated by way of bonus on such policy.

(v) Any amount, whether in lumpsum or otherwise, due to the assessee or received by him, from any person -

(a) before joining employment with that person, or
(b) after cessation of his employment with that person.

(vi) Any other sum received by the employee from the employer.

**Advance Salary**

Advance salary is taxable when it is received by the employee irrespective of the fact whether it is due or not. It may so happen that when advance salary is included and charged in a particular previous year, the rate of tax at which the employee is assessed may be higher than the normal rate of tax to which he would have been assessed. Section 89(1) provides for relief in these types of cases.

**Loan or Advance against salary**

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

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

**Arrears of salary**

Normally speaking, salary arrears must be charged on due basis. However, there are circumstances when it may not be possible to bring the same to charge on due basis. For example if the Pay Commission is appointed by the Central Government and it recommends revision of salaries of employees, the arrears received in that connection will be charged on receipt basis. Here, also relief under section 89(1) is available.

**Annuity**

1. As per the definition, ‘annuity’ is treated as salary. Annuity is a sum payable in respect of a particular year. It is a yearly grant. If a person invests some money entitling him to series of equal annual sums, such annual sums are annuities in the hands of the investor.

2. Annuity received by a present employer is to be taxed as salary. It does not matter whether it is paid in pursuance of a contractual obligation or voluntarily.

3. Annuity received from a past employer is taxable as profit in lieu of salary.

4. Annuity received from person other than an employer is taxable as “income from other sources”.

**Gratuity [Section 10(10)]**

Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee. Now-a-days gratuity has become a normal payment applicable to all employees. In fact, Payment of Gratuity Act, 1972 is a statutory recognition of the concept of gratuity. Almost all employers enter into an agreement with employees to pay gratuity.

1. Retirement gratuity received under the Pension Code Regulations applicable to members of the Defence Service is fully exempt from tax.

2. **Central / State Government Employees**: Any death cum retirement gratuity is fully exempt from tax.

3. **Non-government employees covered by the Payment of Gratuity Act, 1972**

Any death cum retirement gratuity is exempt from tax to the extent of least of the following:

(i) `10,00,000

(ii) Gratuity actually received
(iii) 15 days’ salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

**Note:** Salary for this purpose means basic salary and dearness allowance. No. of days in a month for this purpose, shall be taken as 26.

4. **Non-government employees not covered by the Payment of Gratuity Act, 1972**

Any death cum retirement gratuity is exempt from tax to the extent of least of the following:

(i) `10,00,000

(ii) Gratuity actually received

(iii) Half month’s salary (based on last 10 months’ average salary immediately preceding the month of retirement or death) for each completed year of service (fraction to be ignored)

**Note:** Salary for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits, forming part of salary and commission which is expressed as a fixed percentage of turnover.

Students must also note the following points:

(1) Gratuity received during the period of service is fully taxable.

(2) Where gratuity is received from 2 or more employers in the same year then aggregate amount of gratuity exempt from tax cannot exceed `10,00,000.

(3) Where gratuity is received in any earlier year from former employer and again received from another employer in a later year, the limit of `10,00,000 will be reduced by the amount of gratuity exempt earlier.

(4) The exemption in respect of gratuities would be available even if the gratuity is received by the widow, children or dependents of a deceased employee.

**Illustration**

Mr. Ravi retired on 15.06.2013 after completion of 26 years 8 months of service and received gratuity of `6,00,000. At the time of retirement his salary was:

- Basic Salary : `5,000 p.m.
- Dearness Allowance : `3,000 p.m. (60% of which is for retirement benefits)
- Commission : 1% of turnover (turnover in the last 12 months was `12,00,000)
- Bonus : `12,000 p.a.

Compute his taxable gratuity assuming:

(a) He is non-government employee and covered by the Payment of Gratuity Act 1972.

(b) He is non-government employee and not covered by Payment of Gratuity Act 1972.

(c) He is a Government employee.

**Solution**

(a) **He is covered by the Payment of Gratuity Act 1972.**

Gratuity received at the time of retirement : `6,00,000

**Less:** Exemption under section 10(10)

Least of the following:
Income Under The Head Salary

i. Gratuity received `6,00,000
ii. Statutory limit `10,00,000
iii. 15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months
\[ 15/26 \times (5,000 + 3,000) \times 27 = `1,24,615 \]

Taxable Gratuity
\[ `4,75,385 \]

(b) He is not covered by the Payment of Gratuity Act 1972.
Gratuity received at the time of retirement `6,00,000
Less: Exemption under section 10(10) (Note 1) `1,01,400
Taxable Gratuity `4,98,600

Note 1: Exemption under section 10(10) is least of the following:
i. Gratuity received `6,00,000
ii. Statutory limit `10,00,000
iii. Half month’s salary based on average salary of last 10 months preceding the month of retirement for each completed year of service. i.e. Average salary years of service
\[ \frac{1}{2} \times \text{Average salary} \times \text{years of service} \]
\[ = \frac{1}{2} \left[ (5,000 \times 10) + (3,000 \times 60\% \times 10) + \left( 1\% \times 12,00,000 \times \frac{10}{12} \right) \right] \times 26 \]
\[ = `1,01,400 \]

(c) He is a government employee
Gratuity received at the time of retirement `6,00,000
Less: Exemption under section 10(10) `6,00,000
Taxable gratuity Nil

Pension
Concise Oxford Dictionary defines ‘pension’ as a periodic payment made especially by Government or a company or other employers to the employee in consideration of past service payable after his retirement.

Commutated pension: Commutation means inter-change. Many persons convert their future right to receive pension into a lumpsum amount receivable immediately. For example, suppose a person is entitled to receive a pension of `2000 p.m. for the rest of his life. He may commute ¼th i.e. 25% of this amount and get a lumpsum of `30,000. After commutation, his pension will now be the balance 75% of `2,000 p.m. = `1,500 p.m.

Payment in commutation of pension [Section 10(10A)]
Pension is of two types: commuted and uncommuted.

Uncommuted Pension: Uncommuted pension refers to pension received periodically. It is fully taxable in the hands of both government and non-government employees.

Commuted Pension: Commuted pension means lump sum amount taken by commuting the whole or part of the pension. Its treatment is discussed below:

(a) Employees of the Central Government/local authorities/Statutory Corporation/ members of the Defence Services: Any commuted pension received is fully exempt from tax.
(b) **Non-Government Employee**: Any commuted pension received is exempt from tax in the following manner:

**If the employee is in receipt of gratuity**, Exemption = \( \frac{1}{3} \times \frac{\text{commuted pension received}}{\text{commutation \%}} \times 100\% \)

**If the employee does not receive any gratuity**, Exemption = \( \frac{1}{2} \times \frac{\text{commuted pension received}}{\text{commutation \%}} \times 100\% \)

**Note:**
1. Judges of the Supreme Court and High Court will be entitled to exemption of the commuted portion not exceeding \( \frac{1}{2} \) of the pension.
2. Any commuted pension received by an individual out of annuity plan of the Life Insurance Corporation of India (LIC) from a fund set up by that Corporation will be exempted.

**Illustration**
Mr. Sagar retired on 01.10.2013 receiving ` 5,000 p.m. as pension. On 01.02.2014, he commuted 60% of his pension and received ` 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

a. He is a government employee.

b. He is a non-government employee, receiving gratuity of ` 5,00,000 at the time of retirement.

c. He is a non-government employee and is in receipt of no gratuity at the time of retirement.

**Solution:**

(a) **He is a government employee.**

Uncommuted pension received (October – March) ` 24,000

\[ (\text{` 5,000 \times 4 \text{ months}}) + (40\% \text{ of ` 5,000 \times 2 \text{ months}}) \]

Commuted pension received ` 3,00,000

Less: Exempt u/s 10(10A) ` 3,00,000

Taxable pension \( ` 24,000 \)

(b) **He is a non-government employee, receiving gratuity ` 5,00,000 at the time of retirement.**

Uncommuted pension received (October – March) ` 24,000

\[ (\text{` 5,000 \times 4 \text{ months}}) + (40\% \text{ of ` 5,000 \times 2 \text{ months}}) \]

Commuted pension received ` 3,00,000

Less: Exempt u/s 10(10A)

\[ \left( \frac{1}{3} \times \frac{\text{3,00,000}}{60\%} \times 100\% \right) = 1,66,667 \]

Taxable pension ` 1,33,333

(c) **He is a non-government employee and is not in receipt of gratuity at the time of retirement.**

Uncommuted pension received (October – March) ` 24,000
Income Under The Head Salary

[ (`5,000 × 4 months) + (40% of `5,000 × 2 months)]
Commuted pension received `3,00,000
Less : Exempt u/s 10(10A)
\[
\frac{1}{2} \times \frac{3,00,000}{60\%} \times 100\%
\]
`2,50,000
`50,000
Taxable pension `74,000

Pension received by recipient of gallantry awards [Section 10(18)] - Any income by way of pension received by an individual who has been awarded “Param Vir Chakra” or “Maha Vir Chakra” or “Vir Chakra” or such other gallantry award as the Central Government may, by notification in the Official Gazette, specify in this behalf.
In case of the death of the awardee, any income by way of family pension received by any member of the family of the individual shall also be exempt under this clause. The expression “family” shall have the meaning assigned to it in the Explanation to clause (5) of the said section.

Family pension received by widow/children/nominated heirs of members of armed forces [Section 10(19)] – Exemption is available in respect of family pension received by the widow or children or nominated heirs, of a member of the armed forces (including para-military forces) of the Union, where the death of such member has occurred in the course of operational duties, in specified circumstances and circumstances.

Leave Salary [Section 10(10AA)]

Exemption of amount received by way of encashment of unutilised earned leave on retirement [Section 10(10AA)] - It provides exemption in respect of amount received by way of encashment of unutilised earned leave by an employee at the time of his retirement whether on superannuation or otherwise. The provisions of this clause are mentioned below:

(a) **Government employees**: Leave salary received at the time of retirement is fully exempt from tax.

(b) **Non-government employees**: Leave salary received at the time of retirement is exempt from tax to the extent of least of the following:

   (i) `3,00,000
   (ii) Leave salary actually received
   (iii) 10 months’ salary (on the basis of average salary of last 10 months)
   (iv) Cash equivalent of leave (based on last 10 months’ average salary immediately preceding the date of retirement) to the credit of the employee at the time of retirement or death. Earned leave entitlement cannot exceed 30 days for every year of actual service rendered for the employer from whose service he has retired.

**Note:**
1. Leave salary received during the period of service is fully taxable.
2. Where leave salary is received from two or more employers in the same year, then the aggregate amount of leave salary exempt from tax cannot exceed `3,00,000.
3. Where leave salary is received in any earlier year from a former employer and again received from another employer in a later year, the limit of `3,00,000 will be reduced by the amount of leave salary exempt earlier.
4. Salary for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits and commission which is expressed as a fixed percentage of turnover.
5. ‘Average salary’ will be determined on the basis of the salary drawn during the period of ten months immediately preceding the date of his retirement whether on superannuation or otherwise.
Illustration
Mr. Gupta retired on 01.12.2013 after 20 years 10 months of service, receiving leave salary of ` 5,00,000.
Other details of his salary income are:

- Basic Salary : ` 5,000 p.m. (₹ 1,000 was increased w.e.f. 01.04.2013)
- Dearness Allowance : ` 3,000 p.m. (60% of which is for retirement benefits)
- Commission : ` 500 p.m.
- Bonus : ` 1,000 p.m.
- Leave availed during service : 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non-government employee.

Solution:
(a) He is a government employee.
Leave Salary received at the time of retirement : ` 5,00,000
Less: Exemption under section 10(10AA) : ` 5,00,000
Taxable Leave salary : Nil

(b) He is a non-government employee
Leave Salary received at the time of retirement : ` 5,00,000
Less: Exempt under section 10(10AA) [note 1] : ` 26,400
Taxable Leave Salary : ` 4,73,600

Note 1: Exemption under section 10(10AA) is least of the following:
(i) Leave salary received : ` 5,00,000
(ii) Statutory limit : ` 3,00,000
(iii) 10 months salary based on average salary of last 10 months

\[
\text{Average salary} = \frac{10 \times \text{Salary of last 10 months i.e. Feb - Nov}}{10 \text{ months}}
\]

\[
= \frac{10 \times (5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}}
\]

= ` 66,000

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months (max. 30 days per year of service)

\[
\text{Leave Due} = \frac{\text{Leave allowed} - \text{Leave taken}}{30 \text{ days}} \times \text{Average salary p.m.}
\]

\[
= \frac{30 \text{ days per year} \times 20 \text{ years} - 480 \text{ days}}{30 \text{ days}}
\]

= 120 days

\[
= \left[ \frac{120 \text{ days} \times 66,000}{30 \text{ days} \times 10} \right]
\]

= ` 26,400

Retrenchment compensation [Section 10(10B)]
Retrenchment compensation will be exempt from tax subject to the following limits:
(a) Amount calculated in accordance with the provisions of section 25F of the Industrial Disputes Act, 1947 i.e. 15/26 Avg salary of last 3 mths x Completed yrs of service and part thereof in excess of 6 mths. 
or

(b) An amount, not less than ` 5,00,000 as may be notified by the Central Government in this behalf, whichever is lower.

The retrenchment compensation for this purpose means the compensation paid under Industrial Disputes Act, 1947 or under any Act, Rule, Order or Notification issued under any law. It also includes compensation paid on transfer of employment under section 25F or closing down of an undertaking under section 25FF of the Industrial Disputes Act, 1947.

The above limits will not be applicable to cases where the compensation is paid under any scheme approved by the Central Government for giving special protection to workmen under certain circumstances.

Illustration
Mr. Garg received retrenchment compensation of ` 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was drawing basic salary ` 20,000 p.m.; dearness allowance ` 5,000 p.m. Compute his taxable retrenchment compensation.

Solution
Retrenchment compensation received ` 10,00,000
Less : Exemption under section10(10B) [Note 1] ` 4,32,692
Taxable retrenchment compensation ` 5,67,308

Note 1 : Exemption is to the extent of least of the following :
(i) Compensation actually received ` 10,00,000
(ii) Statutory Limit ` 5,00,000
(iii) Amount calculated in accordance with provisions of the Industrial Disputes Act, 1947

\[ = \left( \frac{15}{26} \times \frac{20,000 \times 3 + (5,000 \times 3)}{3} \right) \times 30 \text{ years} \] = ` 4,32,692

Compensation received on Voluntary Retirement [Section 10(10C)]
Any compensation received by an employee of a public sector company or of any other company or other specified bodies at the time of his voluntary retirement or termination of his service is exempt upto a maximum limit of ` 5,00,000. However, such payment should be in accordance with a scheme of voluntary retirement or in the case of a public sector company, a scheme of voluntary separation. Such schemes should be in accordance with prescribed guidelines. These guidelines may include economic viability as one of the criteria.

Compensation received by an employee at the time of voluntary retirement is exempt from tax subject to the following conditions:

Eligible Undertakings - The employee of the following undertakings are eligible for exemption under this clause:
(i) Public sector company
(ii) Any other company
(iii) An authority established under a Central/State or Provincial Act
(iv) A local authority
(v) A co-operative society
(vi) An University established or incorporated under a Central/State or Provincial Act and an Institution declared to be an University by the University Grants Commission.
(vii) An Indian Institute of Technology
(viii) Such Institute of Management as the Central Government may, by notification in the Official Gazette, specify in this behalf
(ix) Any State Government
(x) The Central Government
(xi) An institution, having importance throughout India or in any state or states, as the Central Government may specify by notification in the Official Gazette.

Limit: The maximum limit of exemption should not exceed ` 5 lakh.

Such compensation should be at the time of his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or, in the case of public sector company, a scheme of voluntary separation. The exemption will be available even if such compensation is received in installments.

The schemes should be framed in accordance with such guidelines, as may be prescribed and should include the criteria of economic viability.

Guidelines: Rule 2BA prescribes the guidelines for the purposes of the above clause:

1. It applies to an employee of the company or the authority, as the case may be, who has completed 10 years of service or completed 40 years of age.

   However, this requirement is not applicable in case of an employee of a public sector company under the scheme of voluntary separation framed by the company.

2. It applies to all employees by whatever name called, including workers and executives of the company or the authority except directors of a company or a cooperative society.

3. The scheme of voluntary retirement or separation must have been drawn to result in overall reduction in the existing strength of the employees of a company or the authority or a cooperative society.

4. The vacancy caused by the voluntary retirement or separation must not be filled up.

5. The retiring employee of a company shall not be employed in another company or concern belonging to the same management.

6. The amount receivable on account of voluntary retirement or separation of the employee must not exceed the amount equivalent to three months’ salary for each completed year of service or salary at the time of retirement multiplied by the balance months of service left before the date of his retirement or superannuation.

Note - Where any relief has been allowed to any assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to that assessment year or any other assessment year.

Illustration
Mr. Dutta received voluntary retirement compensation of ` 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ` 20,000 p.m.; Dearness allowance (which forms part of pay) ` 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89.
Solution

Voluntary retirement compensation received \n\$7,00,000
Less: Exemption under section 10(10C) [Note 1] \n\$5,00,000
Taxable voluntary retirement compensation \n\$2,00,000

Note 1: Exemption is to the extent of least of the following:
(i) Compensation actually received \n\$7,00,000
(ii) Statutory limit \n\$5,00,000
(iii) Last drawn salary × 3 × completed years of service \n\$22,50,000
(iv) Last drawn salary × remaining months of service \n\$18,00,000

Provident Fund

Provident fund scheme is a scheme intended to give substantial benefits to an employee at the time of his retirement. Under this scheme, a specified sum is deducted from the salary of the employee as his contribution towards the fund. The employer also generally contributes the same amount out of his pocket, to the fund. The contribution of the employer and the employee are invested in approved securities. Interest earned thereon is also credited to the account of the employee. Thus, the credit balance in a provident fund account of an employee consists of the following:

(i) employee’s contribution
(ii) interest on employee’s contribution
(iii) employer’s contribution
(iv) interest on employer’s contribution.

The accumulated balance is paid to the employee at the time of his retirement or resignation. In the case of death of the employee, the same is paid to his legal heirs.

The provident fund represents an important source of small savings available to the Government. Hence, the Income-tax Act, 1961 gives certain deductions on savings in a provident fund account.

There are four types of provident funds:
(i) Statutory Provident Fund (SPF)
(ii) Recognised Provident Fund (RPF)
(iii) Unrecognised Provident Fund (URPF)
(iv) Public Provident Fund (PPF)

The tax treatment is given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Recognized PF</th>
<th>Unrecognized PF</th>
<th>Statutory PF</th>
<th>Public PF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer’s Contribution</td>
<td>Amount in excess of 12% of salary is taxable</td>
<td>Not taxable yearly</td>
<td>Fully exempt</td>
<td>N.A. (as there is only assessee’s own contribution)</td>
</tr>
<tr>
<td>Employee’s Contribution</td>
<td>Eligible for deduction u/s 80C</td>
<td>Not eligible for deduction</td>
<td>Eligible for deduction u/s 80C</td>
<td>Eligible for deduction u/s 80C</td>
</tr>
<tr>
<td>Interest Credited</td>
<td>Amount in excess of 9.5% p.a. is taxable</td>
<td>Not taxable yearly</td>
<td>Fully exempt</td>
<td>Fully exempt</td>
</tr>
<tr>
<td>Amount received on retirement, etc.</td>
<td>See Note (1)</td>
<td>See Note (3)</td>
<td>Fully exempt u/s 10(11)</td>
<td>Fully exempt u/s 10(11)</td>
</tr>
</tbody>
</table>
Notes:
(1)  Amount received on the maturity of RPF is fully exempt in case of an employee who has rendered continuous service for a period of 5 years or more. In case the maturity of RPF takes place within 5 years then the amount received would be fully exempt only if the service had been terminated due to employee’s ill-health or discontinuance or contraction of employer’s business or other reason beyond control of the employee. In any other case, the amount received will be taxable in the same manner as that of an URPF.

(2)  If, after termination of his employment with one employer, the employee obtains employment under another employer, then, only so much of the accumulated balance in his provident fund account will be exempt which is transferred to his individual account in a recognised provident fund maintained by the new employer. In such a case, for exemption of payment of accumulated balance by the new employer, the period of service with the former employer shall also be taken into account for computing the period of five years’ continuous service.

(3)  Employee’s contribution is not taxable but interest thereon is taxable under ‘Income from Other Sources’. Employer’s contribution and interest thereon is taxed as Salary.

(4)  Salary for this purpose means basic salary and dearness allowance - if provided in the terms of employment for retirement benefits and commission as a percentage of turnover.

1) Statutory Provident Fund (SPF): The SPF is governed by Provident Funds Act, 1925. It applies to employees of government, railways, semi-government institutions, local bodies, universities and all recognised educational institutions. Under the Income-tax Act, 1961, the rules governing the SPF are as follows:

2) Recognised Provident Fund (RPF): Recognised provident fund means a provident fund recognised by the Commissioner of Income-tax for the purposes of income-tax. It is governed by Part A of Schedule IV to the Income-tax Act. This schedule contains various rules regarding the following:

(a)  Recognition of the fund
(b)  Employee’s and employer’s contribution to the fund
(c)  Treatment of accumulated balance etc.

A fund constituted under the Employees’s Provident Fund and Miscellaneous Provisions Act, 1952 will also be a Recognised Provident Fund.

3) Unrecognised Provident Fund (URPF): A fund not recognised by the Commissioner of Income-tax is Unrecognised Provident Fund.

4) Public Provident Fund (PPF): Public provident fund is operated under the Public Provident Fund Act, 1968. A membership of the fund is open to every individual though it is ideally suited to self-employed people. A salaried employee may also contribute to PPF in addition to the fund operated by his employer. An individual may contribute to the fund on his own behalf as also on behalf of a minor of whom he is the guardian.

For getting a deduction under section 80C, a member is required to contribute to the PPF a minimum of `500 in a year. The maximum amount that may qualify for deduction on this account is ` 1,00,000 as per PPF rules.

A member of PPF may deposit his contribution in as many installments in multiples of `500 as is convenient to him. The sums contributed to PPF earn interest at 8.7%. The amount of contribution may be paid at any of
the offices or branch offices of the State Bank of India or its subsidiaries and specified branches of Nationalised Banks or any Head Post Office.

Payment from provident funds [Sections 10(11) and (12)] - The following payments received by an assessee will be fully exempt from tax:

(a) Provident Fund (PF) to which Provident Fund Act, 1925, applies; or
(b) Public Provident Fund.
(c) Accumulated balance payable to an employee participating in a RPF (subject to certain conditions).

The conditions for the purpose of RPF above are as follows:
(i) The employee should have rendered continuous service with the employer from whom the amount is received for a period of at least five years; or
(ii) Where the employee had not rendered such continuous service the reason for the termination of his service should have been his ill-health or contraction or discontinuance of employer’s business or any other cause beyond the control of the employee.

If such conditions are not satisfied the payments become taxable in the hands of the employee.

Illustration
Mr. A retires from service on December 31, 2013, after 25 years of service. Following are the particulars of his income/investments for the previous year 2013-14:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay @ ` 16,000 per month for 9 months</td>
<td>1,44,000</td>
</tr>
<tr>
<td>Dearness pay (50% forms part of the retirement benefits) ` 8,000 per month for 9 months</td>
<td>72,000</td>
</tr>
<tr>
<td>Lumpsum payment received from the Unrecognised Provident Fund</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Deposits in the PPF account</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Out of the amount received from the provident fund, the employer’s share was ` 2,20,000 and the interest thereon ` 50,000. The employee’s share was ` 2,70,000 and the interest thereon ` 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2014-15?

Solution
Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2014-15 is computed hereunder:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount taxable under the head “Salaries”:</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Employer’s share in the payment received from the URPF</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Interest on the employer’s share</td>
<td>50,000</td>
</tr>
<tr>
<td>Total</td>
<td>2,70,000</td>
</tr>
<tr>
<td>Amount taxable under the head “Income from Other Sources” :</td>
<td>60,000</td>
</tr>
<tr>
<td>Interest on the employee’s share</td>
<td>60,000</td>
</tr>
<tr>
<td>Total amount taxable from the amount received from the fund</td>
<td>3,30,000</td>
</tr>
</tbody>
</table>

Note: Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee’s share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.
Illustration
Will your answer be any different if the fund mentioned above was a recognised provident fund?

Solution
Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

Illustration
Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2013-14. You are required to compute his gross salary from the details given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>`10,000 p.m.</td>
</tr>
<tr>
<td>D.A. (50% is for retirement benefits)</td>
<td>`8,000 p.m.</td>
</tr>
<tr>
<td>Commission as a percentage of turnover</td>
<td>1%</td>
</tr>
<tr>
<td>Turnover during the year</td>
<td>`5,00,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>`40,000</td>
</tr>
<tr>
<td>Gratuity</td>
<td>`25,000</td>
</tr>
<tr>
<td>His own contribution in the RPF</td>
<td>`20,000</td>
</tr>
<tr>
<td>Employer’s contribution to RPF</td>
<td>20% of his basic salary</td>
</tr>
<tr>
<td>Interest accrued in the RPF @ 13% p.a.</td>
<td>`13,000</td>
</tr>
</tbody>
</table>

Solution

<table>
<thead>
<tr>
<th>Computation of Gross Salary of Mr. B for the A.Y.2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Particulars</td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Basic Salary [ `10,000 × 12]</td>
</tr>
<tr>
<td>Dearness Allowance [ `8,000 × 12]</td>
</tr>
<tr>
<td>Commission on turnover [1% × `5,00,000]</td>
</tr>
<tr>
<td>Bonus</td>
</tr>
<tr>
<td>Gratuity [Note 1]</td>
</tr>
<tr>
<td>Employee’s contribution to RPF [Note 2]</td>
</tr>
<tr>
<td>Employers contribution to RPF [20% of `1,20,000]</td>
</tr>
<tr>
<td>Less : Exempt [Note 3]</td>
</tr>
<tr>
<td>Interest accrued in the RPF @ 13% p.a.</td>
</tr>
<tr>
<td>Less : Exempt @ 9.5% p.a.</td>
</tr>
<tr>
<td>Gross Salary</td>
</tr>
</tbody>
</table>

Note 1: Gratuity received during service is fully taxable.

Note 2: Employee’s contribution to RPF is not taxable. It is eligible for deduction under section 80C.

Note 3: Employers contribution in the RPF is exempt up to 12% of the salary.
i.e. 12% of [B.S + D.A. for retirement benefits + Commission based on turnover]
= 12% of [ `1,20,000 + (50% × `96,000) + `5,000] = 12% of `1,73,000 = `20,760

Approved Superannuation Fund
It means a superannuation fund which has been and continues to be approved by the Commissioner in accordance with the rules contained in Part B of the VIth Schedule to the Income-tax Act, 1961.

The tax treatment of contribution and exemption of payment from tax are as follows:

(i) Employer’s contribution is exempt from tax in the hands of employee (upto `1,00,000 per employee per annum). Only such contribution exceeding `1,00,000 is taxable in the hands of the respective employee;
(ii) Employee’s contribution qualifies for deduction under section 80C;

(iii) Interest on accumulated balance is exempt from tax.

Section 10(13) grants exemption in respect of payment from the fund—

(a) to the legal heirs on the death of beneficiary (e.g. payment to widow of the beneficiary) or

(b) to an employee in lieu of or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapacitated prior to such retirement, or

(c) by way of refund of contribution on the death of the beneficiary or,

(d) by way of refund of contribution to an employee on his leaving the service in connection with which the fund is established otherwise than in the circumstances mentioned in (b), to the extent to which such payment does not exceed the contribution made prior to April 1, 1962. For example, where the amount received by an employee does not include any contribution made prior to 1.4.1962, the whole amount is taxable.

Salary from United Nations Organisation
Section 2 of the United Nations (Privileges and Immunities) Act, 1947 grants exemption from income-tax to salaries and emoluments paid by the United Nations to its officials. Besides salary, any pension covered under the United Nations (Privileges and Immunities) Act and received from UNO is also exempt from tax.

Allowances
Different types of allowances are given to employees by their employers. Generally allowances are given to employees to meet some particular requirements like house rent, expenses on uniform, conveyance etc. Under the Income-tax Act, 1961, allowance is taxable on due or receipt basis, whichever is earlier. Various types of allowances normally in vogue are discussed below:

<table>
<thead>
<tr>
<th>Allowances</th>
<th>Fully Taxable</th>
<th>Partly Taxable</th>
<th>Fully Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Entertainment Allowance</td>
<td></td>
<td>(i) House Rent Allowance [u/s 10(13A)]</td>
<td>(i) Allowance granted to Government employees outside India.</td>
</tr>
<tr>
<td>(ii) Dearness Allowance</td>
<td></td>
<td>(ii) Special Allowances [u/s 10(14)]</td>
<td>(ii) Sumptuary allowance granted to High Court or Supreme Court Judges</td>
</tr>
<tr>
<td>(iii) Overtime Allowance</td>
<td></td>
<td></td>
<td>(iii) Allowance paid by the United Nations Organization.</td>
</tr>
<tr>
<td>(iv) Fixed Medical Allowance</td>
<td></td>
<td></td>
<td>(iv) Compensatory Allowance received by a judge</td>
</tr>
<tr>
<td>(v) City Compensatory Allowance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(vi) Interim Allowance (to meet increased cost of living in cities)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(vii) Servant Allowance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(viii) Project Allowance  
(ix) Tiffin/Lunch/Dinner Allowance  
(x) Any other cash allowance  
(xi) Warden Allowance  
(xii) Non-practicing Allowance

Allowances which are fully taxable
(1) City compensatory allowance: City Compensatory Allowance is normally intended to compensate the employees for the higher cost of living in cities. It is taxable irrespective of the fact whether it is given as compensation for performing his duties in a particular place or under special circumstances.

(2) Entertainment allowance: This allowance is given to employees to meet the expenses towards hospitality in receiving customers etc. The Act gives a deduction towards entertainment allowance only to a Government employee. The details of deduction permissible are discussed later on in this Unit.

Allowances which are partially taxable:
(1) House rent allowance [Section 10(13A)]
(2) Special allowances [Section 10(14)]

House rent allowance (HRA) [Section 10(13A)] – HRA is a special allowance specifically granted to an employee by his employer towards payment of rent for residence of he employee. HRA granted to an employee is exempt to the extent of least of the following:

<table>
<thead>
<tr>
<th>Metro Cities (i.e. Delhi, Kolkata, Mumbai, Chennai)</th>
<th>Other Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) HRA actually received.</td>
<td>1) HRA actually received</td>
</tr>
<tr>
<td>2) Rent paid-10% of salary for the relevant period</td>
<td>2) Rent paid - 10% of salary for the relevant period</td>
</tr>
<tr>
<td>3) 50% of salary for the relevant period</td>
<td>3) 40% of salary for the relevant period</td>
</tr>
</tbody>
</table>

Note:
1. Exemption is not available to an assessee who lives in his own house, or in a house or which he has not incurred the expenditure of rent.
2. Salary for this purpose means basic salary, dearness allowance, if provided in terms of employment and commission as a fixed percentage of turnover.
3. Relevant period means the period during which the said accommodation was occupied by the assessee during the previous year.

Illustration
Mr. Raj Kumar has the following receipts from his employer:

(1) Basic pay ` 3,000 p.m.
(2) Dearness allowance (D.A.) ` 600 p.m.
(3) Commission ` 6,000 p.a.
(4) Motor car for personal use (expenditure met by the employer) ` 500 p.m.
(5) House rent allowance ` 900 p.m.

Find out the amount of HRA eligible for exemption to Mr. Raj Kumar assuming that he paid a rent of `1,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits.
Income Under The Head Salary

Solution:
HRA received `10,800
Less: Exempt under section 10(13A) [Note 1] `7,680
Taxable HRA `3,120

Note 1: Exemption shall be least of the following three limits:
(a) the actual amount received (`900 × 12) = `10,800
(b) excess of the actual rent paid by the assessee over 10% of his salary
   = Rent Paid - 10% of salary for the relevant period
   = (`1,000 × 12) - 10% of [(`3,000 + `600) × 12]
   = (`12,000 - `4,320) = `7,680
(c) 40% salary as his accommodation is situated at Kanpur
   = 40% of [(`3,000 + `600) × 12] = `17,280

Note: For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide, but excludes all other allowances and perquisites.

Special allowances to meet expenses relating to duties or personal expenses [Section 10(14)] - This clause provides for exemption (as per Rule 2BB) in respect of the following:

(i) Special allowances or benefit not being in the nature of a perquisite, specifically granted to meet expenses incurred wholly, necessarily and exclusively in the performance of the duties of an office or employment of profit. For the allowances under this category, there is no limit on the amount which the employee can receive from the employer, but whatever amount is received should be fully utilized for the purpose for which it was given to him.

(ii) Special allowances granted to the assessee either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides or to compensate him for the increased cost of living. For the allowances under this category, there is a limit on the amount which the employee can receive from the employer. Any amount received by the employee in excess of these specified limits will be taxable in his hands as income from salary for the year. It does not matter whether the amount which is received is actually spent or not by the employee for the purpose for which it was given to him.

Rule 2BB
The following allowances have been prescribed in Rule 2BB:

Allowances prescribed for the purposes of section 10(14)(i)
(a) any allowance granted to meet the cost of travel on tour or on transfer (Travelling Allowance);
(b) any allowance, whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty;
(c) any allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office or employment of profit (Conveyance Allowance);
(d) any allowance granted to meet the expenditure incurred on a helper where such helper is engaged in the performance of the duties of an office or employment of profit (Helper Allowance);
(e) any allowance granted for encouraging the academic research and training pursuits in educational and research institutions;

(f) any allowance granted to meet the expenditure on the purchase or maintenance of uniform for wear during the performance of the duties of an office or employment of profit (Uniform Allowance).

**Explanation** - For the purpose of clause (a) “allowance granted to meet the cost of travel on transfer” includes any sum paid in connection with the transfer, packing and transportation of personal effects on such transfer.

**Allowances prescribed for the purposes of section 10(14)(ii)**

1. Any Special Compensatory Allowance in the nature of Special Compensatory (Hilly Areas) Allowance or High Altitude Allowance or Uncongenial Climate Allowance or Snow Bound Area Allowance or Avalanche Allowance - `800 or `7,000 or `300 per month depending upon the specified locations.

2. Any Special Compensatory Allowance in the nature of border area allowance or remote locality allowance or difficult area allowance or disturbed area allowance - `1,300 or `1,100 or `1,050 or `750 or `300 or `200 per month depending upon the specified locations.

3. Special Compensatory (Tribal Areas / Schedule Areas / Agency Areas) Allowance - `200 per month.

4. Any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running such transport from one place to another, provided that such employee is not in receipt of daily allowance – 70% of such allowance upto a maximum of `10,000 per month.

5. Children Education Allowance - `100 per month per child upto a maximum of two children.

6. Any allowance granted to an employee to meet the hostel expenditure on his child `300 per month per child upto a maximum of two children.

7. Compensatory Field Area Allowance - `1,300 per month in specified areas.

8. Compensatory Modified Field Area Allowance - `500 per month in specified areas.

9. Any special allowance in the nature of counter insurgency allowance granted to the members of the armed forces operating in areas away from their permanent locations for a period of more than 30 days - `1,300 per month.

   Any assessee claiming exemption in respect of allowances mentioned at serial numbers 7, 8 and 9 shall not be entitled to exemption in respect of the allowance referred to at serial number 2.

10. Any transport allowance granted to an employee (other than those referred to in Sl. No. 11 below) to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty - `800 per month.

11. Any transport allowance granted to an employee who is blind or orthopaedically handicapped with disability of the lower extremities of the body, to meet his expenditure for commuting between his residence and place of duty - `1,600 per month.

12. Underground Allowance of `800 per month would be granted to an employee who is working in uncongenial, unnatural climate in underground coal mines. This is applicable to whole of India.
Illustration
Mr. Srikant has two sons. He is in receipt of children education allowance of `150 p.m. for his elder son and `70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

Transport allowance: `1,000 p.m. (amount spent `600 p.m.)

Tribal area allowance: `500 p.m.

Compute his taxable allowances.

Solution
Taxable allowance in the hands of Mr. Srikant is computed as under:

Children Education Allowance:
Elder son [(`150 – `100) p.m. × 12 months] = `600
Younger son [(`70 – `70) p.m. × 12 months] = Nil

Transport allowance [(`1,000 – `800) p.m. × 12 months] = `2,400
Tribal area allowance [(`500 – `200) p.m. × 12 months] = `3,600

Taxable allowances = `6,600

Allowances which are fully exempt:
(1) Allowance to High Court Judges: Any allowance paid to a Judge of a High Court under section 22A(2) of the High Court Judges (Conditions of Service) Act, 1954 is not taxable.

(2) Allowance received from United Nations Organisation (UNO): Allowance paid by the UNO to its employees is not taxable by virtue of section 2 of the United Nations (Privileges and Immunities) Act, 1974.

(3) Compensatory allowance under Article 222(2) of the Constitution: Compensatory allowance received by judge under Article 222(2) of the Constitution is not taxable since it is neither salary not perquisite—Bishamber Dayal Vs. CIT [1976] 103 ITR 813 (MP).

(4) Sumptuary allowance: Sumptuary allowance given to High Court Judges under section 22C of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges under section 23B of the Supreme Court Judges (Conditions of Service) Act, 1958 is not chargeable to tax.

Payments to MPs & MLAs [Section 10(17)] – The following incomes of Members of Parliament or State Legislatures will be exempt:

(i) Daily allowance received by any Member of Parliament or of State Legislatures or any Committee thereof.

(ii) In the case of a Member of Parliament or of any Committee thereof, any allowance received under Members of Parliament (Constituency Allowance) Rules, 1986; and

(iii) Any constituency allowance received by any person by reason of his membership of any State Legislature under any Act or rules made by that State Legislature.

Allowances payable outside India [Section 10(7)] - Allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for services rendered outside India are exempt from tax. Students may remember that in such cases under section 9(1)(iii), the income chargeable under the head ‘Salaries’ is deemed to accrue in India. The residential status of the recipient will, however, not affect this exemption.

Perquisites
(1) The term ‘perquisite’ indicates some extra benefit in addition to the amount that may be legally due by way of contract for services rendered. In modern times, the salary package of an employee normally includes monetary salary and perquisite like housing, car etc.

(2) Perquisite may be provided in cash or in kind.

(3) Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.

(4) Perquisite may arise in the course of employment or in the course of profession. If it arises from a relationship of employer-employee, then the value of the perquisite is taxable as salary. However, if it arises during the course of profession, the value of such perquisite is chargeable as profits and gains of business or profession.

(5) Perquisite will become taxable only if it has a legal origin. An unauthorised advantage taken by an employee without his employer’s sanction cannot be considered as a perquisite under the Act. For example, suppose A, an employee, is given a house by his employer. On 31.03.2013, he is terminated from service. But he continues to occupy the house without the permission of the employer for six more months after which he is evicted by the employer. The question arises whether the value of the benefit enjoyed by him during the six months period can be considered as a perquisite and be charged to salary. It cannot be done since the relationship of employer-employee ceased to exist after 31.03.2013. However, the definition of income is wide enough to bring the value of the benefit enjoyed by employee to tax as “income from other sources”.

(6) Income-tax paid by the employer out of his pocket on the salary of the employee is a perquisite in the hands of the employee whether the payment is contractual or voluntary.

**Definition**: Under the Act, the term ‘perquisite’ is defined by section 17(2) to include the following:

(a) the value of rent free accommodation provided to the assessee by his employer [section 17(2)(i)];

(b) The value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer [section 17(2)(ii)];

(i) Under section 17(2)(ii), the value of any concession in the matter of rent arising to an employee in respect of any accommodation provided by his employer is considered as "perquisite" chargeable to tax in the hands of the employee.

(ii) Rule 3(1) of the Income-tax Rules provides the basis of valuation of perquisites in respect of accommodation provided to an employee, as under:

(a) 15% of salary in cities having population exceeding 25 lakh
(b) 10% of salary in cities having population above 10 lakh up to 25 lakh
(c) 7.5% of salary in cities having population up to 10 lakh.

(iii) In case of furnished accommodation provided by an employer, the value arrived as above was to be further increased by 10 per cent of the cost of furniture, where the same is owned by the employer, or the actual hire charges paid by the employer in case the furniture is hired.

(iv) This method of perquisite valuation resulted in genuine hardship to employees availing facility of residential accommodation in remote areas, as the value of perquisite was determined as a percentage of salary of the employee, irrespective of the fair rental value of the property (which may be much lower than 15%/10%/7.5% of salary in such cases).
(v) Rule 3(1) was challenged as *ultra vires* before the Supreme Court in the case of *Arun Kumar v. UOl (2006) 286 ITR 89*. The Apex court, while holding that the provisions of Rule 3(1) were constitutionally valid, observed that the same would be applicable only if 'concession in the matter of rent' with respect to the accommodation provided by an employer accrues to the employee under the substantive provisions of section 17(2)(ii). The Assessing Officer, before applying Rule 3(1), was required to establish that there was 'concession in the matter of rent' provided to the employee.

(vi) Further, as per the Apex court, the difference between the value as per Rule 3(1) and the rent recovered from the employee, could not per se be considered as ‘concession in the matter of rent’ provided to the employee.

(vii) In order to clarify the correct intent of law, Explanations have been inserted in section 17(2)(ii) to provide that the difference between the specified rate (as shown in column 2 of the table below) and the amount of rent recoverable/recovered from the employee would be deemed to be the concession in the matter of rent in case of accommodation owned by the employer. In case of accommodation taken on lease or rent by the employer, the difference between the actual lease rent or 15% of salary, whichever is lower, and rent recovered/recoverable from the employee would be deemed to be the concession in the matter of rent.

<table>
<thead>
<tr>
<th>(1) Type of accommodation</th>
<th>(2) Deemed concession in the matter of Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation owned by the employer</td>
<td></td>
</tr>
<tr>
<td>In cities having a population exceeding 25 lakh</td>
<td>15% of salary minus rent recoverable from the employee.</td>
</tr>
<tr>
<td>In cities having a population exceeding 10 lakh but not exceeding 25 lakh</td>
<td>10% of salary minus rent recoverable from the employee.</td>
</tr>
<tr>
<td>In other cities</td>
<td>7½% of salary minus rent recoverable from employee.</td>
</tr>
<tr>
<td>Accommodation taken on lease by the employer</td>
<td>Rent paid by the employer or 15% of salary, whichever is lower, minus rent recoverable from the employee.</td>
</tr>
</tbody>
</table>

(viii) This deeming provision is applicable to employees other than Government employees. In case of furnished accommodation provided to such employees, the excess of hire charges paid or 10% p.a. of cost of furniture, as the case may be, over and above the charges paid or payable by the employee would be added to the value determined in column (2) above for determining whether there is a concession in the matter of rent.

**Note – Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.**

(ix) “Salary” includes pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called, from one or more employers, as the case may be. However, it does not include the following, namely—

(1) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned;
(2) employer’s contribution to the provident fund account of the employee;

(3) allowances which are exempted from the payment of tax;

(4) value of the perquisites specified in section 17(2);

(5) any payment or expenditure specifically excluded under the proviso to section 17(2) i.e., medical expenditure/payment of medical insurance premium specified therein.

(x) In case of Government employees, the excess of licence fees determined by the employer as increased by the value of furniture and fixture over and above the rent recovered/recoverable from the employee and the charges paid or payable for furniture by the employee would be deemed to be the concession in the matter of rent.

(c) The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases (i.e. in case of specified employees):

(i) by a company to an employee in which he is a director;

(ii) by a company to an employee being a person who has substantial interest in the company (i.e. 20% or more of the voting rights of the company);

(iii) by any employer (including a company) to an employee to whom the provisions of (i) & (ii) do not apply and whose income under the head ‘salaries’ (whether due from, or paid or allowed by, one or more employers) exclusive of the value of all benefits or amenities not provided for by way of monetary benefits exceeds ` 50,000 [Section 17(2)(iii)];

(d) Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee [Section 17(2)(iv)];

(e) Any sum payable by the employer whether directly or through a fund, other than a recognised provident fund or approved superannuation fund or deposit-linked insurance fund to effect an assurance on the life of the assessee or to effect a contract for an annuity [Section 17(2)(v)];

(f) the value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer or former employer, free of cost or at concessional rate to the assessee [Section 17(2)(vi)];

Specified security means “securities” as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956. It also includes the securities offered under employees stock option plan or scheme. Sweat equity shares means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

The value of specified security or sweat equity shares shall be the fair market value of such security or shares on the date on which the option is exercised by the assessee, as reduced by any amount actually paid by, or recovered from, the assessee in respect of such security or shares. The fair market value means the value determined in accordance with the method as may be prescribed by the CBDT. “Option” means a right but not an obligation granted to an employee to apply for the specified security or sweat equity shares at a pre-determined price.

(g) the amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds ` 1 lakh [Section 17(2)(vii)];
(h) the value of any other fringe benefit or amenity as may be prescribed by the CBDT [Section 17(2)(viii)].

It can be noted that the aforesaid definition of perquisite is an inclusive one. More terms can be added in.

Types of perquisites: Perquisites may be divided into three broad categories:

1. Perquisites taxable in the case of all employees
2. Perquisites exempt from tax in the case of all employees
3. Perquisites taxable only in the hands of specified employees.

(1) **Perquisites taxable in the case of all employees:** The following perquisites are chargeable to tax in all cases.

   (i) Value of rent-free accommodation provided to the assessee by his employer [Section 17(2)(i)].

      **Exception:** Rent-free official residence provided to a Judge of a High Court or to a Judge of the Supreme Court is not taxable. Similarly, rent-free furnished house provided to an Officer of Parliament, is not taxable.

   (ii) Value of concession in rent in respect of accommodation provided to the assessee by his employer [Section 17(2)(ii)].

   (iii) Amount paid by an employer in respect of any obligation which otherwise would have been payable by the employee [Section 17(2)(iv)]. For example, if a domestic servant is engaged by an employee and the employer reimburses the salary paid to the servant, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. This perquisite will be covered by section 17(2)(iv) and will be taxable in the hands of all employees.

   (iv) Amount payable by an employer directly or indirectly to effect an assurance on the life of the assessee or to effect a contract for an annuity, other than payment made to RPF or approved superannuation fund or deposit-linked insurance fund established under the Coal Mines Provident Fund or Employees’ Provident Fund Act. However, there are schemes like group annuity scheme, employees state insurance scheme and fidelity insurance scheme, under which insurance premium is paid by employer on behalf of the employees. Such payments are not regarded as perquisite in view of the fact that the employees have only an expectancy of the benefit in such schemes.

   (v) the value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer or former employer, free of cost or at concessional rate to the assessee.

   (vi) the amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds `1 lakh.

   (vii) The value of any other fringe benefit or amenity as may be prescribed by the CBDT.

(2) **Perquisites exempt from tax in all cases:** The following perquisites are exempt from tax in all cases -

   (1) Telephone provided by an employer to an employee at his residence;

   (2) Goods sold by an employer to his employees at concessional rates;

   (3) Transport facility provided by an employer engaged in the business of carrying of passengers or goods to his employees either free of charge or at concessional rate;
4) Privilege passes and privilege ticket orders granted by Indian Railways to its employees;

5) Perquisites allowed outside India by the Government to a citizen of India for rendering services outside India;

6) Sum payable by an employer to a RPF or an approved superannuation fund or deposit linked insurance fund established under the Coal Mines Provident Fund or the Employees’ Provident Fund Act;

7) Employer’s contribution to staff group insurance scheme;

8) Leave travel concession;

9) Payment of annual premium by employer on personal accident policy effected by him on the life of the employee;

10) Refreshment provided to all employees during working hours in office premises;

11) Subsidized lunch or dinner provided to an employee;

12) Recreational facilities, including club facilities, extended to employees in general i.e., not restricted to a few select employees;

13) Amount spent by the employer on training of employees or amount paid for refresher management course including expenses on boarding and lodging;

14) Medical facilities subject to certain prescribed limits;

15) Rent-free official residence provided to a Judge of a High Court or the Supreme Court;

16) Rent-free furnished residence including maintenance provided to an Officer of Parliament, Union Minister and a Leader of Opposition in Parliament;

17) Conveyance facility provided to High Court Judges under section 22B of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges under section 23A of the Supreme Court Judges (Conditions of Service) Act, 1958.

(3) **Perquisites taxable only in the hands of specified employees** [Section 17(2)(iii)]: The value of any benefit or amenity granted or provided free of cost or at concessional rate which have not been included in 1 & 2 above will be taxable in the hands of specified employees:

**Specified employees are:**

(i) **Director employee:** An employee of a company who is also a director is a specified employee. It is immaterial whether he is a full-time director or part-time director. It also does not matter whether he is a nominee of the management, workers, financial institutions or the Government. It is also not material whether or not he is a director throughout the previous year.

(ii) **An employee who has substantial interest in the company:** An employee of a company who has substantial interest in that company is a specified employee. A person has a substantial interest in a company if he is a beneficial owner of equity shares carrying 20% or more of the voting power in the company.
**Beneficial and legal ownership:** In order to determine whether a person has a substantial interest in a company, it is the beneficial ownership of equity shares carrying 20% or more of the voting power that is relevant rather than the legal ownership.

**Example:** A, Karta of a HUF, is a registered shareholder of Bright Ltd. The amount for purchasing the shares is financed by the HUF. The dividend is also received by the HUF. Supposing further that A is the director in Bright Ltd., the question arises whether he is a specified employee. In this case, he cannot be called a specified person since he has no beneficial interest in the shares registered in his name. It is only for the purpose of satisfying the statutory requirements that the shares are registered in the name of A. All the benefits arising from the shareholding goes to the HUF. Conversely, it may be noted that an employee who is not a registered shareholder will be considered as a specified employee if he has beneficial interest in 20% or more of the equity shares in the company.

**(iii) Employee drawing in excess of ` 50,000:** An employee other than an employee described in (i) & (ii) above, whose income chargeable under the head ‘salaries’ exceeds ` 50,000 is a specified employee. The above salary is to be considered exclusive of the value of all benefits or amenities not provided by way of monetary payments.

In other words, for computing the limit of ` 50,000, the following items have to be excluded or deducted:

(a) all non-monetary benefits;

(b) monetary benefits which are exempt under section 10. This is because the exemptions provided under section 10 are excluded completely from salaries. For example, HRA or education allowance or hostel allowance are not to be included in salary to the extent to which they are exempt under section 10.

(c) Deduction for entertainment allowance [under section 16(ii)] and deduction toward professional tax [under section 16(iii)] are also to be excluded.

If an employee is employed with more than one employer, the aggregate of the salary received from all employers is to be taken into account in determining the above ceiling limit of ` 50,000, i.e. Salary for this purpose

\[ \text{Salary} = \text{Basic Salary} + \text{D.A.} + \text{Commission}, \text{ whether payable monthly or turnover based} + \text{Bonus} + \text{Fees} + \text{Any other taxable payment} + \text{Any taxable allowances} + \text{Any other monetary benefits} – \text{Deductions under section 16} \]

**Valuation of Perquisites**

The Income-tax Rules, 1962 contain the provisions for valuation of perquisites. It is important to note that only those perquisites which the employee actually enjoys have to be valued and taxed in his hand. For example, suppose a company offers a housing accommodation rent free to an employee but the latter declines to accept it, then the value of such accommodation obviously cannot be evaluated and taxed in the hands of the employees. For the purpose of computing the income chargeable under the head “Salaries”, the value of perquisites provided by the employer directly or indirectly to the employee or to any member of his household by reason of his employment shall be determined in accordance with new Rule 3.

**(1) Valuation of residential accommodation [Sub-rule (1)]** - The value of residential accommodation provided by the employer during the previous year shall be determined in the following manner –

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Circumstances</th>
<th>In case of unfurnished accommodation</th>
<th>In case of furnished accommodation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>(1)</td>
<td>Where the accommodation is provided by the Central Government or any State Government to the employees either holding office or post in connection with the affairs of the Union or of such State</td>
<td>License fee determined by the Central Government or any State Government in respect of accommodation in accordance with the rules framed by such Government as reduced by the rent actually paid by the employee.</td>
<td>The value of perquisite as determined under column (3) and increased by 10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, air-conditioning plant or equipment). If such furniture is hired from a third party, the actual hire charges payable for the same as reduced by any charges paid or payable for the same by the employee during the previous year should be added to the value of the perquisite determined under column (3).</td>
</tr>
<tr>
<td>(2)</td>
<td>Where the accommodation is provided by any other employer (a) where the accommodation is owned by the employer</td>
<td>(i) 15% of salary in cities having Population exceeding 25 lakhs as per 2001 census; (ii) 10% of salary in cities having population exceeding 10 lakhs but not exceeding 25 lakhs as per 2001 census; (iii) 7.5% of salary in other areas, in respect of the period during which the said accommodation was occupied by the employee during the previous year as reduced by the rent, if any, actually paid by the employee.</td>
<td>The value of perquisite as determined under column (3) and increased by 10% per annum of the cost of furniture (including television sets, refrigerators, other household appliances, air-conditioning plant or equipment or other similar appliances or gadgets). If such furniture is hired from a third party, the actual hire charges payable for the same as reduced by any charges paid or payable for the same by the employee during the previous year, should be added to the value of perquisite determined under column (3).</td>
</tr>
<tr>
<td></td>
<td>(b) where the accommodation is taken on lease or rent by the employer.</td>
<td>Actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, as reduced by the rent, if any, actually paid by the employee.</td>
<td>The value of perquisite as determined under column (3) and increased by 10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, air-conditioning plant or equipment or other similar appliances or gadgets). If such furniture is hired from a third party, the actual hire charges payable for the same as reduced by any charges paid</td>
</tr>
<tr>
<td>Sl. No.</td>
<td>Description</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>-------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td>Where the accommodation is provided by any employer, whether Government or any other employer, in a hotel.</td>
<td>Not applicable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>24% of salary paid or payable for the previous year or the actual charges paid or payable to such hotel, which is lower, for the period during which such accommodation is provided as reduced by the rent, if any, actually paid or payable by the employee. However, where the employee is provided such accommodation for a period not exceeding in aggregate fifteen days on his transfer from one place to another, there would be no perquisite.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

1. If an employee is provided with accommodation, on account of his transfer from one place to another, at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower perquisite value, as calculated above, for a period not exceeding 90 days and thereafter, the value of perquisite shall be charged for both such accommodations.

2. Any accommodation provided to an employee working at a mining site or an onshore oil exploration site or a project execution site, or a dam site or a power generation site or an off-shore site would not be treated as a perquisite, provided it satisfies either of the following conditions -

   (i) the accommodation is of temporary nature, has plinth area not exceeding 800 square feet and is located not less than eight kilometers away from the local limits of any municipality or a cantonment board; or

   (ii) the accommodation is located in a remote area i.e. an area that is located at least 40 kms away from a town having a population not exceeding 20,000 based on latest published all-India census.

3. Where the accommodation is provided by the Central Government or any State Government to an employee who is serving on deputation with any body or undertaking under the control of such Government,-

   (i) the employer of such an employee shall be deemed to be that body or undertaking where the employee is serving on deputation; and

   (ii) the value of perquisite of such an accommodation shall be the amount calculated in accordance with Sl. No.(2)(a) of the above table, as if the accommodation is owned by the employer.
(4) “Accommodation” includes a house, flat, farm house or part thereof, or accommodation in a hotel, motel, service apartment, guest house, caravan, mobile home, ship or other floating structure.

(5) “Hotel” includes licensed accommodation in the nature of motel, service apartment or guest house.

**Illustration**

Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai. He gives you the following particulars:

- **Basic salary** `6,000 p.m.
- **Advance salary for April 2014** `5,000
- **Dearness Allowance** `2,000 p.m. (30% is for retirement benefits)
- **Bonus** `1,500 p.m.

Even though the company allotted the house to him on 01.04.2013, he occupied the same only from 01.11.2013. Calculate the taxable value of the perquisite for A.Y. 2014-15.

**Solution**

Value of the rent free unfurnished accommodation

\[
= 15\% \text{ of salary for the relevant period} \\
= 15\% \left( 6000 \times 5 \right) + \left( 2000 \times 30\% \right) \times 5 + \left( 1500 \times 5 \right) \text{ [See Note below]} \\
= 15\% \times 40,500 = `6,075.
\]

**Note:** Since, Mr. C occupies the house only from 01.11.2013, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 01.11.2013 to 31.03.2014) will be considered. Advance salary for April 2014 drawn during this year is not to be considered because it falls in respect of a period beyond the relevant previous year.

**Illustration**

Using the data given in the previous illustration, compute the value of the perquisite if Mr. C is required to pay a rent of `1,000 p.m. to the company, for the use of this accommodation.

**Solution**

First of all, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in cities having a population exceeding `25 lakh, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee.

In this case, 15% of salary would be `6,075 (i.e. 15% of `40,500). The rent paid by the employee is `5,000 (i.e. `1,000 x 5). Since 15% of salary exceeds the rent recovered from the employee, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

\[
\text{Value of the rent free unfurnished accommodation} = `6,075 \\
\text{Less: Rent paid by the employee (`1,000 x 5)} = `5,000 \\
\text{Perquisite value of unfurnished accommodation given at concessional rent} = `1,075
\]

**Illustration**

Using the data given in above illustration, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of `1,200 p.m. and Mr. C is required to pay a rent of `1,000 p.m. to the company, for the use of this accommodation.

**Solution**

Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.
In this case, 15% of salary is `6,075 (i.e. 15% of `40,500). Rent paid by the employer is `6,000 (i.e. `1,200 x 5). The lower of the two is `6,000, which exceeds the rent paid by the employee i.e. `5,000 (`1,000 x 5). Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation [Note 1] = `6,000
Less: Rent paid by the employee (`1,000 x 5) = `5,000
∴ Value of unfurnished accommodation given at concessional rent = `1,000

Note 1: Value of the rent free unfurnished accommodation is lower of
(i) Lease rent paid by the company for relevant period = `1,200 x 5 = `6,000
(ii) 15% of salary for the relevant period (computed earlier) = `6,075

Illustration
Using the data given in above illustration, compute the value of the perquisite if ABC Ltd. Has provided a television (WDV `10,000; Cost `25,000) and two air conditioners. The rent paid by the company for the air conditioners is `400 p.m. each. The television was provided on 01.01.2014. However, Mr. C is required to pay a rent of `1,000 p.m. to the company, for the use of this furnished accommodation.

Solution
Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in a city having a population exceeding `25 lakh, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether there is a concession in the matter of rent.

In this case, 15% of salary is `6,075 (i.e. 15% of `40,500). The rent paid by the employee is `5,000 (i.e. `1,000 x 5). The value of furniture (see Note 1 below) to be added to 15% of salary is `4,625. The deemed concession in the matter of rent is `6,075 + `4,625 - `5,000 = `5,700. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation (computed earlier) = `6,075
Add: Value of furniture provided by the employer [Note 1] = `4,625
Value of rent free furnished accommodation = `10,700
Less: Rent paid by the employee (`1,000 x 5) = `5,000
Value of furnished accommodation given at concessional rent = `5,700

Note 1: Value of the furniture provided = (`400 p.m. x 2 x 5 months) + (`25,000 x 10% p.a. for 3 months) = `4,000 + `625 = `4,625

Illustration
Using the data given in illustration above, compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was `700 p.m.

Solution
In the case of Government employees, the excess of licence fees determined by the employer as increased by the value of furniture and fixture over and above the rent recovered/recoverable from the employee and the charges paid or payable for furniture by the employee would be deemed to be the concession in the matter of rent. Therefore, the deemed concession in the matter of rent is `3,125 [i.e. `3,500 (licence fees: `700 x 5) + `4,625 (Value of furniture) − `5,000 (`1,000 x 5)]. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.
Value of the rent free unfurnished accommodation (\( \text{` 700} \times 5 \)) = \( \text{` 3,500} \)
Add: Value of furniture provided by the employer (computed earlier) = \( \text{` 4,625} \)
Value of rent free furnished accommodation = \( \text{` 8,125} \)
Less: Rent paid by the employee (\( \text{` 1,000} \times 5 \)) = \( \text{` 5,000} \)
Perquisite value of furnished accommodation given at concessional rent = \( \text{` 3,125} \)

(2) Motor Car [Sub-rule (2) of Rule 3] - The value of perquisite by way of use of motor car to an employee by an employer shall be determined in the following manner -

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Circumstances</th>
<th>Where cubic capacity of engine does not exceed 1.6 litres</th>
<th>Where cubic capacity of engine exceeds 1.6 litres</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Where the motor car is owned or hired by the employer and –</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) is used wholly and exclusively in the performance of his official duties</td>
<td>Not a perquisite, provided the documents specified in Note (2) below the table are maintained by the employer.</td>
<td>Not a perquisite, provided the documents specified in Note (2) below the table are maintained by the employer.</td>
</tr>
<tr>
<td></td>
<td>(b) is used exclusively for the private or personal purposes of the employee or any member of his household and the running and maintenance expenses are met or reimbursed by the employer;</td>
<td>Actual amount of expenditure incurred by the employer on the running and maintenance of motor car during the relevant previous year including remuneration, if any, paid by the employer to the chauffeur as increased by the amount representing normal wear and tear of the motor car and as reduced by any amount charged from the employee for such use.</td>
<td>Actual amount of expenditure incurred by the employer on the running and maintenance of motor car during the relevant previous year including remuneration, if any, paid by the employer to the chauffeur as increased by the amount representing normal wear and tear of the motor car and as reduced by any amount charged from the employee for such use.</td>
</tr>
<tr>
<td>(2)</td>
<td>Where the employee owns a motor car but the actual running and maintenance charges (including remuneration of the chauffeur, if any) are met or reimbursed to him by the employer and –</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>such reimbursement is for the use of the vehicle wholly and exclusively for official purposes</td>
<td>Not a perquisite, provided the documents specified in Note (2) below the table are maintained by the employer.</td>
<td>Not a perquisite, provided the documents specified in Note (2) below the table are maintained by the employer.</td>
</tr>
<tr>
<td>(ii)</td>
<td>such reimbursement is for the use of the vehicle partly for official purposes and partly for personal or private purposes of the employee or any member of his household.</td>
<td>The actual amount of expenditure incurred by the employer as reduced by the amount specified in Sl. No. (1)(c)(i) above (Also see note (2) below this table).</td>
<td>The actual amount of expenditure incurred by the employer as reduced by the amount specified in Sl. No. (1)(c)(i) above (Also see note (2) below this table).</td>
</tr>
</tbody>
</table>

### Notes:

1. Where one or more motor-cars are owned or hired by the employer and the employee or any member of his household are allowed the use of such motor-car or all of any of such motor-cars (otherwise than wholly and exclusively in the performance of his duties), the value of perquisite shall be the amount calculated in respect of one car as if the employee had been provided one motor-car for use partly in the performance of his duties and partly for his private or personal purposes and the amount calculated in respect of the other car or cars as if he had been provided with such car or cars exclusively for his private or personal purposes.

2. Where the employer or the employee claims that the motor-car is used wholly and exclusively in the performance of official duty or that the actual expenses on the running and maintenance of the motor-car owned by the employee for official purposes is more than the amounts deductible in Sl. No. 2(ii) or 3(ii) of the above table, he may claim a higher amount attributable to such official use and the value of perquisite in such a case shall be the actual amount of charges met or reimbursed by the employer as reduced by such higher amount attributable to official use of the vehicle provided that the following conditions are fulfilled: -

   (a) the employer has maintained complete details of journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon;

   (b) the employer gives a certificate to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

3. For computing the perquisite value of motor car, the normal wear and tear of a motor-car shall be taken at 10% per annum of the actual cost of the motor-car or cars.
(3) **Valuation of benefit of provision of domestic servants [Sub-rule (3) of Rule 3]**

(i) The value of benefit to the employee or any member of his household resulting from the provision by the employer of the services of a sweeper, a gardener, a watchman or a personal attendant, shall be the actual cost to the employer.

(ii) The actual cost in such a case shall be the total amount of salary paid or payable by the employer or any other person on his behalf for such services as reduced by any amount paid by the employee for such services.

(4) **Valuation of gas, electricity or water supplied by employer [Sub-rule (4) of Rule 3]**

(i) The value of the benefit to the employee resulting from the supply of gas, electric energy or water for his household consumption shall be determined as the sum equal to the amount paid on that account by the employer to the agency supplying the gas, electric energy or water.

(ii) Where such supply is made from resources owned by the employer, without purchasing them from any other outside agency, the value of perquisite would be the manufacturing cost per unit incurred by the employer.

(iii) Where the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value so arrived at.

(5) **Valuation of free or concessional educational facilities [Sub-rule (5) of Rule 3]**

(i) The value of benefit to the employee resulting from the provision of free or concessional educational facilities for any member of his household shall be determined as the sum equal to the amount of expenditure incurred by the employer in that behalf or where the educational institution is itself maintained and owned by the employer or where free educational facilities for such member of employees’ household are allowed in any other educational institution by reason of his being in employment of that employer, the value of the perquisite to the employee shall be determined with reference to the cost of such education in a similar institution in or near the locality.

(ii) Where any amount is paid or recovered from the employee on that account, the value of benefit shall be reduced by the amount so paid or recovered.

(iii) However, where the educational institution itself is maintained and owned by the employer and free educational facilities are provided to the children of the employee or where such free educational facilities are provided in any institution by reason of his being in employment of that employer, there would be no perquisite if the cost of such education or the value of such benefit per child does not exceed ₹1,000 p.m.

(6) **Free or concessional tickets [Sub-rule (6) of Rule 3]** - The value of any benefit or amenity resulting from the provision by an employer who is engaged in the carriage of passengers or goods, to any employee or to any member of his household for personal or private journey free of cost or at concessional fare, in any conveyance owned, leased or made available by any other arrangement by such employer for the purpose of transport of passengers or goods shall be taken to be the value at which such benefit or amenity is offered by such employer to the public as reduced by the amount, if any, paid by or recovered from the employee for such benefit or amenity.

However, there would be no such perquisite to the employees of an airline or the railways.

(7) **Valuation of other fringe benefits and amenities [Sub-rule (7) of Rule 3]** – Section 17(2)(viii) provides that the value of any other fringe benefit or amenity as may be prescribed would be included in the...
definition of perquisite. Accordingly, the following other fringe benefits or amenities are prescribed and the value thereof shall be determined in the manner provided hereunder:

(i) Interest-free or concessional loan [Sub-rule 7(i) of Rule 3]

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

(b) However, no value would be charged if such loans are made available for medical treatment in respect of prescribed diseases (like cancer, tuberculosis, etc.) or where the amount of loans are petty not exceeding in the aggregate ` 20,000.

(c) Further, where the benefit relates to the loans made available for medical treatment referred to above, the exemption so provided shall not apply to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.

(ii) Travelling, touring and accommodation [Sub-rule 7(ii) of Rule 3]

(a) The value 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, other than leave travel concession or assistance, shall be determined as the sum equal to the amount of the expenditure incurred by such employer in that behalf.

(b) Where such facility is maintained by the employer, and is not available uniformly to all employees, the value of benefit shall be taken to be the value at which such facilities are offered by other agencies to the public.

(c) Where the employee is on official tour and the expenses are incurred in respect of any member of his household accompanying him, the amount of expenditure so incurred shall also be a fringe benefit or amenity.

(d) However, where any official tour is extended as a vacation, the value of such fringe benefit shall be limited to the expenses incurred in relation to such extended period of stay or vacation. The amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.

(iii) Free or concessional food and non-alcoholic beverages [Sub-rule 7(iii) of Rule 3]

(a) The value of free food and non-alcoholic beverages provided by the employer to an employee shall be the amount of expenditure incurred by such employer. The amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity:

(b) However, the following would not be treated as a perquisite:
(1) free food and non-alcoholic beverages provided by such employer during working hours at office or business premises or through paid vouchers which are not transferable and usable only at eating joints, to the extent the value thereof either case does not exceed fifty rupees per meal or

(2) tea or snacks provided during working hours or

(3) free food and non-alcoholic beverages during working hours provided in a remote area or an off-shore installation.

(iv) **Value of gift, voucher or token in lieu of such gift [Sub-rule 7(iv) of Rule 3]**

(a) The value of any gift, or voucher, or token in lieu of which such gift may be received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift:

(b) However, if the value of such gift, voucher or token, as the case may be, is below `5,000 in the aggregate during the previous year, the value of perquisite shall be taken as ‘Nil’.

(v) **Credit card expenses [Sub-rule 7(v) of Rule 3]**

(a) The amount of expenses including membership fees and annual fees incurred by the employee or any member of his household, which is charged to a credit card (including any add-on-card) provided by the employer, or otherwise, paid for or reimbursed by such employer shall be taken to be the value of perquisite chargeable to tax as reduced by the amount, if any paid or recovered from the employee for such benefit or amenity.

(b) However, such expenses incurred wholly and exclusively for official purposes would not be treated as a perquisite if the following conditions are fulfilled:

(1) complete details in respect of such expenditure are maintained by the employer which may, inter alia, include the date of expenditure and the nature of expenditure;

(2) the employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

(vi) **Club expenditure [Sub-rule 7(vi) of Rule 3]**

(a) The value of benefit to the employee resulting from the payment or reimbursement by the employer of any expenditure incurred (including the amount of annual or periodical fee) in a club by him or by a member of his household shall be determined to be the actual amount of expenditure incurred or reimbursed by such employer on that account. The amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.

However, where the employer has obtained corporate membership of the club and the facility is enjoyed by the employee or any member of his household, the value of perquisite shall not include the initial fee paid for acquiring such corporate membership.

(b) Further, if such expenditure is incurred wholly and exclusively for business purposes, it would not be treated as a perquisite provided the following conditions are fulfilled:

(1) complete details in respect of such expenditure are maintained by the employer which may, inter alia, include the date of expenditure, the nature of expenditure and its business expediency;
(2) the employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

(c) There would be no perquisite for use of health club, sports and similar facilities provided uniformly to all employees by the employer.

**Use of moveable assets [Sub-rule 7(vii) of Rule 3]** - Value of perquisite is determined as under:

<table>
<thead>
<tr>
<th>Asset given</th>
<th>Value of benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Use of laptops and computers</td>
<td>Nil</td>
</tr>
<tr>
<td>(b) Movable assets, other than</td>
<td></td>
</tr>
<tr>
<td>(i) laptops and computers; and</td>
<td>(i) 10% p.a. of the actual cost of such asset, or</td>
</tr>
<tr>
<td>(ii) assets already specified</td>
<td>(ii) the amount of rent or charge paid, or payable by</td>
</tr>
<tr>
<td></td>
<td>the employer as the case may be</td>
</tr>
</tbody>
</table>

**Note:** Where the employee is paying any amount in respect of such asset, the amount so paid shall be deducted from the value of perquisite determined above.

**Transfer of moveable assets [Sub-rule 7(viii) of Rule 3]** - Value of perquisite is determined as under:

<table>
<thead>
<tr>
<th>Assets transferred</th>
<th>Value of perquisite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers and electronic items</td>
<td>Depreciated value of asset [depreciation is computed @ 50% on WDV for each completed year of usage]</td>
</tr>
<tr>
<td>Motor cars</td>
<td>Depreciated value of asset [depreciation is computed @ 20% on WDV for each completed year of usage]</td>
</tr>
<tr>
<td>Any other asset</td>
<td>Depreciated value of asset [depreciation is computed @ 10% on SLM for each completed year of usage]</td>
</tr>
</tbody>
</table>

**Note:** Where the employee is paying any amount in respect of such asset, the amount so paid shall be deducted from the value of perquisite determined above.

**Other benefit or amenity [Sub-rule 7(ix) of Rule 3]** - The value of any other benefit or amenity, service, right or privilege provided by the employer shall be determined on the basis of cost to the employer under an arms' length transaction as reduced by the employee's contribution, if any. However, there will be no taxable perquisite in respect of expenses on telephones including mobile phone actually incurred on behalf of the employee by the employer i.e., if an employer pays or reimburses telephone bills or mobile phone charges of employee, there will be no taxable perquisite.

**Valuation of specified security or sweat equity share for the purpose of section 17(2)(vi) [Sub-rule (8)]** - The fair market value of any specified security or sweat equity share, being an equity share in a company, on the date on which the option is exercised by the employee, shall be determined in the following manner -

(1) In a case where, on the date of the exercising of the option, the share in the company is listed on a recognized stock exchange, the fair market value shall be the average of the opening price and closing price of the share on that date on the said stock exchange.
However, where, on the date of exercising of the option, the share is listed on more than one recognized stock exchanges, the fair market value shall be the average of opening price and closing price of the share on the recognised stock exchange which records the highest volume of trading in the share.

Further, where on the date of exercising of the option, there is no trading in the share on any recognized stock exchange, the fair market value shall be—

(a) the closing price of the share on any recognised stock exchange on a date closest to the date of exercising of the option and immediately preceding such date; or

(b) the closing price of the share on a recognised stock exchange, which records the highest volume of trading in such share, if the closing price, as on the date closest to the date of exercising of the option and immediately preceding such date, is recorded on more than one recognized stock exchange.

“Closing price” of a share on a recognised stock exchange on a date shall be the price of the last settlement on such date on such stock exchange. However, where the stock exchange quotes both “buy” and “sell” prices, the closing price shall be the “sell” price of the last settlement.

“Opening price” of a share on a recognised stock exchange on a date shall be the price of the first settlement on such date on such stock exchange. However, where the stock exchange quotes both “buy” and “sell” prices, the opening price shall be the “sell” price of the first settlement.

(2) In a case where, on the date of exercising of the option, the share in the company is not listed on a recognised stock exchange, the fair market value shall be such value of the share in the company as determined by a merchant banker on the specified date.

For this purpose, “specified date” means,—

(i) the date of exercising of the option; or

(ii) any date earlier than the date of the exercising of the option, not being a date which is more than 180 days earlier than the date of the exercising.

(9) Valuation of specified security not being an equity share in a company for the purpose of section 17(2)(vi) [Sub-rule (9)] - The fair market value of any specified security, not being an equity share in a company, on the date on which the option is exercised by the employee, shall be such value as determined by a merchant banker on the specified date.

For this purpose, “specified date” means,—

(i) the date of exercising of the option; or

(ii) any date earlier than the date of the exercising of the option, not being a date which is more than 180 days earlier than the date of the exercising.

Definitions for the purpose of perquisite rules - The following definitions are relevant for applying the perquisite valuation rules -

(i) “member of household” shall include-

(a) spouse(s),

(b) children and their spouses,
(c) parents, and
(d) servants and dependants;

(ii) “Salary” includes the pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called from one or more employers, as the case may be, but does not include the following, namely:-

(a) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned;
(b) employer’s contribution to the provident fund account of the employee;
(c) allowances which are exempted from payment of tax;
(d) the value of perquisites specified in clause (2) of section 17 of the Income-tax Act;
(e) any payment or expenditure specifically excluded under proviso to sub-clause (iii) of clause (2) or proviso to clause (2) of section 17;
(f) lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and similar payments;

Illustration
X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y.2013-14 –

(1) Accommodation taken on lease by X Ltd. for `15,000 p.m. `5,000 p.m. is recovered from the salary of Mr. Y.

(2) Furniture, for which the hire charges paid by X Ltd. is `3,000 p.m. No amount is recovered from the employee in respect of the same.

(3) A Santro Car which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

(4) A gift voucher of `10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y.2014-15, assuming his salary for perquisite valuation to be `10 lakh.

Solution
Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2014-15

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of concessional accommodation</td>
<td></td>
</tr>
<tr>
<td>Actual amount of lease rental paid by X Ltd.</td>
<td>1,80,000</td>
</tr>
<tr>
<td>15% of salary i.e., 15% of `10,00,000</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Lower of the above</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Less: Rent paid by Mr. Y (`5,000 × 12)</td>
<td>60,000</td>
</tr>
<tr>
<td>Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y</td>
<td>36,000</td>
</tr>
<tr>
<td>(2) Perquisite value of Santro car owned by X Ltd. And provided to Mr. Y for his personal and official use [(<code>1,800 + </code>900) × 12]</td>
<td>32,400</td>
</tr>
<tr>
<td>(3) Value of gift voucher</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Value of perquisites chargeable to tax</strong></td>
<td><strong>1,68,400</strong></td>
</tr>
</tbody>
</table>

(10) Medical facilities - The following medical facilities will not amount to a perquisite:
(i) The value of any medical treatment provided to an employee or any member of his family in any hospital maintained by the employer;

(ii) Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family in any hospital maintained by the Government/local authority/any other hospital approved by the Government for the purpose of medical treatment of its employees;

(iii) Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family in respect of the prescribed disease or ailments in any hospital approved by the Chief Commissioner having regard to the prescribed guidelines. However, in order to claim this benefit, the employee shall attach with his return of income a certificate from the hospital specifying the disease or ailment for which medical treatment was required and the receipt for the amount paid to the hospital.

Thus, the two types of facilities are covered:
(a) payment by the employer for treatment in a Government hospital and
(b) payment by an employer for treatment of prescribed diseases in any hospital approved by the Chief Commissioner.

(iv) Any premium paid by an employer in relation to an employee to effect an insurance on the health of such employee. However, any such scheme should be approved by the Central Government or the Insurance Regulatory Development Authority (IRDA) for the purposes of section 36(1)(ib).

(v) Any sum paid by the employer in respect of any premium paid by the employee to effect an insurance on his family under any scheme approved by the Central Government for the purposes of section 80D.

(vi) Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family to the extent of ` 15,000 in the previous year.

Note: It is important to note that this expenditure need not be incurred either in the government hospital or in a hospital approved by the Chief Commissioner.

(vii) Any expenditure incurred by the employer on the following:

(a) medical treatment of the employee or any member of the family of such employee outside India;
(b) travel and stay abroad of the employee or any member of the family of such employee for medical treatment;
(c) travel and stay abroad of one attendant who accompanies the patient in connection with such treatment.

Conditions:
1. The perquisite element in respect of expenditure on medical treatment and stay abroad will be exempt only to the extent permitted by the RBI.
2. The expenses in respect of traveling of the patient and the attendant will be exempt if the employee’s gross total income as computed before including the said expenditure does not exceed ` 2 lakh.

Note: For this purpose, family means spouse and children of the individual. Children may be dependent or independent, married or unmarried. It also includes parents, brothers and sisters of the individual if they are wholly or mainly dependent upon him.
Illustration
Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y.2013-14:

Medical premium paid for insuring health of Mr. G \(\text{`7,000}\)
Treatment of Mr. G by his family doctor \(\text{`5,000}\)
Treatment of Mrs. G in a Government hospital \(\text{`25,000}\)
Treatment of Mr. G’s grandfather in a private clinic \(\text{`12,000}\)
Treatment of Mr. G’s mother (68 years and dependant) by family doctor \(\text{`8,000}\)
Treatment of Mr. G’s sister (dependant) in a nursing home \(\text{`3,000}\)
Treatment of Mr. G’s brother (independent) \(\text{`6,000}\)
Treatment of Mr. G’s father (75 years and dependant) abroad \(\text{`50,000}\)
Expenses of staying abroad of the patient and attendant \(\text{`30,000}\)
Limit specified by RBI \(\text{`75,000}\)

Solution

**Computation of taxable value of perquisite in the hands of Mr. G**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment of M’ G in a Government hospital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment of Mr. G’s father (75 years and dependant) abroad</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Expenses of staying abroad of the patient and attendant</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>80,000</td>
</tr>
<tr>
<td>Less : Exempt up to limit specified by RBI</td>
<td>75,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Medical premium paid for insuring health of Mr. G</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment of Mr. G by his family doctor</td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>Treatment of Mr. G’s mother (dependant) by family doctor</td>
<td></td>
<td>8,000</td>
</tr>
<tr>
<td>Treatment of Mr. G’s sister (dependant) in a nursing home</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16,000</td>
</tr>
<tr>
<td>Less: Exempt upto `15,000</td>
<td>15,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Add: Treatment of Mr. G’s grandfather in a private clinic</td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td>Add: Treatment of Mr. G’s brother (independent)</td>
<td></td>
<td>6,000</td>
</tr>
<tr>
<td><strong>Taxable value of perquisite</strong></td>
<td></td>
<td>24,000</td>
</tr>
</tbody>
</table>

Note: Grandfather and independent brother are not included within the meaning of family of Mr. G.

(11) **Payment of premium on personal accident insurance policies** - If an employer takes personal accident insurance policies on the lives of employees and pays the insurance premium, no immediate benefit would become payable and benefit will accrue at a future date only if certain events take place.

Moreover, the employers would be taking such policy in their business interest only, so as to indemnify themselves from payment of any compensation. Therefore, the premium so paid will not constitute a taxable perquisite in the employees’ hands [CIT vs. Lala Shri Dhar [1972] 84 ITR 19 (Del.).]

Deductions from Salary
The income chargeable under the head ‘Salaries’ is computed after making the following deductions:

(1) Entertainment allowance [Section 16(ii)]
(2) Professional tax [Section 16(iii)]

(1) **Entertainment allowance** - Entertainment allowance received is fully taxable and is first to be included in the salary and thereafter the following deduction is to be made:

However deduction in respect of entertainment allowance is available in case of Government employees. The amount of deduction will be lower of:
i. One-fifth of his basic salary or
ii. ` 5,000 or
iii. Entertainment allowance received.

Deduction is permissible even if the amount received as entertainment allowance is not proved to have been spent - *CIT vs. Kamal Devi [1971] 81 ITR 773 (Delhi).*

Amount actually spent by the employee towards entertainment out of the entertainment allowance received by him is not a relevant consideration at all.

**2) Professional tax on employment** - Professional tax or taxes on employment levied by a State under Article 276 of the Constitution is allowed as deduction only when it is actually paid by the employee during the previous year.

If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is first included as salary income and then allowed as a deduction under section 16.

**Illustration**
Mr. Goyal receives the following emoluments during the previous year ending 31.03.2014:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay</td>
<td>40,000</td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>15,000</td>
</tr>
<tr>
<td>Commission</td>
<td>10,000</td>
</tr>
<tr>
<td>Entertainment allowance received</td>
<td>4,000</td>
</tr>
<tr>
<td>Medical expenses reimbursed</td>
<td>25,000</td>
</tr>
<tr>
<td>Professional tax paid</td>
<td>3,000  (2,000 was paid by his employer)</td>
</tr>
</tbody>
</table>

Mr. Goyal contributes ` 5000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2014-15, if Mr. Goyal is a State Government employee.

**Solution**
**Computation of Salary of Mr. Goyal for the A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>40,000</td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>15,000</td>
</tr>
<tr>
<td>Commission</td>
<td>10,000</td>
</tr>
<tr>
<td>Entertainment allowance received</td>
<td>4,000</td>
</tr>
<tr>
<td>Employee’s contribution to RPF [Note]</td>
<td></td>
</tr>
<tr>
<td>Medical expenses reimbursed</td>
<td>25,000</td>
</tr>
<tr>
<td>Less : Exempt medical expenses</td>
<td>15,000</td>
</tr>
<tr>
<td>Professional tax paid by the employer</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Gross Salary</strong></td>
<td>81,000</td>
</tr>
</tbody>
</table>

Less: Deductions under section 16(ii) Entertainment allowance being lower of :

| (a) Allowance received               | 4,000  |
| (b) One fifth of basic salary [1/5 × 40,000] | 8,000  |
| (c) Statutory amount                 | 5,000  |
| - under section 16(iii) Professional tax paid | 3,000  |

**Income from Salary** | 74,000

**Note:** Employee’s contribution to RPF is not taxable. It is eligible for deduction under section 80C.
Leave travel concession [Section 10(5)]
(i) This clause exempts the leave travel concession (LTC) received by employees from their employers for proceeding to any place in India,
   (a) either on leave or
   (b) after retirement from service or
   (c) after termination of his service.

(ii) The benefit is available to individuals - citizens as well as non-citizens - in respect of travel concession or assistance for himself or herself and for his/her family- *i.e.*, spouse and children of the individual and parents, brothers and sisters of the individual or any of them wholly or mainly dependent on the individual.

(iii) Limit of exemption - The exemption in all cases will be limited to the amount actually spent subject to such conditions as specified in Rule 2B regarding the ceiling on the number of journeys for the place of destination.

Under Rule 2B, exemption will be available in respect of 2 journeys performed in a block of 4 calendar years commencing from the calendar year 1986. Where such travel concession or assistance is not availed by the individual during any block of 4 calendar years, one such unavailed LTC will be carried forward to the immediately succeeding block of 4 calendar years and will be eligible for exemption.

Example: An employee does not avail any LTC for the block 2007-10. He avails it during 2011. He is allowed to carry forward maximum one such holiday to be used in the succeeding block. Therefore, he will be eligible for exemption and two more journeys can be further availed.

(iv) Monetary limits
Where the journey is performed on or after the 01.10.1997, the amount exempted under section 10(5) in respect of the value of LTC shall be the amount actually incurred on such travel subject to the following conditions:

1. where it is performed by air, an amount not exceeding the air economy fare of the National Carrier by the shortest route to the place of destination;
2. where places of origin of journey and destination are connected by rail and the journey is performed by any mode of transport other than by air an amount not exceeding the air-conditioned first class rail fare by the shortest route to the place of destination; and
3. where the places of origin of journey and destination or part thereof are not connected by rail, the amount eligible for exemption shall be,—
   (A) where a recognised public transport system exists, an amount not exceeding the 1st class or deluxe class fare, as the case may be, on such transport by the shortest route to the place of destination; and
   (B) where no recognised public transport system exists, an amount equivalent to the air-conditioned first class rail fare, for the distance of the journey by the shortest route, as if the journey had been performed by rail.

Note: The exemption referred to shall not be available to more than two surviving children of an individual after 01.10.1998. This restrictive sub-rule shall not apply in respect of children born before 01.10.1998 and also in case of multiple births after one child.
Illustration
Mr. D went on a holiday on 25.12.2013 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ` 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt.

Solution
Since the son’s age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

Illustration
In the above illustration, will be there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Solution
Since the twins’ age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children.

Taxable LTC $=15,000 \times \frac{1}{3} = ₹ 5,000$

LTC exempt is only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

Income-tax paid by employer [Section 10(10CC)] – This clause provides for exemption in the hands of an employee, being an individual deriving income by way of perquisites, not provided by way of monetary payment within the meaning of section 17(2). This applies where the tax on such income is actually paid by the employer, at the option of the employer, on behalf of such employee, notwithstanding anything contained in section 200 of the Companies Act, 1956.

This provision will provide relief to the employee if the employer is willing to bear the tax burden in respect of non-monetary perquisites provided by it to the employee as otherwise the tax so paid by employer would have been treated as income of the employee.

Deduction under Section 80C
Under the provisions of section 80C, an assessee will be entitled to a deduction from gross total income of the amount invested in LIC policies, provident funds, payment of tuition fees, repayment of housing loans, investment in infrastructure bonds etc. subject to a maximum of ₹ 1,00,000.

Relief under section 89
(1) Where by reason of any portion of an assessee’s salary being paid in arrears or in advance or by reason of his having received in any one financial year, salary for more than twelve months or a payment of profit in lieu of salary under section 17(3), his income is assessed at a rate higher than that at which it would otherwise have been assessed, the Assessing Officer shall, on an application made to him in this behalf, grant such relief as prescribed. The procedure for computing the relief is given in Rule 21A.

(2) Similar tax relief is extended to assessees who receive arrears of family pension as defined in the Explanation to clause (iia) of section 57. For the purpose of clause (iia) of section 57, “family pension” means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death.

(3) No relief shall be granted in respect of any amount received or receivable by an assessee on his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or a scheme of voluntary separation (in the case of a public sector company), if exemption under section
10(10C) in respect of such compensation received on voluntary retirement or termination of his service or voluntary separation has been claimed by the assessee in respect of the same assessment year or any other assessment year.

**Illustration**

In the case of Mr. Hari, aged 61 years, you are informed that the salary for the previous year 2013-14 is ₹10,20,000 and arrears of salary received is ₹3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

<table>
<thead>
<tr>
<th>Previous year</th>
<th>Taxable Salary</th>
<th>Arrears now received (')</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 – 2011</td>
<td>7,10,000</td>
<td>1,03,000</td>
</tr>
<tr>
<td>2011 – 2012</td>
<td>8,25,000</td>
<td>1,17,000</td>
</tr>
<tr>
<td>2012 – 2013</td>
<td>9,50,000</td>
<td>1,25,000</td>
</tr>
</tbody>
</table>

Compute the relief available under section 89 and the tax payable for the A.Y. 2014-15.

**Note:**
- Education cess@2% and secondary and higher education cess@1% is attracted on the income-tax for all the years.

**Solution**

**Computation of tax payable by Mr. Hari for the A.Y 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Incl. arrears of salary</th>
<th>Excl. arrears of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current year salary</td>
<td>10,20,000</td>
<td>10,20,000</td>
</tr>
<tr>
<td>Add: Arrears of salary</td>
<td>3,45,000</td>
<td>-</td>
</tr>
<tr>
<td>Taxable Salary</td>
<td>13,65,000</td>
<td>10,20,000</td>
</tr>
<tr>
<td>Income-tax thereon</td>
<td>2,34,500</td>
<td>1,31,000</td>
</tr>
<tr>
<td>Add: Education cess @ 2% plus secondary and higher education cess @1%</td>
<td>7,035</td>
<td>3,930</td>
</tr>
<tr>
<td><strong>Total payable</strong></td>
<td><strong>2,41,535</strong></td>
<td><strong>1,34,930</strong></td>
</tr>
</tbody>
</table>
Computation of tax payable on arrears of salary if charged to tax in the respective assessment years

<table>
<thead>
<tr>
<th>Particulars</th>
<th>A.Y. 2011-12</th>
<th>A.Y. 2012-13</th>
<th>A.Y. 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Incl. arrears</td>
<td>Excl. arrears</td>
<td>Incl. arrears</td>
</tr>
<tr>
<td>Taxable salary</td>
<td>7,10,000</td>
<td>7,10,000</td>
<td>8,25,000</td>
</tr>
<tr>
<td>Add: Arrears of salary</td>
<td>1,03,000</td>
<td>--</td>
<td>1,17,000</td>
</tr>
<tr>
<td>Taxable salary</td>
<td>8,13,000</td>
<td>7,10,000</td>
<td>9,42,000</td>
</tr>
<tr>
<td>Tax on the above</td>
<td>97,900</td>
<td>76,000</td>
<td>1,34,600</td>
</tr>
<tr>
<td>Add: Education cess</td>
<td>2,937</td>
<td>2,280</td>
<td>4,038</td>
</tr>
<tr>
<td>@ 3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax payable</td>
<td>1,00,837</td>
<td>78,280</td>
<td>1,38,638</td>
</tr>
</tbody>
</table>

Computation of relief under section 89

<table>
<thead>
<tr>
<th>Particulars</th>
<th><code> </code></th>
<th><code> </code></th>
</tr>
</thead>
<tbody>
<tr>
<td>i Tax payable in A.Y. 2014-15 on arrears</td>
<td><code> </code></td>
<td><code> </code></td>
</tr>
<tr>
<td>Tax on income including arrears</td>
<td>2,41,535</td>
<td>1,06,605</td>
</tr>
<tr>
<td>Less : Tax on income excluding arrears</td>
<td>1,34,930</td>
<td></td>
</tr>
<tr>
<td>ii Tax payable in respective years on arrears :</td>
<td><code> </code></td>
<td><code> </code></td>
</tr>
<tr>
<td>Tax on income including arrears (<code>1,00,837 +</code> 1,38,638 + ` 1,51,925)</td>
<td>3,91,400</td>
<td>92,185</td>
</tr>
<tr>
<td>Less: Tax on income excluding arrears (<code>78,280 +</code> 1,02,485 + ` 1,18,450)</td>
<td>2,99,215</td>
<td></td>
</tr>
<tr>
<td>Relief under section 89 - difference between tax on arrears in A.Y 2014-15 and tax on arrears in the respective years</td>
<td>14,420</td>
<td></td>
</tr>
</tbody>
</table>

Tax payable for A.Y 2014-15 after relief under section 89

<table>
<thead>
<tr>
<th>Particulars</th>
<th><code> </code></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income-tax payable on total income including arrears of salary</td>
<td>2,41,535</td>
</tr>
<tr>
<td>Less : Relief under section 89 as computed above</td>
<td>14,420</td>
</tr>
<tr>
<td>Tax payable after claiming relief</td>
<td>2,27,115</td>
</tr>
</tbody>
</table>

Illustration

Mr. X is employed with AB Ltd. on a monthly salary of ` 25,000 per month and an entertainment allowance and commission of ` 1,000 p.m. each. The company provides him with the following benefits:

1. A company owned accommodation is provided to him in Delhi. Furniture costing ` 2,40,000 was provided on 01.08.2013.
2. A personal loan of ` 5,00,000 on 01.07.2013 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest to be 12.75% p.a.)
3. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ` 60,000 on 01.05.2010. The motor cycle was finally sold to him on 01.08.2013 for ` 30,000.
4. Professional tax paid by Mr. X is ` 2,000.

Compute the income from salary of Mr. X for the A.Y.2014-15.

Solution

Computation of Income from Salary of Mr. X for the A.Y.2014-15

<table>
<thead>
<tr>
<th>Particulars</th>
<th><code> </code></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary [ ` 25,000 × 12]</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Commission [ ` 1,000 × 12]</td>
<td>12,000</td>
</tr>
<tr>
<td>Entertainment allowance [ ` 1,000 × 12]</td>
<td>12,000</td>
</tr>
</tbody>
</table>
Income Under The Head Salary 300

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent free accommodation [Note 1]</td>
<td>48,600</td>
</tr>
<tr>
<td>Add : Value of furniture [2,40,000 × 10% p.a. for 8 months]</td>
<td>16,000</td>
</tr>
<tr>
<td>Interest on personal loan [Note 2]</td>
<td>22,500</td>
</tr>
<tr>
<td>Use of motor cycle [60,000 × 10% p.a. for 4 months]</td>
<td>2,000</td>
</tr>
<tr>
<td>Transfer of motor cycle [Note 3]</td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Gross Salary</strong></td>
<td><strong>4,25,100</strong></td>
</tr>
<tr>
<td>Less : Deduction under section 16(iii)</td>
<td></td>
</tr>
<tr>
<td>Professional tax paid</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Income from Salary</strong></td>
<td><strong>4,23,100</strong></td>
</tr>
</tbody>
</table>

**Note 1:** Value of rent free unfurnished accommodation
- 15% of salary for the relevant period
- 15% of (3,00,000 + 12,000 + 12,000) = 48,600

**Note 2:** Value of perquisite for interest on personal loan
- 5,00,000 × (12.75% - 6.75%) for 9 months = 22,500

**Note 3:** Depreciated value of the motor cycle
- Original cost – Depreciation @ 10% p.a. for 3 completed years
- 60,000 – (60,000 × 10% p.a. × 3 years) = 42,000.
- Perquisite = 42,000 – 30,000 = 12,000.

**Question**
An employee instructs his employer to pay a certain portion of his salary to a charity and claims it as exempt as it is diverted by over riding charge / title – Comment.

**Answer**
In the instant case, it is an application of income and in the nature of foregoing of salary. According to the Supreme Court judgment in *CIT v. L.W. Russel (1964) 52 ITR 91*, the salary which has been foregone after its accrual in the hands of the employee is taxable. Hence, the amount paid by the employer to a charity as per the employee’s directions is taxable in the hands of the employee.
Illustration 1: Mr. X is employed in ABC Ltd. since 01.07.2001 in the pay scale of 11,000 – 500 – 14,500 – 900 – 19,900 – 1,100 – 27,600. The employer has paid dearness allowance @ 6% of his basic pay from 01.04.2013 to 30.09.2013 and thereafter dearness allowance was allowed @ 10% of basic pay.

Compute employee’s Tax Liability for Assessment Year 2014-15.

Solution:

Basic Pay [(18,100 x 3) + (19,000 x 9)]

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2001 – 30.06.2002 = 11,000 p.m.</td>
</tr>
<tr>
<td>01.07.2002 – 30.06.2003 = 11,500 p.m.</td>
</tr>
<tr>
<td>01.07.2003 – 30.06.2004 = 12,000 p.m.</td>
</tr>
<tr>
<td>01.07.2004 – 30.06.2005 = 12,500 p.m.</td>
</tr>
<tr>
<td>01.07.2005 – 30.06.2006 = 13,000 p.m.</td>
</tr>
<tr>
<td>01.07.2006 – 30.06.2007 = 13,500 p.m.</td>
</tr>
<tr>
<td>01.07.2007 – 30.06.2008 = 14,000 p.m.</td>
</tr>
<tr>
<td>01.07.2008 – 30.06.2009 = 14,500 p.m.</td>
</tr>
<tr>
<td>01.07.2009 – 30.06.2010 = 15,400 p.m.</td>
</tr>
<tr>
<td>01.07.2010 – 30.06.2011 = 16,300 p.m.</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012 = 17,200 p.m.</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013 = 18,100 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014 = 19,000 p.m.</td>
</tr>
</tbody>
</table>

Dearness Allowance 18,078.00

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>From April to September</td>
</tr>
<tr>
<td>(18,100 x 3) x 6% = 3,258</td>
</tr>
<tr>
<td>(19,000 x 3) x 6% = 3,420</td>
</tr>
<tr>
<td>From October to March</td>
</tr>
<tr>
<td>(19,000 x 6) x 10% = 11,400</td>
</tr>
</tbody>
</table>

Gross Salary 2,43,380.00
Gross Total Income 2,43,380.00
Less: Deduction u/s 80C to 80U Nil
Total Income (Rounded off u/s 288A) 2,43,380.00

Computation of Tax Liability

Tax on `2,43,380 at slab rate 4,338.00
Less: Rebate u/s 87A (`4,338 or `2,000 whichever is less) 2,000.00
Tax before Education cess 2,338.00
Add: Education cess @ 2% 46.76
Add: SHEC @ 1% 23.38
Tax Liability 2,408.14
Rounded off u/s 288B 2,410.00

Illustration 2: Mr. X joins ABC Ltd. on 1st July’ 2004 in the pay scale of 10,000 – 500 – 13,000 – 700 – 16,500 – 1,000 – 25,500. The company has allowed him dearness allowance @ 5% of the basic pay from 01.04.2013 upto 30.06.2013 and thereafter dearness allowance was allowed @ 11% of the basic pay but upto 31.12.2013 and after that dearness allowance was allowed @ 18% of the basic pay.

Compute employee’s Tax Liability for the Assessment Year 2014-15.

Solution:
Income Under The Head Salary

Basic Pay [(14,400 x 3) + (15,100 x 9)]

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>1,79,100.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2004 – 30.06.2005 =</td>
<td>10,000 p.m.</td>
</tr>
<tr>
<td>01.07.2005 – 30.06.2006 =</td>
<td>10,500 p.m.</td>
</tr>
<tr>
<td>01.07.2006 – 30.06.2007 =</td>
<td>11,000 p.m.</td>
</tr>
<tr>
<td>01.07.2007 – 30.06.2008 =</td>
<td>11,500 p.m.</td>
</tr>
<tr>
<td>01.07.2008 – 30.06.2009 =</td>
<td>12,000 p.m.</td>
</tr>
<tr>
<td>01.07.2009 – 30.06.2010 =</td>
<td>12,500 p.m.</td>
</tr>
<tr>
<td>01.07.2010 – 30.06.2011 =</td>
<td>13,000 p.m.</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012 =</td>
<td>13,700 p.m.</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013 =</td>
<td>14,400 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014 =</td>
<td>15,100 p.m.</td>
</tr>
</tbody>
</table>

Dearness Allowance

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>20,280.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>From April to June</td>
<td></td>
</tr>
<tr>
<td>(14,400 x 3) x 5% =</td>
<td>2,160</td>
</tr>
<tr>
<td>From July to December</td>
<td></td>
</tr>
<tr>
<td>(15,100 x 6) x 11% =</td>
<td>9,966</td>
</tr>
<tr>
<td>From January to March</td>
<td></td>
</tr>
<tr>
<td>(15,100 x 3) x 18% =</td>
<td>8,154</td>
</tr>
</tbody>
</table>

Gross Salary 1,99,380.00
Gross Total Income 1,99,380.00
Less: Deduction u/s 80C to 80U Nil
Total Income 1,99,380.00

Tax Liability Nil

Illustration 3: Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m., dearness allowance `7,000 p.m. and half of the dearness allowance forms the part of salary for the purpose of retirement benefits.

The employer has paid bonus @ `500 p.m., commission @ 1% on the sales turnover of `20 lakhs. The employer paid him house rent allowance `6,000 p.m. Employee has paid rent `7,000 p.m. and was posted at Agra.

Compute his Tax Liability for the Assessment Year 2014-15.

Solution:

Computation of Gross Salary

<table>
<thead>
<tr>
<th>Basic Pay (20,000 x 12)</th>
<th>2,40,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dearness Allowance (7,000 x 12)</td>
<td>84,000.00</td>
</tr>
<tr>
<td>Bonus (500 x 12)</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Commission (1% of `20,00,000)</td>
<td>20,000.00</td>
</tr>
<tr>
<td>House rent allowance {Sec 10(13A) Rule 2A}</td>
<td>18,200.00</td>
</tr>
</tbody>
</table>

Working Note:
Least of the following is exempt:
1. `72,000
2. `84,000 – `30,200 = 53,800
3. 40% of retirement benefit salary = `1,20,800
(Retirement benefit salary = 2,40,000 + 42,000 + 20,000 = 3,02,000)
Received = `72,000
Exempt = `53,800
Taxable = `18,200
Income Under The Head Salary

Gross Salary 3,68,200.00
Gross Total Income 3,68,200.00
Less: Deduction u/s 80C to 80U Nil
Total Income 3,68,200.00

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `3,68,200 at slab rate</td>
<td>16,820.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A (16,820 or `2,000 whichever is less)</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Tax before Education cess</td>
<td>14,820.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>296.40</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>148.20</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>15,264.60</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>15,260.00</td>
</tr>
</tbody>
</table>

**Illustration 4:** Compute taxable amount of house rent allowance in the following cases:

<table>
<thead>
<tr>
<th>Name of the employee</th>
<th>Mr. A</th>
<th>Mr. B</th>
<th>Mr. C</th>
<th>Mr. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
</tr>
<tr>
<td>House rent allowance</td>
<td>5,000 p.m.</td>
<td>5,000 p.m.</td>
<td>5,000 p.m.</td>
<td>5,000 p.m.</td>
</tr>
<tr>
<td>Rent paid</td>
<td>1,500 p.m.</td>
<td>12,000 p.m.</td>
<td>14,000 p.m.</td>
<td>Nil</td>
</tr>
<tr>
<td>Place of residence</td>
<td>Delhi</td>
<td>Delhi</td>
<td>Delhi</td>
<td>Delhi</td>
</tr>
</tbody>
</table>

**Solution:**

**Situation 1: (Mr. A)**

**Computation of taxable amount of House rent allowance**

1. House Rent allowance received (5,000 x 12) 60,000
2. Rent paid over 10% of retirement benefit salary (\`18,000 – \`24,000) Nil
3. 50% of retirement benefit salary 1,20,000

(Retirement benefit salary = 2,40,000)

Received 60,000
Exempt Nil
Taxable 60,000

**Situation 2: (Mr. B)**

1. House Rent allowance received (5,000 x 12) 60,000
2. Rent paid over 10% of retirement benefit salary (\`1,44,000 – \`24,000) 1,20,000
3. 50% of retirement benefit salary 1,20,000

(Retirement benefit salary = 2,40,000)

Received 60,000
Exempt 60,000
Taxable Nil

**Situation 3: (Mr. C)**

1. House Rent allowance received (5,000 x 12) 60,000
2. Rent paid over 10% of retirement benefit salary (\`1,68,000 – \`24,000) 1,44,000
3. 50% of retirement benefit salary 1,20,000

(Retirement benefit salary = 2,40,000)

Received 60,000
Exempt 60,000
Taxable Nil

**Situation 4: (Mr. D)**

1. House Rent allowance received (5,000 x 12) 60,000
2. Rent paid over 10% of retirement benefit salary Nil
Income Under The Head Salary

3. 50% of retirement benefit salary  
   (Retirement benefit salary = 2,40,000)  
   Received  
   Exempt  
   Taxable  

Illustartion 5: Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m. but it was increased to `30,000 p.m. w.e.f. 01.09.2013. The employer was paying him house rent allowance `6,000 p.m but it was decreased to `3,000 p.m. w.e.f. 01.11.2013. The employee was paying rent `4,000 p.m but it was increased to `7,000 p.m. w.e.f. 01.12.2013. The employee was posted at Amritsar but was transferred to Calcutta w.e.f. 01.02.2014. The employee has resigned w.e.f. 01.03.2014.

Compute his Tax Liability for the Assessment Year 2014-15.

Solution:

Basic Pay [(20,000 x 5) + (30,000 x 6)]  
House rent allowance (Sec 10(13A) Rule 2A)  

Working Note:

Least of the following is exempt:

From April to August
1. `30,000
2. `20,000 – `10,000 = `10,000
3. 40% of retirement benefit salary = `40,000
   (Retirement benefit salary = `1,00,000)
   Received = `30,000
   Exempt = `10,000
   Taxable = `20,000

From September to October

Least of the following is exempt:
1. `12,000
2. `8,000 – `6,000 = `2,000
3. 40% of retirement benefit salary = `24,000
   (Retirement benefit salary = `60,000)
   Received = `12,000
   Exempt = `2,000
   Taxable = `10,000

For November

Least of the following is exempt:
1. `3,000
2. `4,000 – `3,000 = `1,000
3. 40% of retirement benefit salary = `12,000
   (Retirement benefit salary = `30,000)
   Received = `3,000
   Exempt = `1,000
   Taxable = `2,000

From December to January

Least of the following is exempt:
1. `6,000
2. `14,000 – `6,000 = `8,000
3. 40% of retirement benefit salary = `24,000
   (Retirement benefit salary = `60,000)
   Received = `6,000
Exempt = `6,000
Taxable = Nil

For February

**Least of the following is exempt:**
1. `3,000
2. `7,000 – `3,000 = `4,000
3. 50% of retirement benefit salary = `15,000
   (Retirement benefit salary = `30,000)
Received = `3,000
Exempt = `3,000
Taxable = Nil
Total = 20,000 + 10,000 + 2,000 + Nil + Nil = `32,000

Gross Salary 3,12,000
Gross Total Income 3,12,000
Less: Deduction u/s 80C to 80U Nil
Total Income 3,12,000

**Computation of Tax Liability**
Tax on `3,12,000 at slab rate 11,200.00
Less: Rebate u/s 87A (`11,200 or `2,000 whichever is less) 2,000.00
Tax before Education cess 9,200.00
Add: Education cess @ 2% 184.00
Add: SHEC @ 1% 92.00
Tax Liability 9,476.00
Rounded off u/s 288B 9,480.00

**Illustration 6:** Mr. X is employed in Central Government getting basic pay `18,000 p.m., dearness allowance `6,000 p.m. Employer has paid children education allowance `700 p.m. per child w.e.f. 01.09.2013 and hostel allowance of `1,000 p.m. for one child w.e.f. 01.10.2013.

Employer has paid transport allowance `900 p.m. w.e.f. 01.11.2013. Employer has paid house rent allowance `5,000 p.m. w.e.f 01.01.2014.

The employee has resigned from 01.02.2014 and has taken up a new job w.e.f. 01.03.2014. He is getting basic pay `27,000 p.m. and house rent allowance `4,000 p.m.

Compute his Tax Liability for the Assessment Year 2014-15.

**Solution:**
Basic Pay [(18,000 x 10) + (27,000 x 1)] 2,07,000.00
Dearness Allowance (6,000 x 10) 60,000.00
House rent allowance {Sec 10(13A) Rule 2A} 9,000.00

**Working Note:**
For January
Least of the following is exempt:
1. `5,000
2. Nil
3. 40% of retirement benefit salary = `7,200
   (Retirement benefit salary = `18,000)
Received = `5,000
Exempt = Nil
Taxable = `5,000
For March

**Least of the following is exempt:**

1. `4,000
2. Nil
3. 40% of retirement benefit salary = `10,800
   (Retirement benefit salary = `27,000)
   Received = `4,000
   Exempt = Nil
   Taxable = `4,000
   Total = `5,000 + `4,000 = `9,000

**Children Education Allowance {Sec 10(14) Rule 2BB}**

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>3,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = `700 x 5 x 1 =</td>
<td>3,500</td>
</tr>
<tr>
<td>Exempt = `100 x 5 x 1 =</td>
<td>500</td>
</tr>
<tr>
<td>Taxable =</td>
<td>3,000</td>
</tr>
</tbody>
</table>

**Hostel Allowance {Sec 10(14) Rule 2BB}**

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>2,800.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = `1,000 x 4 x 1 =</td>
<td>4,000</td>
</tr>
<tr>
<td>Exempt = `300 x 4 x 1 =</td>
<td>1,200</td>
</tr>
<tr>
<td>Taxable =</td>
<td>2,800</td>
</tr>
</tbody>
</table>

**Transport Allowance {Sec 10(14) Rule 2BB}**

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>300.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = `900 x 3 =</td>
<td>2,700</td>
</tr>
<tr>
<td>Exempt = `800 x 3 =</td>
<td>2,400</td>
</tr>
<tr>
<td>Taxable =</td>
<td>300</td>
</tr>
</tbody>
</table>

**Gross Salary**

2,82,100.00

**Gross Total Income**

2,82,100.00

Less: Deduction u/s 80C to 80U

Nil

**Total Income**

2,82,100.00

**Computation of Tax Liability**

Tax on `2,82,100 at slab rate

8,210.00

Less: Rebate u/s 87A (`8,210 or `2,000 whichever is less)

2,000.00

Tax before Education cess

6,210.00

Add: Education cess @ 2%

124.20

Add: SHEC @ 1%

62.10

Tax Liability

6,396.30

Rounded off u/s 288B

6,400.00

**Illustration 7:** Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m. and employer has paid him following allowances.

1. Servant allowance `500 p.m. but the employee has saved `100 p.m.
2. Lunch allowance `300 p.m.
3. Split duty allowance `300 p.m.
4. Project allowance `1,000 p.m.
5. Regularity allowance `300 p.m.
6. Cash allowance `500 p.m.
7. Overtime allowance `400 p.m.
8. Outstation allowance `700 p.m.
9. Transport allowance `900 p.m.
Income Under The Head Salary

10. Conveyance allowance (personal use) `200 p.m.
11. Officiating allowance `300 p.m.
12. Deputation allowance `150 p.m.


**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (20,000 x 12)</td>
<td>2,40,000</td>
</tr>
<tr>
<td>Servant Allowance (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Lunch Allowance (300 x 12)</td>
<td>3,600</td>
</tr>
<tr>
<td>Split Duty Allowance (300 x 12)</td>
<td>3,600</td>
</tr>
<tr>
<td>Project Allowance (1,000 x 12)</td>
<td>12,000</td>
</tr>
<tr>
<td>Regularity Allowance (300 x 12)</td>
<td>3,600</td>
</tr>
<tr>
<td>Cash Allowance (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Overtime Allowance (400 x 12)</td>
<td>4,800</td>
</tr>
<tr>
<td>Outstation Allowance (700 x 12)</td>
<td>8,400</td>
</tr>
<tr>
<td>Transport Allowance [(900 – 800) x 12]</td>
<td>1,200</td>
</tr>
<tr>
<td>Conveyance Allowance (200 x 12)</td>
<td>2,400</td>
</tr>
<tr>
<td>Officiating Allowance (300 x 12)</td>
<td>3,600</td>
</tr>
<tr>
<td>Deputation Allowance (150 x 12)</td>
<td>1,800</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>2,97,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>2,97,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,97,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on `2,97,000 at slab rate: 9,700
- Less: Rebate u/s 87A (`9,700 or `2,000 whichever is less): 2,000
- Tax before Education cess: 7,700
- Add: Education cess @ 2%: 154
- Add: SHEC @ 1%: 77
- Tax Liability: 7,931
- Rounded off u/s 288B: 7,930

**Illustration 8:** Mr. X is employed in Central Government getting basic pay `11,000 p.m., dearness allowance `5,000 p.m., House rent allowance `4,000 p.m. w.e.f. 01.07.2013. However, employee is residing in the house of his parents. Employer has paid cash allowance `300 p.m., medical allowance `250 p.m. and entertainment allowance `400 p.m. Employer has paid professional tax `75 p.m. on behalf of the employee.

Employee has saved `35 p.m. out of entertainment allowance. Employee is a member of a club and is paying a membership fee of `300 p.m.

Compute employee’s income under the head Salary and Tax Liability for the Assessment Year 2014-15.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (11,000 x 12)</td>
<td>1,32,000.00</td>
</tr>
<tr>
<td>Dearness allowance (5,000 x 12)</td>
<td>60,000.00</td>
</tr>
<tr>
<td>House rent allowance {Sec 10(13A) Rule 2A}</td>
<td>36,000.00</td>
</tr>
</tbody>
</table>

**Working Note:**

**Least of the following is exempt:**

1. `36,000
2. Nil
3. 40% of retirement benefit salary = `39,600
(Retirement benefit salary = `99,000)  
Received = `36,000  
Exempt = Nil  
Taxable = `36,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Allowance (300 x 12)</td>
<td>3,600.00</td>
</tr>
<tr>
<td>Medical Allowance (250 x 12)</td>
<td>3,000.00</td>
</tr>
<tr>
<td>Entertainment Allowance (400 x 12)</td>
<td>4,800.00</td>
</tr>
<tr>
<td>Professional tax paid by employer (75 x 12)</td>
<td>900.00</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>2,40,300.00</td>
</tr>
<tr>
<td>Less: 16(ii) Entertainment Allowance</td>
<td>4,800.00</td>
</tr>
</tbody>
</table>

**Working Note:**  
Least of the following is deductible:  
1. Entertainment allowance received `4,800  
2. `5,000  
3. 20% of `1,32,000 = `26,400

Less: 16(iii) Professional Tax  
Income under the head Salary  
Gross Total Income  
Less: Deduction u/s 80C to 80U  
Total Income

**Computation of Tax Liability**

Tax on `2,34,600 at slab rate  
Less: Rebate u/s 87A (`3,460 or `2,000 whichever is less)  
Tax before Education cess  
Add: Education cess @ 2%  
Add: SHEC @ 1%  
Tax Liability  
Rounded off u/s 288B

**Illustration 9:** Mr. X is employed in ABC Ltd. getting gross salary `1,20,000, but it is increased to `1,90,000 in previous year 2013-14 w.e.f. previous year 2012-13.

Compute Tax Liability and relief under section 89.

**Tax Rate of Previous Year 2012-13 for individual**

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>If total income is upto `2,00,000</td>
<td>NIL</td>
</tr>
<tr>
<td>On next `3,00,000</td>
<td>10%</td>
</tr>
<tr>
<td>On next `5,00,000</td>
<td>20%</td>
</tr>
<tr>
<td>On Balance amount</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Solution:**

Step 1. **Previous Year 2013–14**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>1,90,000</td>
</tr>
<tr>
<td>Add: Arrears for previous year 2012-13</td>
<td>70,000</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>2,60,000</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>2,60,000</td>
</tr>
<tr>
<td>Tax before education cess</td>
<td>6,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>2,000</td>
</tr>
<tr>
<td>Tax before Education cess</td>
<td>4,000</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>80</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>40</td>
</tr>
</tbody>
</table>
### Income Under The Head Salary

| Tax Liability | 4,120 |

**Step 2. Previous Year 2013–14**

- **Salary**: 1,90,000
- **Gross Salary**: 1,90,000
- **Income under the head Salary**: 1,90,000
- **Tax Liability**: Nil

**Step 3. Difference between Step 1 and Step 2**

| 4,120 |

**Step 4. Previous Year 2012–13**

- **Salary**: 1,20,000
- **Add: Arrears**: 70,000
- **Gross Salary**: 1,90,000
- **Income under the head Salary**: 1,90,000
- **Tax Liability**: Nil

**Step 5. Previous Year 2012–13**

- **Salary**: 1,20,000
- **Gross Salary**: 1,20,000
- **Income under the head Salary**: 1,20,000
- **Tax Liability**: Nil

**Step 6. Difference between Step 4 and Step 5**

| Nil |

**Step 7. Relief under section 89 Step 3 – Step 6**

- **Tax after adjusting relief u/s 89 [4,120 – 4,120]**
  - Nil

**Illustration 10:** Mr. X joined ABC Ltd. on 01.07.2006 in the pay scale of 21,000 – 1,200 – 28,200 – 1,400 – 39,400 – 1,600 – 49,000. The employer has allowed him 3 increments in advance at the time of joining. The employee’s salary is due on the 1st of next month.

Employee was allowed dearness allowance @ `7,000 p.m., during the previous year 2012-13 and @ `9,000 p.m. in 2013-14. The employee has resigned w.e.f. 01.03.2014. The employee was allowed pension @ `9,000 p.m. and his pension is due on the last day of the month.

Compute Tax Liability for the Assessment Year 2014-15.

**Solution:**

**Computation of income under the head Salary**

| Basic Pay [(32,400 x 4) + (33,800 x 8)] | 4,00,000 |

| **Working Note:** |
| 01.07.2006 – 30.06.2007 = | 24,600 p.m. |
| 01.07.2007 – 30.06.2008 = | 25,800 p.m. |
| 01.07.2008 – 30.06.2009 = | 27,000 p.m. |
| 01.07.2009 – 30.06.2010 = | 28,200 p.m. |
| 01.07.2010 – 30.06.2011 = | 29,600 p.m. |
| 01.07.2011 – 30.06.2012 = | 31,000 p.m. |
| 01.07.2012 – 30.06.2013 = | 32,400 p.m. |
| 01.07.2013 – 30.06.2014 = | 33,800 p.m. |

| Dearness allowance [(7,000 x 1) + (9,000 x 11)] | 1,06,000 |
| Pension | 9,000 |
| Gross Salary | 5,15,000 |
Income under the head Salary 5,15,000
Gross Total Income 5,15,000
Less: Deduction u/s 80C to 80U Nil
Total Income 5,15,000

**Computation of Tax Liability**
Tax on `5,15,000 at slab rate 33,000
Add: Education cess @ 2% 660
Add: SHEC @ 1% 330
Tax Liability 33,990

**Illustration 11:** Mr. X is employed in Central Government getting basic pay `73,000 p.m. Employer has provided him rent free accommodation and the rent determined as per Government rules is `6,000 p.m. The employer has provided him furniture with actual cost `1,00,000 and written down value `65,000. The employer has provided one air-conditioner also during April and May’ 2013. Rent paid by the employer for the air-conditioner is `1,000 p.m.

Compute employee’s Tax Liability for the Assessment Year 2014-15.

**Solution:**
Basic Pay (73,000 x 12) 8,76,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)} 84,000

**Working Note:**
Perquisite value of unfurnished house (6,000 x 12) 72,000
Add: 10% of cost of furniture (1,00,000 x 10%) 10,000
Add: Rent of air-conditioner (1,000 x 2) 2,000
Perquisite value of furnished house 84,000

Gross Salary 9,60,000
Income under the head Salary 9,60,000
Gross Total Income 9,60,000
Less: Deduction u/s 80C to 80U Nil
Total Income 9,60,000

**Computation of Tax Liability**
Tax on `9,60,000 at slab rate 1,22,000
Add: Education cess @ 2% 2,440
Add: SHEC @ 1% 1,220
Tax Liability 1,25,660

**Illustration 12:** Mr. X is employed in ABC Ltd. getting basic pay `37,000 p.m., dearness allowance `32,000 p.m. The employer has provided him rent free accommodation at a place with population of 13 lakhs and the rent paid by the employer is `10,000 p.m. The employer has provided him furniture with original cost `1,50,000. However, the employer has discontinued the facility of rent free accommodation and furniture both w.e.f. 1st March, 2014. He has paid him house rent allowance `7,000 p.m. The employee has shifted in his own house w.e.f. 01.03.2014.

Compute Tax Liability for the Assessment Year 2014-15.

(b) Presume in the above illustration the accommodation is owned by the employer.

**Solution:**
Basic Pay (37,000 x 12) 4,44,000.00
Dearness allowance (32,000 x 12) 3,84,000.00
### Working Note:

**Rent free accommodation {Sec 17(2)(i) Rule 3(1)}**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent free accommodation Salary</td>
<td>4,07,000</td>
</tr>
<tr>
<td>15% of rent free accommodation salary</td>
<td>61,050</td>
</tr>
<tr>
<td>Rent Paid = 10,000 x 11</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Value of unfurnished house</td>
<td>61,050</td>
</tr>
<tr>
<td>Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)</td>
<td>13,750</td>
</tr>
<tr>
<td>Perquisite value of furnished house</td>
<td>74,800</td>
</tr>
</tbody>
</table>

**Working Note:**

```
15% of rent free accommodation salary or rent paid whichever is less.
Rent free accommodation Salary (37,000 x 11)  4,07,000
15% of rent free accommodation salary  61,050
Rent Paid = 10,000 x 11  1,10,000
Value of unfurnished house  61,050
Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)  13,750
Perquisite value of furnished house  74,800
```

### Working Note:

**Least of the following is exempt:**

1. `7,000
2. Nil
3. 40% of retirement benefit salary = `14,800

(Retirement benefit salary = `37,000)

Received = `7,000

Exempt = Nil

Taxable = `7,000

---

### Computation of Tax Liability

Tax on `9,09,800 at slab rate  1,11,960.00
Add: Education cess @ 2%  2,239.20
Add: SHEC @ 1%  1,119.60
Tax Liability  1,15,318.80
Rounded off u/s 288B  1,15,320.00

---

### Solution (b):

Basic Pay (37,000 x 12)  4,44,000.00
Dearness allowance (32,000 x 12)  3,84,000.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}  54,450.00

**Working Note:**

```
10% of rent free accommodation salary
Rent free accommodation Salary (37,000 x 11)  4,07,000
10% of rent free accommodation salary  40,700
Value of unfurnished house  40,700
Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)  13,750
Perquisite value of furnished house  54,450
```

**Working Note:**

**Least of the following is exempt:**

1. `7,000
2. Nil
3. 40% of retirement benefit salary = `14,800

(Retirement benefit salary = `37,000)

Received = `7,000

Exempt = Nil

---

Income Under The Head Salary  311

Rent free accommodation {Sec 17(2)(i) Rule 3(1)}  74,800.00

---

**Working Note:**

```
15% of rent free accommodation salary or rent paid whichever is less.
Rent free accommodation Salary (37,000 x 11)  4,07,000
15% of rent free accommodation salary  61,050
Rent Paid = 10,000 x 11  1,10,000
Value of unfurnished house  61,050
Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)  13,750
Perquisite value of furnished house  74,800
```

House rent allowance {Sec 10(13A) Rule 2A}  7,000.00
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Taxable  = `7,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary 8,89,450.00</td>
</tr>
<tr>
<td>Income under the head Salary 8,89,450.00</td>
</tr>
<tr>
<td>Gross Total Income 8,89,450.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U Nil</td>
</tr>
<tr>
<td>Total Income 8,89,450.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

Tax on `8,89,450 at slab rate 1,07,890.00
Add: Education cess @ 2% 2,157.80
Add: SHEC @ 1% 1,078.90
Tax Liability 1,11,126.70
Rounded off u/s 288B 1,11,130.00

**Illustration 13:** Compute tax liability in the following situations:

<table>
<thead>
<tr>
<th>Name of the Employee</th>
<th>Mr. A</th>
<th>Mr. B</th>
<th>Mr. C</th>
<th>Mr. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
</tr>
<tr>
<td>Accommodation provided by the employer</td>
<td>Owned by the employer</td>
<td>Owned by the employer</td>
<td>Owned by the employer</td>
<td>Hired by the employer</td>
</tr>
<tr>
<td>Rent paid by the employer</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>4,000 p.m.</td>
</tr>
<tr>
<td>Population of the place</td>
<td>10 lakhs</td>
<td>25 lakhs</td>
<td>35 lakhs</td>
<td>10 lakhs</td>
</tr>
<tr>
<td>Rent recovered from the employee</td>
<td>500 p.m.</td>
<td>500 p.m.</td>
<td>500 p.m.</td>
<td>500 p.m.</td>
</tr>
</tbody>
</table>

**Solution:**

**Computation of Tax Liability**

**Situation 1 (Mr. A):**

Basic Salary (20,000 x 12) 2,40,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)} 12,000

**Working Note:**

Rent free accommodation Salary 2,40,000
7.5% of rent free accommodation salary 18,000
Value of unfurnished house 18,000
Less: Amount recovered from the employee (500 x 12) 6,000
Perquisite value of accommodation at concessional rent 12,000

Gross Salary 2,52,000
Income under the head Salary 2,52,000
Tax on `2,52,000 at slab rate 5,200
Less: Rebate u/s 87A (`5,200 or `2,000 whichever is less) 2,000
Tax before Education cess 3,200
Add: Education cess @ 2% 64
Add: SHEC @ 1% 32
Tax Liability 3,296
Rounded off u/s 288B 3,300

**Situation 2 (Mr. B):**

Basic Salary (20,000 x 12) 2,40,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)} 18,000

**Working Note:**

Rent free accommodation Salary 2,40,000
### Situation 3 (Mr. C):

Basic Salary (20,000 x 12) 2,40,000  
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)} 30,000

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent free accommodation Salary</td>
<td>2,40,000</td>
</tr>
<tr>
<td>15% of rent free accommodation salary</td>
<td>36,000</td>
</tr>
<tr>
<td>Value of unfurnished house</td>
<td>36,000</td>
</tr>
<tr>
<td>Less: Amount recovered from the employee (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Perquisite value of accommodation at concessional rent</td>
<td>30,000</td>
</tr>
</tbody>
</table>

| Gross Salary | 2,70,000 |
| Income under the head Salary | 2,70,000 |
| Tax on `2,70,000 at slab rate | 7,000 |
| Less: Rebate u/s 87A (`7,000 or `2,000 whichever is less) | 2,000 |
| Tax before Education cess | 5,000 |
| Add: Education cess @ 2% | 100 |
| Add: SHEC @ 1% | 50 |
| Tax Liability | 5,150 |

### Situation 4 (Mr. D):

Basic Salary (20,000 x 12) 2,40,000  
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)} 30,000

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent paid or 15% of rent free accommodation salary whichever is less</td>
<td></td>
</tr>
<tr>
<td>Rent free accommodation Salary</td>
<td>2,40,000</td>
</tr>
<tr>
<td>15% of rent free accommodation salary</td>
<td>36,000</td>
</tr>
<tr>
<td>Rent paid (4,000 x 12)</td>
<td>48,000</td>
</tr>
<tr>
<td>Value of unfurnished house</td>
<td>36,000</td>
</tr>
<tr>
<td>Less: Amount recovered from the employee (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Perquisite value of accommodation at concessional rent</td>
<td>30,000</td>
</tr>
</tbody>
</table>

| Gross Salary | 2,70,000 |
| Income under the head Salary | 2,70,000 |
| Tax on `2,70,000 at slab rate | 7,000 |
| Less: Rebate u/s 87A (`7,000 or `2,000 whichever is less) | 2,000 |
| Tax before Education cess | 5,000 |
| Add: Education cess @ 2% | 100 |
| Add: SHEC @ 1% | 50 |
| Tax Liability | 5,150 |
**Illustration 14:** Mr. X is employed in ABC Ltd. getting basic pay `15,000 p.m. and the employee has paid professional tax `200 p.m. and the employer has provided him motor car for official as well as personal use and its engine capacity is 1.2 litres and it is a chauffeur driven car and all expenses are met by the employer himself. However, the employer has recovered `100 p.m. from the employee for use of motor car.

Compute Tax Liability for the Assessment Year 2014-15.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (15,000 x 12)</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Motor Car {Sec 17(2)(iii) Rule 3(2)} [(1,800 + 900) x 12]</td>
<td>32,400</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>2,12,400</td>
</tr>
<tr>
<td>Less: 16(iii) Professional Tax</td>
<td>2,400</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>2,10,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `2,10,000 at slab rate</td>
<td>1,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A (<code>1,000 or </code>2,000 whichever is less)</td>
<td>1,000</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Illustration 15:** Mr. X is employed in ABC Ltd. getting basic pay `22,000 p.m. Employer has paid professional tax of `75 p.m. on behalf of the employee and employee himself has paid professional tax of `25 p.m. The employer has provided him rent free accommodation which is owned by the employer himself and it is provided at a place with population of 5,00,000.

The employer has provided him three motor cars for official as well as personal use with particulars as given below:

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual cost</td>
<td>4,00,000</td>
<td>3,00,000</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Engine capacity</td>
<td>1.8 litres</td>
<td>1.6 litres</td>
<td>1.4 litres</td>
</tr>
<tr>
<td>Petrol expenses</td>
<td>3,000</td>
<td>10,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Repairs</td>
<td>5,000</td>
<td>4,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Driver</td>
<td>4,000 p.m.</td>
<td>3,000 p.m.</td>
<td>3,000 p.m.</td>
</tr>
</tbody>
</table>

All the expenses met by the employer himself. Employee has income from gambling activities `11,000 and also he has long-term capital gains `5,000. Compute his Tax Liability for the Assessment Year 2014-15.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (22,000 x 12)</td>
<td>2,64,000.00</td>
</tr>
<tr>
<td>Professional Tax paid by employer (75 x 12)</td>
<td>900.00</td>
</tr>
<tr>
<td>Rent free accommodation {Sec 17(2)(i) Rule 3(1)}</td>
<td>19,800.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.5% of rent free accommodation salary</td>
<td>2,64,000</td>
</tr>
<tr>
<td>Rent free accommodation salary</td>
<td>2,64,000</td>
</tr>
<tr>
<td>7.5% of rent free accommodation salary</td>
<td>19,800</td>
</tr>
<tr>
<td>Perquisite value of rent free accommodation</td>
<td>19,800</td>
</tr>
</tbody>
</table>

**Motor Car {Sec 17(2)(iii) Rule 3(2)}**

**Option 1**

{Presuming Car I is for official and personal purposes and Car II and Car III for personal purposes, perquisite value shall be:

Car I = `3,300 x 12 = `39,600
Car II = `30,000 + `10,000 + `4,000 + `36,000 = `80,000

```
Car III = \(25,000 + 15,000 + 3,000 + 36,000 = 79,000\)
Perquisite value = \$1,98,600

**Option II**

Presuming Car II is for official and personal purpose and Car I and Car III is for personal use, perquisite value shall be:

Car I = \(40,000 + 3,000 + 5,000 + 48,000 = 96,000\)
Car II = \(2,700 \times 12 = 32,400\)
Car III = \$79,000
Perquisite Value = \$2,07,400

**Option III**

Presuming Car III is for official and personal purpose and Car I and Car II is for personal use, perquisite value shall be:

Car I = \$96,000
Car II = \$80,000
Car III = \(2,700 \times 12 = 32,400\)
Perquisite Value = \$2,08,400

So, 1st Option is better.

Perquisite value of motor car = \$1,98,600

---

**Illustration 16:** Mr. Anil, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2013-14:

(i) Salary \$46,000 per month

(ii) Value of medical facility in a hospital maintained by the company \$7,000

(iii) Rent free accommodation owned by the company

(iv) Housing loan of \$6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)

(v) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. Anil \$4,750
(vi) A wooden table and 4 chairs were provided to Mr. Anil at his residence. These were purchased on 01.05.2010 for `60,000 and put to use on 01.06.2010 and sold to Mr. Anil on 01.08.2013 for `30,000

(vii) Personal purchases through credit card provided by the company amounting to `10,000 was paid by the company. No part of the amount was recovered from Mr. Anil.

(viii) An ambassador car which was purchased by the company on 16.07.2010 for `2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2013 for `80,000.

Compute the Total Income of Mr. Anil and the tax thereon for the Assessment Year 2014-15.

**Solution:**

**Computation of Taxable Income of Mr. Anil for the Assessment Year 2014-15**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary (46,000 x 12)</td>
<td>5,52,000.00</td>
</tr>
<tr>
<td>Medical Facility {Proviso Sec 17(2)} {In the hospital maintained by the company is exempt}</td>
<td>Nil</td>
</tr>
<tr>
<td>Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}</td>
<td>84,800.00</td>
</tr>
</tbody>
</table>

**Working Note:**

15% of rent free accommodation salary

Rent Free Accommodation salary = `5,52,000

Value of unfurnished house = 82,800

Add: 10% of cost of furniture (60,000 x 10% x 4/12) = 2,000

Perquisite value of furnished house = 84,800

Perquisite of interest on loan {Sec 17(2)(viii) Rule 3(7)(i)} = 33,000.00

**Working Note:**

10.5% is taxable which is to be reduced by actual rate of interest charged

i.e.[10.5% - 5% = 5.5%]

(6,00,000 x 5.5%) = `33,000

Gift given on the occasion of wedding anniversary = Nil

Sale of Table and Chairs {Sec 17(2)(viii) Rule 3(7)(viii)} = 12,000.00

**Working Note:**

Perquisite on sale of table and chairs

Cost = 60,000

Less: Dep. on straight line method @ 10% for 3 years = 18,000

Written down value = 42,000

Less: Amount paid by the assessee = 30,000

Perquisite value of Table and chairs = 12,000

Credit Card Facility = 10,000.00

Sale of Ambassador Car {Sec 17(2)(viii) Rule 3(7)(viii)} = 80,000.00

**Working Note:**

Original cost of Car = 2,50,000

Less: Dep. from 16.07.2010 to 15.07.2011 = 50,000

Less: Dep. from 16.07.2011 to 15.07.2012 = 40,000

Written down value = 1,60,000

Less: amount received from the assessee = 80,000

Perquisite value of Ambassador car = 80,000

Gross Salary = 7,71,800.00

Income under the head Salary = 7,71,800.00

Gross Total Income = 7,71,800.00

Less: Deduction u/s 80C to 80U = Nil

Total Income = 7,71,800.00

**Computation of tax liability**
Income Under The Head Salary

Tax on `7,71,800 at slab rate 84,360.00
Add: Education cess @ 2% 1,687.20
Add: SHEC @ 1% 843.60
Tax Liability 86,890.80
Rounded off u/s 288B 86,890.00

Note: It is assumed that furniture (wooden table and 4 chairs) were provided to Mr. Anil at his residence on April 1st, 2013 or earlier.

Illustration 17: Mrs. Roma, an employee of XYZ Ltd., submits the following information for the assessment year 2014-15:

Salary: `1,86,000; City compensatory allowance: `8,000; Bonus: `10,200; Education allowance: `4,000 (for her grand children); Income tax penalty paid by the employer: `2,000; Medical expenses reimbursed by the employer: `12,000; Leave travel concession: `1,000 (expenditure incurred by the employee nil); Free residential telephone: `4,000; Free refreshment during office hours `4,000; reimbursement of electricity bill by the employer: `1,060; reimbursement of gas bills: `1,000; Professional tax paid by the employer: `300 on behalf of Mrs. Roma; Professional tax paid by Mrs. Roma: `150.

Determine the Total Income and Tax Liability of Mrs. Roma for the Assessment Year 2014-15.

Solution:

Computation of Income under the head Salary

Salary 1,86,000.00
City Compensatory Allowance 8,000.00
Bonus 10,200.00
Education Allowance {Sec 10(14) Rule 2BB} 4,000.00
Income tax penalty paid by employer {Sec 17(2)(iv)} 2,000.00
Medical Reimbursement {Proviso to Sec 17(2)} Nil
Leave Travel Concession {Sec 10(5) Rule 2B} 1,000.00
Free Refreshment Nil
Free Residential Telephone Nil
Payment of electricity bills by employer {Sec 17(2)(iv)} 1,060.00
Reimbursement of gas bills {Sec 17(2)(iv)} 1,000.00
Professional tax paid by employer {Sec 17(2)(iv)} 300.00
Gross Salary 2,13,560.00
Less: Entertainment Allowance u/s 16(ii) Nil
Less Professional Tax u/s 16(iii) 450.00
Income under the head Salary 2,13,110.00
Gross Total Income 2,13,110.00
Less: Deductions u/s 80C to 80U Nil
Total Income 2,13,110.00

Computation of Tax Liability

Tax on `2,13,110 at slab rate 1,311.00
Less: Rebate u/s 87A (`1,311 or `2,000 whichever is less) 1,311.00
Tax before Education cess Nil
Tax Liability Nil

Illustration 18: During the previous year 2013-14, ABC Ltd. pays `60,000 p.m. as salary to Mr. X and provides a rent free unfurnished house (lease rent being `15,000 p.m.). ABC Ltd. has also paid income tax of `12,000 on behalf of Mr. X in connection with rent free accommodation provided to Mr. X.
Compute Tax Liability of Mr. X for the Assessment Year 2014-15. Also discuss whether income tax paid by
the company shall be considered to be income of Mr. X.

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>7,20,000</td>
</tr>
<tr>
<td>(60,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Rent free accommodation {Sec 17 (2)(i) Rule 3(1)}</td>
<td>1,08,000</td>
</tr>
</tbody>
</table>

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 7,20,000
15% of rent free accommodation salary = 1,08,000
Rent paid = 15,000 x 12 = 1,80,000
Perquisite value of rent free accommodation = 1,08,000

Gross salary                           8,28,000
Gross Total Income               8,28,000
Less: Deduction u/s 80C to 80U                      Nil
Total Income                      8,28,000

Computation of Tax Liability
Tax on `8,28,000 at slab rate                                       95,600
Add: Education cess @ 2%                   1,912
Add: SHEC @ 1%                         956
Tax Liability                   98,468
Less: Tax Paid by the company                 12,000
Tax Payable                   86,468
Rounded off u/s 288B                  86,470

Since tax has been paid by the company in connection with non-monetary perquisite, it will not be
considered to be income of Mr. X. If the company has paid income tax upto `12,844 it will not be considered
to be income of Mr. X but any excess over it shall be considered to be income of Mr. X. The tax liability
with regard to rent free accommodation shall be `12,844, as shown below:
98,468 / 8,28,000 x 1,08,000 = 12,843.65 = 12,844

(b) Presume in the above question ABC Ltd. has paid income tax of `20,000 instead of `12,000. Tax Liability
and Tax Payable shall be computed in the manner given below:

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>7,20,000.00</td>
</tr>
<tr>
<td>(60,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Rent free accommodation {Sec 17 (2)(i) Rule 3(1)}</td>
<td>1,08,000.00</td>
</tr>
</tbody>
</table>

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 7,20,000
15% of rent free accommodation salary = 1,08,000
Rent paid = 15,000 x 12 = 1,80,000
Perquisite value of rent free accommodation = 1,08,000

Payment of income tax on behalf of employee {Sec 17(2)(iv)} (20,000 – 12,844)        7,156.00
Gross salary                           8,35,156.00
Gross Total Income               8,35,156.00
Less: Deduction u/s 80C to 80U                      Nil
Total Income                      8,35,156.00
Rounded off u/s 288A                  8,35,160.00
**Computation of Tax Liability**

- Tax on ₹8,35,160 at slab rate: 97,032.00
- Add: Education cess @ 2%: 1,940.64
- Add: SHEC @ 1%: 970.32
- Tax Liability: 99,942.96
- Less: Tax Paid by the company: 20,000.00
- Tax Payable: 79,942.96
- Rounded off u/s 288B: 79,940.00

**Illustration 19:** Mr. X is offered an employment by ABC Ltd. Mumbai with the following two alternatives:

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>68,000.00</td>
<td>68,000.00</td>
</tr>
<tr>
<td>Bonus</td>
<td>6,000.00</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Education allowance for 2 children</td>
<td>10,200.00</td>
<td>xxxx</td>
</tr>
<tr>
<td>Education facility for 2 children in an Institution maintained by employer</td>
<td>xxxx</td>
<td>10,200.00</td>
</tr>
<tr>
<td>Sweeper allowance / Free Sweeper</td>
<td>10,000.00</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Entertainment allowance/Club facility</td>
<td>6,000.00</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Conveyance allowance for personal use</td>
<td>12,000.00</td>
<td>xxxx</td>
</tr>
<tr>
<td>Free car facility for personal use (Employer’s expenditure)</td>
<td>xxxx</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Medical Allowance</td>
<td>18,000.00</td>
<td>xxxx</td>
</tr>
<tr>
<td>Medical facility for Mr. X and family member in its own hospital</td>
<td>xxxx</td>
<td>18,000.00</td>
</tr>
<tr>
<td>Allowance for gas, electricity and water supply</td>
<td>4,500.00</td>
<td>xxxx</td>
</tr>
<tr>
<td>Free gas, electricity and water supply</td>
<td>xxxx</td>
<td>4,500.00</td>
</tr>
<tr>
<td>A rent free unfurnished house (Rent paid by employer)</td>
<td>24,000.00</td>
<td>24,000.00</td>
</tr>
</tbody>
</table>

Which of the two alternatives Mr. X should opt?

**Solution:**

**Computation of income under the head Salary**

**Alternative I**

- Basic Salary: 68,000.00
- Bonus: 6,000.00
- Education Allowance {Sec 10(14) Rule 2BB}: 7,800.00

| Working Note: | |
| Received = | 10,200 |
| Exempt = 100 x 2 x 12 = | 2,400 |
| Taxable = | 7,800 |

- Sweeper Allowance: 10,000.00
- Entertainment Allowance: 6,000.00
- Conveyance Allowance: 12,000.00
- Medical Allowance: 18,000.00
- Allowance for gas/electricity/water: 4,500.00
- Rent free unfurnished house {Sec 17(2)(i) Rule 3(1)}: 19,845.00

| Working Note: | |
| 15% of rent free accommodation salary or rent paid whichever is less | |
| Rent free accommodation Salary | |
| = Basic Salary + Bonus + Education allowance + Sweeper Allowance + Entertainment Allowance + Conveyance Allowance + Medical Allowance + Gas/Electricity/Water Allowance | |
| = 68,000 + 6,000 + 7,800 + 10,000 + 6,000 + 12,000 + 18,000 + 4,500 |
Income Under The Head Salary

= 1,32,300
15% of rent free accommodation salary 19,845
Rent Paid 24,000
Perquisite value of rent free accommodation 19,845

Gross Salary 1,52,145.00
Income under the head Salary 1,52,145.00
Gross Total Income 1,52,145.00
Less: Deduction u/s 80C to 80U Nil
Total Income 1,52,145.00
Rounded off u/s 288A 1,52,150.00
Tax Liability Nil

Alternative II
Basic Salary 68,000
Bonus 6,000
Education Facility {Sec 17(2)(iii) Rule 3(5)} Nil
Sweeper Facility {Sec 17(2)(iii) Rule 3(3)} 10,000
Club Facility {Sec 17(2)(viii)Rule 3(7)(vi)} 6,000
Car Facility {Sec 17(2)(iii)Rule 3(2)} 12,000
Medical Facility {Proviso to Sec 17(2)} Nil
Gas/electricity/water facility {Sec 17(2)(iii) Rule 3(4)} 4,500
Rent free unfurnished house {Sec 17(2)(i) Rule 3(1)} 11,100

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation Salary = Basic Salary + Bonus
= 68,000 + 6,000 = 74,000
15% of rent free accommodation salary 11,100
Rent Paid 24,000
Perquisite value of rent free accommodation 11,100

Gross Salary 1,17,600
Income under the head Salary 1,17,600
Tax Liability Nil

Mr. X should opt any alternative because his tax liability is Nil in both alternatives.

Note: (1) Medical facility in employer’s own hospital is exempt.

Illustration 19: Mr. X is offered an employment by ABC Ltd. Mumbai with the following two alternatives:

<table>
<thead>
<tr>
<th>I</th>
<th>II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>68,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>6,000</td>
</tr>
<tr>
<td>Education allowance for 2 children</td>
<td>10,200</td>
</tr>
<tr>
<td>Education facility for 2 children in an Institution maintained by employer</td>
<td>xxxx</td>
</tr>
<tr>
<td>Sweeper allowance / Free Sweeper</td>
<td>10,000</td>
</tr>
<tr>
<td>Entertainment allowance/Club facility</td>
<td>6,000</td>
</tr>
<tr>
<td>Conveyance allowance for personal use</td>
<td>12,000</td>
</tr>
<tr>
<td>Free car facility for personal use (Employer’s expenditure)</td>
<td>xxxx</td>
</tr>
<tr>
<td>Medical Allowance</td>
<td>18,000</td>
</tr>
<tr>
<td>Medical facility for Mr. X and family member in its own hospital</td>
<td>xxxx</td>
</tr>
<tr>
<td>Allowance for gas, electricity and water supply</td>
<td>4,500</td>
</tr>
<tr>
<td>Free gas, electricity and water supply</td>
<td>xxxx</td>
</tr>
</tbody>
</table>
Which of the two alternatives Mr. X should opt?

**Solution:**

*Computation of income under the head Salary*

**Alternative I**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>68,000.00</td>
</tr>
<tr>
<td>Bonus</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Education Allowance {Sec 10(14) Rule 2BB}</td>
<td>7,800.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received</td>
<td>10,200</td>
</tr>
<tr>
<td>Exempt = 100 x 2 x 12 =</td>
<td>2,400</td>
</tr>
<tr>
<td>Taxable =</td>
<td>7,800</td>
</tr>
</tbody>
</table>

Sweeper Allowance                                 10,000.00
Entertainment Allowance                           6,000.00
Conveyance Allowance                              12,000.00
Medical Allowance                                 18,000.00
Allowance for gas/electricity/water               4,500.00
Rent free unfurnished house {Sec 17(2)(i) Rule 3(1)} 19,845.00

**Working Note:**

15% of rent free accommodation salary or rent paid whichever is less

Rent free accommodation Salary

= Basic Salary + Bonus + Education allowance + Sweeper Allowance + Entertainment Allowance + Conveyance Allowance + Medical Allowance + Gas/Electricity/Water Allowance

= 68,000 + 6,000 + 7,800 + 10,000 + 6,000 + 12,000 + 18,000 + 4,500

= 1,32,300

15% of rent free accommodation salary 19,845
Rent Paid 24,000
Perquisite value of rent free accommodation 19,845

Gross Salary 1,52,145.00
Income under the head Salary 1,52,145.00
Gross Total Income 1,52,145.00
Less: Deduction u/s 80C to 80U Nil
Total Income 1,52,145.00
Rounded off u/s 288A 1,52,150.00
Tax Liability Nil

**Alternative II**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>68,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>6,000</td>
</tr>
<tr>
<td>Education Facility {Sec 17(2)(iii) Rule 3(5)}</td>
<td>Nil</td>
</tr>
<tr>
<td>Sweeper Facility {Sec 17(2)(iii) Rule 3(3)}</td>
<td>10,000</td>
</tr>
<tr>
<td>Club Facility {Sec 17(2)(viii)Rule 3(7)(vi)}</td>
<td>6,000</td>
</tr>
<tr>
<td>Car Facility {Sec 17(2)(iii)Rule 3(2)}</td>
<td>12,000</td>
</tr>
<tr>
<td>Medical Facility {Proviso to Sec 17(2)}</td>
<td>Nil</td>
</tr>
<tr>
<td>Gas/electricity/water facility {Sec 17(2)(iii) Rule 3(4)}</td>
<td>4,500</td>
</tr>
<tr>
<td>Rent free unfurnished house {Sec 17(2)(i) Rule 3(1)}</td>
<td>11,100</td>
</tr>
</tbody>
</table>

**Working Note:**

15% of rent free accommodation salary or rent paid whichever is less

Rent free accommodation Salary = Basic Salary + Bonus
= 68,000 + 6,000 = 74,000
15% of rent free accommodation salary 11,100
Rent Paid 24,000
Perquisite value of rent free accommodation 11,100

Gross Salary 1,17,600
Income under the head Salary 1,17,600
Tax Liability Nil

Mr. X should opt any alternative because his tax liability is Nil in both alternatives.

Note: (1) Medical facility in employer’s own hospital is exempt.

Illustration 22: Mr. X is employed in ABC Ltd. getting basic pay `22,000 p.m., dearness allowance `5,000 p.m. He was retired on 21.12.2013. The employer has allowed him pension of `9,000 p.m. and the employee has requested for commutation of 52% of his pension. The employer has allowed him such commutation on 01.02.2014 and has paid `5,61,600. The employer has paid him gratuity of `6,95,000 and employee has completed service of 20 years and 11 months.

Compute Tax Liability for the Assessment Year 2014-15.

Solution:

Basic Pay [(22,000 x 8) + (22,000 x 21/30)] 1,91,400.00
Dearness Allowance [(5,000 x 8) + (5,000 x 21/30)] 43,500.00
Gratuity {Sec 10(10)} 4,75,000.00

Working Note:
Least of the following is exempt:
1. Gratuity received `6,95,000
2. `10,00,000
3. ½ x 22,000 x 20 = `2,20,000
Received = `6,95,000
Exempt = `2,20,000
Taxable = `4,75,000

Uncommuted Pension {Sec 17(1)(ii)} 20,340.00

Working Note:
For December’ 2013
9,000 x 9/30 = 2,700
For January’ 2014
9,000 x 1 = 9,000
From February to March’ 2014
9,000 x 48% x 2 = 8,640
Total = `2,700 + `9,000 + `8,640 = 20,340

Commuted Pension {Sec 10(10A)} 2,01,600.00

Working Note:
Received = 5,61,600.00
Exempt = 5,61,600 / 52% x 1/3 3,60,000.00
Taxable = 2,01,600.00

Gross Salary 9,31,840.00
Income under the head Salary 9,31,840.00
Gross Total Income 9,31,840.00
Less: Deduction u/s 80C to 80U Nil
Total Income 9,31,840.00
Income Under The Head Salary

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `9,31,840 at slab rate</td>
<td>1,16,368.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>2,327.36</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>1,163.68</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,19,859.04</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>1,19,860.00</td>
</tr>
</tbody>
</table>

**Illustration 23:** Mr. X is retired from ABC Ltd. w.e.f. 01.12.2013 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of `3,75,000. The employee was entitled for 20 days leave per year of service. During entire service, he has availed 35 days of leave and has encashed 10 days of leave. The employee was getting basic pay `27,000 p.m. at the time of retirement. The employer has allowed him pension of `6,000 p.m. and employee was allowed commutation of 1/3rd of his pension on 01.03.2014 amounting to `2,40,000.

Compute his Tax Liability for the Assessment Year 2014-15.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay [(27,000 x 8)</td>
<td>2,16,000.00</td>
</tr>
<tr>
<td>Uncommuted Pension {Sec 17(1)(ii)}</td>
<td>22,000.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>From December to February</td>
<td></td>
</tr>
<tr>
<td>6,000 x 3 =</td>
<td>18,000</td>
</tr>
<tr>
<td>For March</td>
<td></td>
</tr>
<tr>
<td>6,000 x 2/3 =</td>
<td>4,000</td>
</tr>
<tr>
<td>Total = 18,000 + 4,000 =</td>
<td>22,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commuted Pension {Sec 10(10A)}</td>
<td>Nil</td>
</tr>
<tr>
<td>Leave Salary {Sec 10(10AA)}</td>
<td>1,05,000.00</td>
</tr>
</tbody>
</table>

**Least of the following is exempt:**

1. `3,75,000
2. 10 x 27,000 = `2,70,000
3. `3,00,000
4. 355/30 x 27,000 = `3,19,500

Received = `3,75,000
Exempt = `2,70,000
Taxable = `1,05,000

**Computation of leave at the credit**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leave Entitlement = 20 x 20 = 400 days</td>
<td></td>
</tr>
<tr>
<td>Less: Leave availed</td>
<td>35 days</td>
</tr>
<tr>
<td>Less: Leave Encashed</td>
<td>10 days</td>
</tr>
<tr>
<td>Leave at the credit</td>
<td>355 days</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `3,43,000 at slab rate</td>
<td>14,300.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A (<code>14,300 or </code>2,000 whichever is less)</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Tax before Education cess</td>
<td>12,300.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>246.00</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

Add: SHEC @ 1% 123.00
Tax Liability 12,669.00
Rounded off u/s 288B 12,670.00

Illustration 24: Mr. X is employed in ABC Ltd. getting basic pay `12,000 p.m. and dearness allowance `5,000 p.m. forming part of salary. He has contributed `3,000 p.m. to the recognised provident fund and employer has also contributed an equal amount. During the year interest of `25,000 was credited @ 8.5% p.a.

Employer has provided rent free accommodation to the employee for which rent paid by the employer is `5,000 p.m.

The employee has encashed one month leave and was allowed leave salary of `17,000.

Compute his income under the head salary for the previous year 2013-14.

Solution:

Basic Pay (12,000 x 12) 1,44,000
Dearness Allowance (5,000 x 12) 60,000
Leave Salary 17,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)} 33,150

Working Note:

Rent free accommodation salary = Basic Pay + Dearness Allowance + Leave Salary
= 1,44,000 + 60,000 + 17,000 = 2,21,000
15% of rent free accommodation salary 33,150
Rent paid = 5,000 x 12 60,000
Perquisite value of rent free accommodation 33,150

Employer’s contribution to recognised provident fund in excess of
12% of retirement benefit salary {Rule 6 of Part A of schedule IV} 11,520
(36,000 – 24,480)
Gross Salary 2,65,670
Income under the head Salary 2,65,670

Illustration 25: Mr. Lamba, a resident individual, retires from C Ltd. Delhi w.e.f. 1st February, 2014 after 25 years of service. He joined T Ltd. on the same day i.e. 1st February, 2014.

The following information is provided by him about his incomes/outgoing during the Previous Year 2013-14:

(a) Salary/allowances/perquisites/other payment from 01.04.2013 to 31.01.2014 from C Ltd.

(i) Basic salary 12,000 p.m.

(ii) Dearness allowance (One-half includible for superannuation benefits) 3,000 p.m.

(iii) Commission, 5% on turnover achieved by him 6,000

(iv) House accommodation, rent paid by company 5,000 p.m.

(v) Best suggestion award for total quality management scheme (in kind) 12,000
You are required to compute his income under the head Salary and Tax Liability for the Assessment Year 2014-15.

**Solution:**

**Computation of income under the head Salary in C Ltd.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (12,000 x 10)</td>
<td>1,20,000.00</td>
</tr>
<tr>
<td>Dearness Allowance (3,000 x 10)</td>
<td>30,000.00</td>
</tr>
<tr>
<td>Commission</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Rent free accommodation {Sec 17(2)(i), Rule 3(1)}</td>
<td>21,150.00</td>
</tr>
</tbody>
</table>

**Working Note:**

15% of rent free accommodation salary or rent paid whichever is less

\[
\text{Rent free accommodation salary} = \text{Basic Pay} + \text{Dearness Allowance} + \text{Commission} \\
= 1,20,000 + 15,000 + 6,000 = 1,41,000 \\
\text{15\% of rent free accommodation salary} = 21,150 \\
\text{Rent paid} = 5,000 x 10 50,000 \\
\text{Perquisite value of rent free accommodation} = 21,150 \\
\]

Best suggestion award (Gift) (12,000 – 5,000) 7,000.00

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lunch Facility</td>
<td>Nil</td>
</tr>
<tr>
<td>Gratuity {Sec 10(10)}</td>
<td>1,18,653.85</td>
</tr>
</tbody>
</table>

**Working Note:**

**Least of the following is exempt:**

1. `3,35,000
2. `10,000,000
3. 15/26 x 25 x 15,000 = `2,16,346.15

Received = `3,35,000.00 Exempt = `2,16,346.15
Income Under The Head Salary

Taxable = `1,18,653.85

Uncommuted Pension {Sec 17(1)(ii)} {3,000 x 50% x 2} = 3,000.00
Committed Pension {Sec 10(10A)} = 75,000.00

Working Note:
Received = 2,25,000
Exempt = 1/3 x 4,50,000 = 1,50,000
Taxable = 75,000

Refund of employer’s contribution (including interest) = 2,50,000.00

In T Ltd.
Basic Pay (8,000 x 2) = 16,000.00
House Rent Allowance {Sec 10(13A) Rule 2A} = 600.00

Working Note:
Least of the following is exempt:
1. `3,000
2. `4,000 – `1,600 = `2,400
3. 40% of retirement benefit salary = `6,400
(Retirement benefit salary = `16,000)
Received = `3,000
Exempt = `2,400
Taxable = `600

Motor Car (2,400 x 2) = 4,800.00
Gross Salary = 6,52,203.85
Income under the head Salary = 6,52,203.85
Income under the head Other Sources = 1,00,000.00
{interest on employee’s contribution to unrecognised provident fund}
Gross Total Income = 7,52,203.85
Less: Deduction u/s 80C to 80U = Nil
Total Income {Rounded u/s 288A} = 7,52,200.00

Computation of Tax Liability
Tax on `7,52,200 at slab rate = 80,440.00
Add: Education cess @ 2% = 1,608.80
Add: SHEC @ 1% = 804.40
Tax Liability = 82,853.20
Rounded off u/s 288B = 82,850.00

Illustration 26: Mr. X has taken voluntary retirement from ABC Ltd. on 31.10.2013 after serving the employer for 23 years and 2 months. The employer has paid him `2,10,000 in connection with voluntary retirement, a gratuity of `1,80,000 and leave salary of `1,50,000.

The employee was getting the basic pay `15,000 p.m. at the time of retirement. The employer has unrecognised provident fund and has contributed `3,000 p.m. to the unrecognised provident fund. The employee has also contributed an equal amount. The employer has credited interest of `27,000 to the unrecognised provident fund @ 11% p.a. on the date of retirement. After retirement the employer has paid him provident fund balance of `5,00,000, out of which employee’s contribution is `2,00,000. The employer’s contribution is also `2,00,000 and balance is the interest on employee’s and employer’s contribution. The employee has taken voluntary retirement after completion of the age 50 years though he was to be retired at the age of 58.

The employer has allowed him one month leave per year of service. The employee has availed seven months leave throughout his service and has encashed six months leave.
Compute employee’s Tax Liability for the Assessment Year 2014-15.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (15,000 x 7)</td>
<td>1,05,000.00</td>
</tr>
<tr>
<td>Employer’s contribution to unrecognised provident fund</td>
<td>2,00,000.00</td>
</tr>
<tr>
<td>Interest on employer’s contribution to unrecognised provident fund</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Gratuity {Sec 10(10)}</td>
<td>7,500.00</td>
</tr>
</tbody>
</table>

**Working Note:**

**Least of the following is exempt:**

1. ₹1,80,000
2. ₹10,00,000
3. \( \frac{1}{2} \times 15,000 \times 23 = ₹1,72,500 \)

Received = ₹1,80,000
Exempt = ₹1,72,500
Taxable = ₹7,500

**Leave Salary {Sec 10(10AA)}**

Nil

**Working Note:**

**Least of the following is exempt:**

1. ₹1,50,000
2. ₹3,00,000
3. 10 x 15,000 = ₹1,50,000
4. 10 x 15,000 = ₹1,50,000

Received = ₹1,50,000
Exempt = ₹1,50,000
Taxable = Nil

**Computation of leave at the credit**

Leave Entitlement = 23 months
Less: Leave availed = 7 months
Less: Leave Encashed = 6 months
Leave at the credit = 10 months

**Voluntary Retirement {Sec 10(10C) Rule 2BA}**

Nil

**Working Note:**

**Least of the following is exempt:**

1. 15,000 x 3 x 23 = ₹10,35,000
2. 15,000 x 12 x 8 = ₹14,40,000
3. ₹2,10,000

Received = ₹2,10,000
Exempt = ₹2,10,000
Taxable = Nil

**Gross Salary**

3,62,500.00

**Income under the head Salary**

3,62,500.00

**Income under the head Other Sources**

50,000.00

{Interest on employee’s contribution to unrecognised provident fund}

**Gross Total Income**

4,12,500.00

Less: Deduction u/s 80C to 80U

Nil

**Total Income**

4,12,500.00

**Computation of Tax Liability**

Tax on ₹4,12,500 at slab rate

21,250.00

Less: Rebate u/s 87A (₹21,250 or ₹2,000 whichever is less)

2,000.00

Tax before Education cess

19,250.00

Add: Education cess @ 2%

385.00
**Problem 1.**

Mr. X has joined ABC Ltd. on 01.07.2003 in the pay scale of 7,000 – 500 – 10,000 – 800 – 15,600 – 1,000 – 22,600. The employer has allowed him dearness allowance @ 7% of his basic pay from 01.04.2013 to 30.06.2013 and thereafter dearness allowance was allowed @ 10% of the basic pay.


**Answer =** Gross Salary: `1,70,484; Total Income: `1,70,480; Tax Liability: Nil

**Problem 2.**

Mr. X has joined ABC Ltd. on 01.10.2000 in the pay scale of 10,000 – 900 – 16,300 – 1,100 – 25,100 – 1,500 – 32,600. The employer has allowed him dearness allowance @ 4.35% of the basic pay from 01.04.2013 to 30.09.2013, @ 7.5% upto 31.12.2013. Thereafter it was allowed @ 10.5% of the basic pay.


**Answer =** Gross Salary: `2,86,255.80; Total Income: `2,86,260; Tax Liability: `6,820

**Problem 3.**

Mr. X is employed in ABC Ltd., Calcutta and is getting basic pay `10,000 p.m., dearness allowance `4,000 p.m. (50% of dearness allowance forms part of salary for the purpose of retirement benefits).

The employee was allowed bonus `1,000 p.m. and commission @ 2.5% on the sales turnover of `60,00,000. The employer has paid him house rent allowance `4,000 p.m. The employee has paid rent `4,500 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2014-15.

**Answer =** Gross Salary: `3,53,400; Tax Liability: `13,740

**Problem 4.**

Mr. X is employed in ABC Ltd. getting basic pay `11,500 p.m., dearness allowance `5,000 p.m. (half of it is taken into consideration for retirement benefit).

Employer has allowed him house rent allowance with effect from 01.10.2013 @ 3,000 p.m. and the employee has paid rent `3,500 p.m. throughout the year. Employer has paid him children education allowance `75 per month per child for four children and has also paid him hostel allowance `500 per month for one child, the actual expenses incurred by the employee is `1,000 per month per child.

Employer has paid him transport allowance `900 per month with effect from 01.07.2013 and the employee has incurred `1,500 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2014-15.

**Answer =** Gross Salary: `2,08,500; Tax Liability: Nil

**Problem 5.**
Mr. X is employed in Indian Airlines as pilot and is getting basic pay of `25,000 p.m. and dearness allowance @ 10% of basic pay.

Employer has paid him children education allowance of `750 per month for one of his adopted child. The employer has also paid transport allowance of `1,000 per month. The employee has incurred `2,000 per month. The employer has paid him flight allowance in lieu of daily allowance `10,000 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2014-15.

Answer = Gross Salary: `3,76,200; Tax Liability: `16,090

Problem 6.
Mr. X is employed in Central Government getting basic pay `9,000 p.m. and dearness allowance @ 60% of basic pay. Employer has paid children education allowance `600 per month per child for 3 children and has paid hostel allowance `1,000 per month per child for one child. Employer has paid professional tax of `175 p.m. on behalf of the employee and has allowed him entertainment allowance `200 p.m. out of which he has saved `100 p.m. The employer has paid medical allowance `300 p.m. but employee’s expenditure is `500 p.m.

Compute his income under the head Salary and Tax Liability for the Assessment Year 2014-15.

Answer = Income under the head Salary: `2,04,000; Tax Liability: Nil

Problem 7.
Mr. X is employed in ABC Ltd. since 01.07.1997 in the pay scale of 9,000 – 300 – 10,500 – 500 – 13,000 – 750 – 17,500 – 1000 – 21,500. The employer has given him two increments in advance at the time of his taking up the job.

During the previous year 2013-14, he was allowed dearness allowance @ 11% of the basic pay. The employer has allowed him house rent allowance @ `3,000 p.m. Entertainment allowance `600 p.m. but the employee has saved `100 p.m. which was donated by him to a charitable institution.

The employer has paid Professional tax of `2,400 on his behalf on 02.04.2013 though it was due on 31.03.2013. The employer has paid conveyance allowance of `500 p.m. The employee has incurred `100 p.m. for official purpose, `150 p.m. for personal purpose and balance has been saved by the employee.

Compute his income under the head Salary and Tax Liability for the Assessment Year 2014-15.

Answer = Income under the head salary: `3,04,410; Tax Liability: `8,690

Problem 8.
Mr. X joined ABC Ltd. on 01.07.2006 in the pay scale of 25,000 – 1,500 – 31,000 – 1,600 – 39,000 – 1,800 – 49,800. The employer has allowed him 3 increments in advance at the time of taking up the job. The employee’s salary is due on the 1st of next month.

Employee was allowed dearness allowance @ `10,000 p.m., during the previous year 2012-13 and @ `12,000 p.m. in 2013-14. The employee has resigned w.e.f. 01.03.2014. The employee was allowed pension @ `10,000 p.m. and his pension is due on the last day of the month.

Compute Tax Liability for the Assessment Year 2014-15.

Answer = `58,590
Problem 9.
Mrs. X is employed in ABC Ltd. getting gross salary `2,40,000, but it is increased to `3,20,000 in previous year 2013-14 w.e.f. previous year 2012-13. Compute Tax Liability and relief under section 89.

Tax Rate of Previous Year 2012-13 for resident woman

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>upto `2,00,000</td>
<td>Nil</td>
</tr>
<tr>
<td><code>2,00,001-</code>3,00,000</td>
<td>10%</td>
</tr>
<tr>
<td><code>3,00,001-</code>5,00,000</td>
<td>20%</td>
</tr>
<tr>
<td>Above `5,00,000</td>
<td>30%</td>
</tr>
</tbody>
</table>

Answer = Tax Liability: `18,540; Relief: Nil

Problem 10.
Mr. X is employed in ABC Ltd. getting basic pay `11,000 p.m., dearness allowance `7,000 p.m. (10% of the dearness allowance forms part of salary for retirement benefits).

The employer has paid commission of `3,000 p.m. and has allowed him medical allowance `400 p.m. The employee was paid house rent allowance `4,000 p.m. The employee has paid rent of `3,000 p.m.

The employer has discontinued payment of house rent allowance with effect from 01.09.2013 and has provided him rent free accommodation with effect from 01.11.2013. The accommodation was owned by the employer and the population of the place is 4,00,000. The employee was allowed arrears of salary `10,000 and advance salary `20,000. The employee was also provided furniture with effect from 01.01.2014. Its original cost is `1,00,000 and written down value is `35,000.

Compute employee’s Tax Liability for the Assessment Year 2014-15.

Answer = Tax Liability: `8,840

Problem 11.
Mr. X is employed in ABC Ltd. getting basic pay `13,000 p.m. and dearness allowance 5,000 p.m. Commission `3,500 p.m. Employer has paid overtime allowance with effect from 01.05.2013 @ `1,000 p.m. and has allowed him house rent allowance `2,000 p.m. The employee has paid rent `500 p.m.

The employer has discontinued payment of house rent allowance with effect from 01.06.2013 and has allowed him rent free accommodation with effect from 01.09.2013. The accommodation was owned by the employer itself at Calcutta. Employer has also provided him furniture from the same date with original cost `1,50,000 and has also paid professional tax `200 p.m. on behalf of the employee.

The employee has received arrears of salary `35,000.

Compute his Tax Liability for the Assessment Year 2014-15.

Answer = Tax Liability: `11,860

Problem 12.
Mr. X is employed in ABC Ltd. getting basic pay `11,000 p.m., dearness allowance `5,000 p.m. and 30% of it forms part of salary.

The employee is also getting dearness pay `1,000 p.m. and 10% of it forms part of salary. He is getting bonus `1,200 p.m. The employer has provided him one accommodation in Delhi for which rent paid by the employer is `1,200 p.m.
The employee was transferred to Bombay with effect from 01.01.2014 and the employer has provided him rent free accommodation at Bombay also which is owned by the employer himself.

The employee has received arrears of salary `32,000 and advance salary of `11,000.

Compute employee’s Tax Liability for the Assessment Year 2014-15.

**Answer = Tax Liability: `5,750**

**Problem 13.**  
Mr. X is employed in ABC Ltd getting basic pay `20,000 p.m. Salary for the month of March 2013 was paid to the employee on 03.04.2013.

The employer has paid house rent allowance `5,000 p.m. with effect from 01.11.2013 and the employee has paid rent `6,000 p.m.

Prior to 01.11.2013 the employer has provided him an accommodation and rent paid by the employer was `7,000 p.m.

Employee has also received advance salary `20,000.

Compute his Tax Liability for the Assessment Year 2014-15.

**Answer = Tax Liability: `6,800**

**Problem 14.**  
Mr. X has taken four loans from his employer –

(i) `7,00,000 (term loan) on 23.09.2013 @ 3% p.a. for the purpose of purchasing a new motor car (in Delhi). The loan was repaid in monthly instalments of ` 25,000 each starting from 10.12.2013. (Presume SBI Rate 10%)  

(ii) `10,00,000 on 11.05.2013 @ 5% p.a. for purchasing a house. The loan was repaid in annual instalments of ` 55,000 each starting from 31.03.2014. (Presume SBI Rate 10.5%)  

(iii) The employee has taken a loan of `3,00,000 for the treatment of specified disease on 28.11.2013 and has received insurance claim of `2,50,000 on 28.02.2014. He has repaid `1,00,000 on 01.03.2014. (Presume SBI Rate 12%)  

(iv) He has taken a personal loan of `18,000 on 30.03.2014 for a period of 2 years. (Presume SBI Rate 12%)

Compute perquisite value of the loan given to the employee.

**Answer = Total Perquisite Value: `81,469.57**

**Problem 15.**  
Find out the perquisite value in the following cases:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Furniture</th>
<th>Air-conditioner</th>
<th>Video camera</th>
<th>Motor car</th>
<th>Computer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original cost</td>
<td>1,00,000</td>
<td>45,000</td>
<td>50,000</td>
<td>3,40,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Date of purchase by the employer</td>
<td>07.03.2010</td>
<td>01.07.2012</td>
<td>10.07.2011</td>
<td>01.10.2009</td>
<td>01.01.2011</td>
</tr>
<tr>
<td>Date of putting to use by employer</td>
<td>31.03.2010</td>
<td>01.07.2012</td>
<td>11.07.2011</td>
<td>01.10.2009</td>
<td>10.01.2011</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Date of sale of asset to the employee</td>
<td>01.09.2013</td>
<td>01.08.2013</td>
<td>01.08.2013</td>
<td>01.01.2014</td>
<td>09.01.2014</td>
</tr>
<tr>
<td>Payment made by the employee</td>
<td>40,000</td>
<td>15,000</td>
<td>20,000</td>
<td>1,50,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>

**Answer:** Furniture: `30,000; Air-Conditioner: `25,500; Video Camera: `20,000; Motor Car: Nil; Computer: Nil

**Problem 16.**

Mr. X is employed in ABC Ltd. getting basic pay of `8,000 p.m. Employer has provided him treatment outside India and has incurred a sum of `3,60,000 but Reserve Bank of India has permitted `3,50,000. Employer incurred `1,50,000 on stay but Reserve Bank of India has permitted `1,05,000; employer has incurred `97,000 on travelling and Reserve Bank of India has permitted `60,000.

Employer has paid medical allowance of `10,000 during the year and has incurred `7,000 on the treatment of father in law of Mr. X in India. The treatment was provided in a Government hospital and father in law of Mr. X is dependent on him.

The employee has been provided with a motor car of 1.8 litre engine capacity for official as well as personal use and all expenses are met by the employee himself but driver has been provided by the employer.

Mr. X has income under the head house property `1,000 and income under the head business profession `500 and deductions allowed under section 80C to 80U are `3,500.

Compute his Tax Liability for the Assessment Year 2014-15.

**Answer =** Tax Liability: Nil

**Problem 17.**

Mr. X is retired from ABC Ltd. on 11.09.2013 after serving the employer for 11 years 10 months and 20 days. At the time of retirement his basic pay was `27,000 p.m. but it was `23,000 p.m. upto 31.05.2013. The employee was getting dearness allowance `4,000 p.m. but upto 31.05.2013 it was `3,000 p.m. The employer has paid him gratuity of `3,10,000. Half of the dearness allowance forms part of the salary for retirement benefits.

Compute his tax liability in two situations –

(a) He is covered under Payment of Gratuity Act 1972;
(b) He is not covered under Payment of Gratuity Act 1972.

**Answer =** Tax Liability: (a) `3,270; (b) `10,730

**Problem 18.**

Mr. X is retired from ABC Ltd. with effect from 18.09.2013 after serving the employer for 20 years and 6 months. At the time of his retirement his basic pay was `9,000 p.m. and dearness allowance `3,000 p.m.

The employee was covered under Payment of Gratuity Act 1972. The employer has paid him gratuity of `2,70,000 and has allowed him pension of `5,000 p.m. The employer has also allowed him commutation of pension on 01.01.2014 for 48% of the pension and has paid `2,88,000.

Compute employee’s Tax Liability for the Assessment Year 2014-15.
Answer = Tax Liability: '9,400

Problem 19.
Mr. X is retired from ABC Ltd. on 27.11.2013 after serving the employer for 11 years 11 months and 11 days. The employer has paid him gratuity of '2,50,000. At the time of his retirement his basic pay was '12,500 p.m.

The employer has allowed him pension of '6,200 p.m., the employee has requested for commutation of pension on 01.02.2014 and employer has allowed him commutation @ 52% of his pension and has paid '3,86,880.

Compute his Tax Liability for the Assessment Year 2014-15.

Answer = Tax Liability: '22,440

Problem 20.
Mr. X joined ABC Ltd. in the pay scale of '10,800 – 400 – 16,400 – 500 – 19,400 on 01.07.1995 and he resigned on 15.09.2013. He was allowed dearness allowance @ 50% of his basic pay, forming part of salary for retirement benefits.

On retirement, he received gratuity of '2,60,000. He was allowed pension of '6,000 per month with effect from 16.09.2013. He was allowed commutation of 75% of his pension on 01.01.2014 and received a sum of '6,00,000 as commuted pension.

Compute his Tax Liability for Assessment Year 2014-15.

Answer = Tax Liability: '36,130

Problem 21.
Mr. X is retired from ABC Ltd. on 31.03.2014 after serving the employer for 30 years and 11 months and the employer has paid him leave salary of '5,00,000. At the time of retirement, he was getting basic pay '25,000 p.m. but it was '22,000 p.m. upto 31.07.2013. Further, the employee was getting dearness allowance '6,000 but it was '4,000 p.m. upto 31.07.2013 and 50% of the dearness allowance forms the part of salary for retirement benefits.

The employee was entitled for 3 months leave for every year of service, but the employee has availed 7 months leave throughout the service and has encashed 4 months leave.

Compute employee’s Tax Liability for the Assessment Year 2014-15.

Answer = Tax Liability: '47,380

Problem 22.
Mr. X is retired from ABC Ltd. on 28.02.2014 after serving the employer for 21 years and 10 months. At the time of his retirement his basic pay was '13,000 p.m. but upto 30.09.2013 it was '9,500 p.m. The employer has allowed him dearness allowance @ 10% of his basic pay.

The employee was entitled for 45 days leave per year of service. During entire service the employee has availed 65 days leave and has encashed 45 days leave. The employer has paid him leave salary of '3,10,000 at the time of retirement.

Employer has also paid him gratuity of '2,50,000, pension of '6,000 p.m. and the employee was allowed
Problem 23.
Mr. X is retired from ABC Ltd. with effect from 01.12.2013 after serving the employer for 16 years. At the time of his retirement his basic pay was `13,000 p.m. The employee was entitled for 65 days leave per year of service. The employee has 780 days leave at his credit at the time of retirement (as per employer’s record) which were encashed by the employer. An amount of `3,12,000 was paid by the employer.

Compute his Tax Liability for the Assessment Year 2014-15.

Answer = Tax Liability: `10,370

Problem 24.
Mr. X is employed in ABC Ltd. getting basic pay `10,000 p.m. and dearness allowance `5,000 p.m. (half of the dearness allowance forms part of salary for retirement benefit salary). The employee was working in sales deptt. and employer has allowed him commission @ 1.5% on the sales turnover of `20,00,000.

Employee has contributed `3,000 p.m. to the recognized provident fund. The employer has also contributed an equal amount. During the year interest of `20,000 was credited on 30.06.2013 @ 8.5% p.a.

The employer has provided him rent free accommodation which is owned by the employer himself and the population of the place is 14,00,000.

Compute his income under the head Salary.

Answer = Income under the head Salary: `2,42,400

Problem 25.
Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m., dearness allowance `7,000 p.m. The employer has provided him rent free accommodation for which rent paid by the employer is `3,000 p.m. The employer has contributed `4,000 p.m. to recognised provident fund and the employee has also contributed equal amount. The interest of `16,000 @ 8.5% was credited to the provident fund account on 30.06.2013 for the period 01.07.2012 upto 30.06.2013.

Compute employee’s Total Income for the Assessment Year 2014-15.

Answer = Total Income: `3,31,200

Problem 26.
Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m., dearness allowance `7,000 p.m. The employer has contributed `3,500 to the unrecognised provident fund and the employee has also contributed equal amount. The employee was retired on 31.10.2013 after serving the employer for 20 years and 6 months and employer has credited interest `21,000 to the provident fund account on 31.10.2013 and interest rate is 12% p.a.

The employer has paid provident fund balance `10,00,000 to the employee on 01.11.2013 out of which employee’s contribution is `4,00,000 and employer’s contribution is also `4,00,000 and balance is interest. Employer has paid gratuity `2,60,000 and allowed him pension `5,000 p.m. The employee was allowed commutation of pension on 01.01.2014 for 40% of the pension and has paid `2,40,000.
Problem 27.
Mrs. X, Finance Manager in Z Ltd. New Delhi has furnished the particulars of her incomes as under:

Basic pay `45,000 p.m., employer has provided medical facilities to her father in law in a government hospital and has incurred a sum of `15,000. The employer has also incurred a sum of `1,50,000 on the treatment of Mrs. X outside India and Reserve Bank of India has permitted `1,23,000. `45,000 were incurred in connection with travelling for her treatment outside India.

Employer has provided her rent free accommodation for which rent paid by the employer is `4,500 p.m. The company has given a housing loan of `7,00,000 at a rate of 7% on 01.04.2013 which is repayable within one year and the employee has repaid half of the loan amount on 10.09.2013 and balance on 27.02.2014. (The employer is notified for deduction under section 80C) (Presume SBI Rate 8%)

The company has made a gift of `4,750 in kind in connection with silver jubilee celebrations of the company.

A dining table and six chairs were provided to Mrs. X at her residence and this furniture was purchased on 01.07.2009 for `48,000. It was gifted to the employee for her excellent performance on 01.11.2013.

The company has provided a credit card to the employee and she has made personal purchases of `3,700, which was paid by the company besides service charge of `300.

The company has purchased one motor car of 1.8 litres engine capacity on 10.06.2009 for `2,50,000. It was brought into use by the company w.e.f. 01.11.2009 and was provided to the assessee for official/personal use during 2013-14, but was sold to the assessee on 01.01.2014 for `1,00,000.

The employer has paid her entertainment allowance of `700 p.m. but Mrs. X has saved `300 p.m.

The employer has paid professional tax of `2,500 on her behalf on 02.04.2013, but it was due on 31.03.2013.

The employer and employee both have contributed `3,500 p.m. each to the recognized provident fund.

Mrs. X was retired on 28.02.2014 after serving the employer for 25 years and 6 months and one day. The employer has paid gratuity of `3,67,000 and has allowed her pension of `8,000 p.m. but it will be due on the first of next month and employee was allowed commutation of 40% of her pension and has received `3,84,000 on 01.03.2014.

Compute her Total Income, Tax Liability and Tax Payable for Assessment Year 2014-15.

Answer = Total Income: `6,66,930; Tax Liability: `65,290

Problem 28.
Dr. Vimil, a civil surgeon was in Government service till 30.06.2013. He joined as an adviser (part time) from 1st October, 2013 in a charitable dispensary on an honorarium of ` 32,000 per month. He owns a house property which is self occupied. From the following further information, furnished for the year ending 31st March, 2014, you are requested to

(a) compute his income under the head Salary for the Assessment Year 2014-15
(b) calculate the Tax Liability.
   \[ \text{Income Under The Head Salary} \]
   (a) Salary from Government service 30,000
   (b) House rent allowance 5,000
   (c) Gratuity Received 1,20,000
   (d) Leave at credit (encashment) 50,000
   (e) Provident fund 78,000
   (f) Commuted pension 35,000
   (g) Uncommuted Pension 20,000
   (h) Repayment to Housing Development Finance Corporation Ltd.
      (Paid in June, 2014 – Principal 10,000 + Interest 14,000
      on loan taken for construction of house) 24,000
   (i) Deposit in public provident fund account 32,000

**Answer** = (a) 2,01,000; (b) Tax Liability: `Nil

**Problem 29.**
Mr. X, a resident individual is retired from XY Co. Ltd. w.e.f. 1st February, 2014, after 20 years and 9 months of service. He joined LM Co. Ltd. on the same day, i.e. 1st February, 2014 and remained in service till 31st March, 2014.

He furnished the following information:

**Salary and allowances from 01.04.2013 to 31.01.2014 from XY Co. Ltd.**
- Basic salary 10,000 p.m.
- Dearness allowance 1,500 p.m.
- Commission calculated @ 4% on turnover achieved by Mr. X 4,000
- Gratuity received 1,25,000
  (not covered by the Payment of Gratuity Act, 1972)

**Salary and allowance from LM Co. Ltd.**
- Basic Salary 7,000 p.m.
- Entertainment allowance 1,000 p.m.
- Fixed medical allowance 500 p.m.
- House rent allowance 600 p.m.
- Leave salary received (During the service) 5,000

**Other information:**
Mr. X resides in his own house throughout the year.

Mr. X paid a premium of `12,000 on the policy of `70,000 on life of his minor child. Contribution to an approved superannuation fund and the Jeevan Dhara Scheme of the LIC covered under section 80C amounted to `8,000 and `5,000 respectively.

Compute Mr. X’s Total Income and Tax Liability for Assessment Year 2014-15.
**SOLUTIONS TO PRACTICE PROBLEMS**

**Solution 1:**

**Computation of Gross Salary**

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2003 – 30.06.2004 =</td>
<td>7,000 p.m.</td>
</tr>
<tr>
<td>01.07.2004 – 30.06.2005 =</td>
<td>7,500 p.m.</td>
</tr>
<tr>
<td>01.07.2005 – 30.06.2006 =</td>
<td>8,000 p.m.</td>
</tr>
<tr>
<td>01.07.2006 – 30.06.2007 =</td>
<td>8,500 p.m.</td>
</tr>
<tr>
<td>01.07.2007 – 30.06.2008 =</td>
<td>9,000 p.m.</td>
</tr>
<tr>
<td>01.07.2008 – 30.06.2009 =</td>
<td>9,500 p.m.</td>
</tr>
<tr>
<td>01.07.2009 – 30.06.2010 =</td>
<td>10,000 p.m.</td>
</tr>
<tr>
<td>01.07.2010 – 30.06.2011 =</td>
<td>10,800 p.m.</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012 =</td>
<td>11,600 p.m.</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013 =</td>
<td>12,400 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014 =</td>
<td>13,200 p.m.</td>
</tr>
</tbody>
</table>

**Dearness Allowance**

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>From April to June</td>
<td>2,604</td>
</tr>
<tr>
<td>7% of (12,400 x 3) =</td>
<td>2,604</td>
</tr>
<tr>
<td>From July to March</td>
<td>11,880</td>
</tr>
<tr>
<td>10% of (13,200 x 9) =</td>
<td>11,880</td>
</tr>
<tr>
<td>Total = `(2,604 +11,880) =</td>
<td>14,484</td>
</tr>
</tbody>
</table>

**Gross Salary** 1,70,484.00

**Income under the head Salary** 1,70,484.00

**Gross Total Income** 1,70,484.00

**Less: Deduction u/s 80C to 80U** Nil

**Total Income (Rounded off u/s 288A)** 1,70,480.00

**Computation of Tax Liability**

Tax on `1,70,480 at slab rate Nil

**Tax Liability** Nil

**Solution 2:**

**Computation of Gross Salary**

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2003 – 30.06.2004 =</td>
<td>7,000 p.m.</td>
</tr>
<tr>
<td>01.07.2004 – 30.06.2005 =</td>
<td>7,500 p.m.</td>
</tr>
<tr>
<td>01.07.2005 – 30.06.2006 =</td>
<td>8,000 p.m.</td>
</tr>
<tr>
<td>01.07.2006 – 30.06.2007 =</td>
<td>8,500 p.m.</td>
</tr>
<tr>
<td>01.07.2007 – 30.06.2008 =</td>
<td>9,000 p.m.</td>
</tr>
<tr>
<td>01.07.2008 – 30.06.2009 =</td>
<td>9,500 p.m.</td>
</tr>
<tr>
<td>01.07.2009 – 30.06.2010 =</td>
<td>10,000 p.m.</td>
</tr>
<tr>
<td>01.07.2010 – 30.06.2011 =</td>
<td>10,800 p.m.</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012 =</td>
<td>11,600 p.m.</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013 =</td>
<td>12,400 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014 =</td>
<td>13,200 p.m.</td>
</tr>
</tbody>
</table>

**Gross Salary** 2,68,200

**Income under the head Salary** 2,68,200

**Less: Deduction u/s 80C to 80U** Nil

**Total Income (Rounded off u/s 288A)** 2,68,200
Working Note:
```
01.10.2000 – 30.09.2001 = 10,000 p.m.
01.10.2001 – 30.09.2002 = 10,900 p.m.
01.10.2002 – 30.09.2003 = 11,800 p.m.
01.10.2003 – 30.09.2004 = 12,700 p.m.
01.10.2004 – 30.09.2005 = 13,600 p.m.
01.10.2005 – 30.09.2006 = 14,500 p.m.
01.10.2006 – 30.09.2007 = 15,400 p.m.
01.10.2007 – 30.09.2008 = 16,300 p.m.
01.10.2008 – 30.09.2009 = 17,400 p.m.
01.10.2009 – 30.09.2010 = 18,500 p.m.
01.10.2010 – 30.09.2011 = 19,600 p.m.
01.10.2011 – 30.09.2012 = 20,700 p.m.
01.10.2012 – 30.09.2013 = 21,800 p.m.
01.10.2013 – 30.09.2014 = 22,900 p.m.
```

Dearness Allowance
18,055.80

Working Note:
```
From April to September
4.35% of (21,800 x 6) = 5,689.80
From October to December
7.5% of (22,900 x 3) = 5,152.50
From January to March
10.5% of (22,900 x 3) = 7,213.50
Total
18,055.80
```

Gross Salary
2,86,255.80

Income under the head Salary
2,86,255.80

Gross Total Income
2,86,255.80

Less: Deduction u/s 80C to 80U
Nil

Total Income (rounded off u/s 288A)
2,86,260.00

Computation of Tax Liability
Tax on `2,86,260 at slab rate
8,626.00
Less: Rebate u/s 87A (`8,626 or `2,000 whichever is less)
2,000.00
Tax before Education cess
6,626.00
Add: Education cess @ 2%
132.52
Add: SHEC @ 1%
66.26
Tax Liability
6,824.78
Rounded off u/s 288B
6,820.00

Solution 3:
Computation of Gross Salary
Basic Pay
1,20,000.00
(10,000 x 12)

Dearness Allowance
48,000.00
(4,000 x 12)

Bonus
12,000.00
(1,000 x 12)

Commission
1,50,000.00
Income Under The Head Salary

(2.5% of 60,00,000)

House Rent Allowance {Sec 10 (13A), Rule 2A} 23,400.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>Least of the following is exempt:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. `48,000</td>
</tr>
<tr>
<td></td>
<td>2. <code>54,000 – 29,400 = </code>24,600</td>
</tr>
<tr>
<td></td>
<td>3. 50% of retirement benefit salary = `1,47,000</td>
</tr>
<tr>
<td>(Retirement benefit salary = `2,94,000)</td>
<td></td>
</tr>
<tr>
<td>Received = `48,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = `24,600</td>
<td></td>
</tr>
<tr>
<td>Taxable = `23,400</td>
<td></td>
</tr>
</tbody>
</table>

Gross Salary 3,53,400.00
Income under the head Salary 3,53,400.00
Gross Total Income 3,53,400.00
Less: Deduction u/s 80C to 80U Nil
Total Income 3,53,400.00

Computation of Tax Liability
Tax on `3,53,400 at slab rate 15,340.00
Less: Rebate u/s 87A (15,340 or `2,000 whichever is less) 2,000.00
Tax before Education cess 13,340.00
Add: Education cess @ 2% 266.80
Add: SHEC @ 1% 133.40
Tax Liability 13,740.20
Rounded off u/s 288B 13,740.00

Solution 4:
Computation of Gross Salary
Basic Pay 1,38,000.00
(11,500 x 12)
Dearness Allowance 60,000.00
(5,000 x 12)

House Rent Allowance {Sec 10(13A), Rule 2A} 5,400.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>From October to March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least of the following is exempt</td>
<td></td>
</tr>
<tr>
<td>1. `18,000</td>
<td></td>
</tr>
<tr>
<td>2. <code>21,000 – </code>8,400 = `12,600</td>
<td></td>
</tr>
<tr>
<td>3. 40% of retirement benefit salary = `33,600</td>
<td></td>
</tr>
<tr>
<td>(Retirement benefit salary = `84,000)</td>
<td></td>
</tr>
<tr>
<td>Received = `18,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = `12,600</td>
<td></td>
</tr>
<tr>
<td>Taxable = `5,400</td>
<td></td>
</tr>
</tbody>
</table>

Children Education Allowance {Sec 10(14), Rule 2BB} 1,800.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = `75 x 4 x 12 =</td>
<td>3,600</td>
</tr>
<tr>
<td>Exempt = `75 x 2 x 12 =</td>
<td>1,800</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable</td>
<td>1,800</td>
</tr>
<tr>
<td>Hostel Allowance (Sec 10(14), Rule 2BB)</td>
<td>2,400.00</td>
</tr>
<tr>
<td>Working Note:</td>
<td></td>
</tr>
<tr>
<td>Received = 500 x 12 = 6,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = 300 x 12 = 3,600</td>
<td></td>
</tr>
<tr>
<td>Taxable =</td>
<td>2,400</td>
</tr>
<tr>
<td>Transport Allowance (Sec 10(14), Rule 2BB)</td>
<td>900.00</td>
</tr>
<tr>
<td>Working Note:</td>
<td></td>
</tr>
<tr>
<td>Received = 900 x 9 = 8,100</td>
<td></td>
</tr>
<tr>
<td>Exempt = 800 x 9 = 7,200</td>
<td></td>
</tr>
<tr>
<td>Taxable =</td>
<td>900</td>
</tr>
</tbody>
</table>

Gross Salary 2,08,500.00
Income under the head Salary 2,08,500.00
Gross Total Income 2,08,500.00
Less: Deduction u/s 80C to 80U Nil
Total Income 2,08,500.00

Computation of Tax Liability
Tax on 2,08,500 at slab rate 850.00
Less: Rebate u/s 87A (850 or 2,000 whichever is less) 850.00
Tax Liability Nil

Solution 5:
Computation of Gross Salary
Basic Pay 3,00,000.00
(25,000 x 12)

Dearness Allowance 30,000.00
(10% of Basic pay)

Children Education Allowance (Sec 10(14), Rule 2BB) 7,800.00
Working Note: 9,000
Received = 750 x 12 = 9,000
Exempt = 100 x 12 = 1,200
Taxable = 7,800

Transport Allowance (Sec 10(14), Rule 2BB) 2,400.00
Working Note: 12,000
Received = 1,000 x 12 = 12,000
Exempt = 800 x 12 = 9,600
Taxable = 2,400

Flight Allowance (Sec 10(14), Rule 2BB) 36,000.00
Working Note:
Least of the following is exempt:
1. 70% of allowance received = 70% of (10,000 x 12) = 84,000
2. 10,000 x 12 = 1,20,000
Received = 1,20,000
Exempt = 84,000
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable</td>
<td>`36,000</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>`3,76,200</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>`3,76,200</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>`3,76,200</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>`3,76,200</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on `3,76,200 at slab rate: `17,620.00
- Less: Rebate u/s 87A (`17,620 or `2,000 whichever is less): `2,000.00
- Tax before Education cess: `15,620.00
- Add: Education cess @ 2%: `312.40
- Add: SHEC @ 1%: `156.20
- Tax Liability: `16,088.60
- Rounded off u/s 288B: `16,090.00

**Solution 6:**

**Computation of income under the head Salary**

- Basic Pay: `1,08,000.00 \( (9,000 \times 12) \)
- Dearness Allowance: `64,800.00 \( (60\% \text{ of } 1,08,000) \)
- Children Education Allowance \{Sec 10(14), Rule 2BB\}: `19,200.00

**Working Note:**

- Received: `600 \times 3 \times 12 = `21,600
- Exempt: `100 \times 2 \times 12 = `2,400
- Taxable: `19,200

**Hostel Allowance** \{Sec 10(14), Rule 2BB\}: `8,400.00

**Working Note:**

- Received: `1,000 \times 1 \times 12 = `12,000
- Exempt: `300 \times 1 \times 12 = `3,600
- Taxable: `8,400

- Entertainment Allowance: `2,400.00 \( (200 \times 12) \)
- Professional Tax: `2,100.00 \( (175 \times 12) \)
- Medical Allowance: `3,600.00 \( (300 \times 12) \)
- Gross Salary: `2,08,500.00
- Less: 16(ii) Entertainment Allowance: `2,400.00

**Working Note:**

Least of the following is deductible:

1. `2,400
2. `5,000
3. 20% of `1,08,000 = `21,600

So, Deductible = `2,400
Income Under The Head Salary

Less: 16(iii) Professional Tax  
Income under the head Salary  
Gross Total Income  
Less: Deduction u/s 80C to 80U  
Total Income  

Income under the head Salary  
Gross Total Income  
Less: Deduction u/s 80C to 80U  
Total Income  

Computation of Tax Liability
Tax on `2,04,000 at slab rate  
Less: Rebate u/s 87A (`400 or `2,000 whichever is less)  
Tax Liability  

Solution 7:
Computation of income under the head Salary
Basic Pay  
[(18,500 x 3) + (19,500 x 9)] = `2,31,000

Working Note:
01.07.1997 – 30.06.1998 = 9,600 p.m.
01.07.1998 – 30.06.1999 = 9,900 p.m.
01.07.1999 – 30.06.2000 = 10,200 p.m.
01.07.2000 – 30.06.2001 = 10,500 p.m.
01.07.2001 – 30.06.2002 = 11,000 p.m.
01.07.2002 – 30.06.2003 = 11,500 p.m.
01.07.2003 – 30.06.2004 = 12,000 p.m.
01.07.2004 – 30.06.2005 = 12,500 p.m.
01.07.2005 – 30.06.2006 = 13,000 p.m.
01.07.2006 – 30.06.2007 = 13,750 p.m.
01.07.2007 – 30.06.2008 = 14,500 p.m.
01.07.2008 – 30.06.2009 = 15,250 p.m.
01.07.2009 – 30.06.2010 = 16,000 p.m.
01.07.2010 – 30.06.2011 = 16,750 p.m.
01.07.2011 – 30.06.2012 = 17,500 p.m.
01.07.2012 – 30.06.2013 = 18,500 p.m.
01.07.2013 – 30.06.2014 = 19,500 p.m.

Dearness Allowance {11% of Basic Pay}  
House Rent Allowance {Sec 10(13A), Rule 2A}  

Working Note:
From 01.04.2013 To 30.06.2013
Least of the following is exempt:
1. `9,000
2. Nil
3. 40% of retirement benefit salary = `22,200
   (Retirement benefit salary = `55,500)
Received = `9,000
Exempt = Nil
Taxable = `9,000

From 01.07.2013 To 31.03.2014
Least of the following is exempt:
1. `27,000
2. Nil
3. 40% of retirement benefit salary = `70,200
   (Retirement benefit salary = `75,500)
<table>
<thead>
<tr>
<th>Income Under The Head Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = `27,000</td>
</tr>
<tr>
<td>Exempt = Nil</td>
</tr>
<tr>
<td>Taxable = `27,000</td>
</tr>
<tr>
<td>Total = 9,000 + 27,000 = `36,000</td>
</tr>
</tbody>
</table>

Entertainment Allowance 7,200.00
(600 x 12)

Professional Tax 2,400.00

Conveyance Allowance 4,800.00

**Working Note:**
Conveyance incurred for official purpose is only `100 p.m. Hence taxable is 400 x 12 = `4,800

<table>
<thead>
<tr>
<th>Gross Salary</th>
<th>3,06,810.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: 16(iii) Professional Tax</td>
<td>2,400.00</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>3,04,410.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>3,04,410.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,04,410.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**
Tax on `3,04,410 at slab rate 10,441.00
Less: Rebate u/s 87A (`10,441 or `2,000 whichever is less) 2,000.00
Tax before Education cess 8,441.00
Add: Education cess @ 2% 168.82
Add: SHEC @ 1% 84.41
Tax Liability 8,694.23
Rounded off u/s 288B 8,690.00

**Solution 8:**
**Computation of income under the head Salary**
Basic Pay [(39,000 x 4) + (40,800 x 8)] 4,82,400.00

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2006 – 30.06.2007 = 29,500 p.m.</td>
</tr>
<tr>
<td>01.07.2007 – 30.06.2008 = 31,000 p.m.</td>
</tr>
<tr>
<td>01.07.2008 – 30.06.2009 = 32,600 p.m.</td>
</tr>
<tr>
<td>01.07.2009 – 30.06.2010 = 34,200 p.m.</td>
</tr>
<tr>
<td>01.07.2010 – 30.06.2011 = 35,800 p.m.</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012 = 37,400 p.m.</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013 = 39,000 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014 = 40,800 p.m.</td>
</tr>
</tbody>
</table>

Dearness allowance [(10,000 x 1) + (12,000 x 11)] 1,42,000.00

Pension 10,000.00

Gross Salary 6,34,400.00
Income under the head Salary 6,34,400.00
Gross Total Income 6,34,400.00
Less: Deduction u/s 80C to 80U Nil
Total Income 6,34,400.00
**Computation of Tax Liability**

Tax on `6,34,400 at slab rate  
Add: Education cess @ 2%  
Add: SHEC @ 1%  
Tax Liability  
Rounded off u/s 288B

**Solution 9:**

**Step 1.** Previous Year 2013–14

Salary  
Add: Arrears for previous year 2012-13  
Gross Salary  
Income under the head Salary  
Tax before education cess  
Less: Rebate u/s 87A (`20,000 or `2,000 whichever is less)  
Add: Education cess @ 2%  
Add: SHEC @ 1%  
Tax Liability

**Step 2.** Previous Year 2013–14

Salary  
Gross Salary  
Income under the head Salary  
Tax before education cess  
Less: Rebate u/s 87A (`12,000 or `2,000 whichever is less)  
Add: Education cess @ 2%  
Add: SHEC @ 1%  
Tax Liability

**Step 3.** Difference between Step 1 and Step 2

8,240

**Step 4.** Previous Year 2012–13

Salary  
Add: Arrears  
Gross Salary  
Income under the head Salary  
Tax before education cess  
Add: Education cess @ 2%  
Add: SHEC @ 1%  
Tax Liability

**Step 5.** Previous Year 2012–13

Salary  
Gross Salary  
Income under the head Salary  
Tax before education cess  
Add: Education cess @ 2%  
Add: SHEC @ 1%  
Tax Liability

**Step 6.** Difference between Step 4 and Step 5

8,240
Solution 10:

Computation of income under the head Salary

Basic Pay
(11,000 x 12)

Dearness Allowance
(7,000 x 12)

Commission
(3,000 x 12)

Medical Allowance
(400 x 12)

House Rent Allowance {Sec 10(13A), Rule 2A}

Working Note:
From April to August
1. `20,000
2. `15,000 - `5,850 = `9,150
3. 40% of retirement benefit salary = `23,400
   (Retirement benefit salary = (11,000 + 700) x 5 = 58,500)
   Received = `20,000
   Exempt = `9,150
   Taxable = `10,850

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}

Working Note:
From November to March
Perquisite value = 7.5% of rent free accommodation salary = `5,662.50
Rent free accommodation Salary
 = Basic Pay + Dearness Allowance + Commission + Medical Allowance
 = `55,000 + `3,500 + `15,000 + `2,000 = `75,500
Perquisite value of furniture = 10% of (1,00,000 x 3/12) = `2,500
Taxable Amount = `5,662.50 + `2,500 = `8,162.50

Arrears of Salary
Advance Salary
Gross Salary
Income under the head Salary
Gross Total Income
Less: Deductions u/s 80C to 80U
Total Income (Rounded off u/s 288A)

Computation of Tax Liability
Tax on `3,05,810 at slab rate
Less: Rebate u/s 87A (`10,581 or `2,000 whichever is less)
Income Under The Head Salary

- Tax before Education cess: 8,581.00
- Add: Education cess @ 2%: 171.62
- Add: SHEC @ 1%: 85.81
- Tax Liability: 8,838.43
- Rounded off u/s 288B: 8,840.00

Solution 11:

Computation of income under the head Salary

Basic Pay: 1,56,000.00 (13,000 x 12)
Dearness Allowance: 60,000.00 (5,000 x 12)
Commission: 42,000.00 (3,500 x 12)
Overtime Allowance: 11,000.00 (1,000 x 11)

House Rent Allowance {Sec 10(13A), Rule 2A}: 4,000.00

Working Note:
From April to May 2013
1. 4,000
2. 1,000 – 2,600 = Nil
3. 50% of retirement benefit salary = 13,000
   (Retirement benefit salary = 13,000 x 2 = 26,000)
   Received = 4,000
   Exempt = Nil
   Taxable = 4,000

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}: 27,125.00

Working Note:
From September to March
15% of rent free accommodation salary = 18,375
Rent free accommodation Salary
= Basic Pay + Commission + Overtime Allowance
= 91,000 + 24,500 + 7,000 = 1,22,500
Add: cost of furniture = 1,50,000 x 7/12 x 10% = 8,750
Perquisite value of furnished house = 18,375 + 8,750 = 27,125

Professional Tax: 2,400.00 (200 x 12)

Arrears of Salary {Sec 15}: 35,000.00

Gross Salary: 3,37,525.00
Less: 16(iii) Professional Tax: 2,400.00
Income under the head Salary: 3,35,125.00
Gross Total Income: 3,35,125.00
Less: Deductions u/s 80C to 80U: Nil
Total Income (Rounded off u/s 288A): 3,35,130.00
**Computation of Tax Liability**

Tax on ₹3,35,130 at slab rate 13,513.00
Less: Rebate u/s 87A (₹13,513 or ₹2,000 whichever is less) 2,000.00
Tax before Education cess 11,513.00
Add: Education cess @ 2% 230.26
Add: SHEC @ 1% 115.13
Tax Liability 11,858.39
Rounded off u/s 288B 11,860.00

**Solution 12:**

**Computation of income under the head Salary**

Basic Pay (11,000 x 12) 1,32,000.00
Dearness Allowance (5,000 x 12) 60,000.00
Dearness Pay (1,000 x 12) 12,000.00
Bonus (1,200 x 12) 14,400.00
Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)} 14,400.00

**Working Note:**

**From April To December**

15% of Rent free accommodation Salary or rent paid whichever is less
Rent free accommodation Salary
= Basic Pay + Dearness Allowance + Dearness Pay + Bonus
= 99,000 + 13,500 + 900 + 10,800 = ₹1,24,200
15% of rent free accommodation Salary = ₹18,630
Rent Paid = 1,200 x 9 = ₹10,800
(A) Perquisite value of unfurnished house = ₹10,800

**From January To March**

Rent free accommodation Salary of Delhi
= Basic Pay + Dearness Allowance + Dearness Pay + Bonus
= 33,000 + 4,500 + 300 + 3,600 = ₹41,400
15% of Rent free accommodation Salary = ₹6,210
Rent paid = ₹3,600
Perquisite value of Rent free accommodation of Delhi = ₹3,600

Rent free accommodation of Bombay
Rent free accommodation Salary
= Basic Pay + Dearness Allowance + Dearness Pay + Bonus
= 33,000 + 4,500 + 300 + 3,600 = ₹41,400
15% of Rent free accommodation Salary = ₹6,210
Perquisite value of rent free accommodation of Bombay = ₹6,210
(B) Perquisite value of unfurnished house {least is in Delhi} = ₹3,600
Total Amount = A + B = ₹10,800 + 3,600 = ₹14,400

Arrears of Salary {Sec 15} 32,000.00
Advance of Salary {Sec 15} 11,000.00
Gross Salary 2,75,800.00
Income under the head Salary 2,75,800.00
Gross Total Income 2,75,800.00
Less: Deductions u/s 80C to 80U Nil
Total Income 2,75,800.00

**Computation of Tax Liability**

Tax on `2,75,800 at slab rate 7,580.00
Less: Rebate u/s 87A (`7,580 or `2,000 whichever is less) 2,000.00
Tax before Education cess 5,580.00
Add: Education cess @ 2% 111.60
Add: SHEC @ 1% 55.80
Tax Liability 5,747.40
Rounded off u/s 288B 5,750.00

**Solution 13:**

**Computation of income under the head Salary**

Basic Pay 2,40,000
(20,000 x 12)

House rent allowance {Sec 10(13A), Rule 2A} 5,000

**Working Note:**

**From November 2013 to March 2014**

1. `25,000
2. `30,000 – `10,000 = `20,000
3. 40% of retirement benefit salary = `40,000
   (Retirement Benefit Salary = 20,000 x 5 = `1,00,000)
   Received = `25,000
   Exempt = `20,000
   Taxable = ` 5,000

Advance Salary {Sec 15} 20,000

Rent Free Accommodation {Sec 17(ii), Rule 3(1)} 21,000

**Working Note:**

15% of Rent free accommodation salary or Rent paid whichever is less
Rent free accommodation salary = Basic Pay = `1,40,000
15% of Rent free accommodation Salary = `21,000
Rent paid = `7,000 x 7 = `49,000
Perquisite value of unfurnished house = `21,000

Gross Salary 2,86,000
Income under the head Salary 2,86,000
Gross Total Income 2,86,000
Less: Deductions u/s 80C to 80U Nil
Total Income 2,86,000

**Computation of Tax Liability**

Tax on `2,86,000 at slab rate 8,600
Less: Rebate u/s 87A (`8,600 or `2,000 whichever is less) 2,000
Tax before Education cess 6,600
Add: Education cess @ 2%  
Add: SHEC @ 1%  
Tax liability  
Rounded off u/s 288B

**Solution 14:**

(i) **Computation of perquisite value of the loan**

<table>
<thead>
<tr>
<th>Months</th>
<th>Outstanding balance at the end (in `)</th>
<th>Amount of interest (in `)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September</td>
<td>7,00,000</td>
<td>7,00,000 x 7% x 1/12 = 4,083.33</td>
</tr>
<tr>
<td>October</td>
<td>7,00,000</td>
<td>7,00,000 x 7% x 1/12 = 4,083.33</td>
</tr>
<tr>
<td>November</td>
<td>7,00,000</td>
<td>7,00,000 x 7% x 1/12 = 4,083.33</td>
</tr>
<tr>
<td>December</td>
<td>6,75,000</td>
<td>6,75,000 x 7% x 1/12 = 3,937.50</td>
</tr>
<tr>
<td>January</td>
<td>6,50,000</td>
<td>6,50,000 x 7% x 1/12 = 3,791.67</td>
</tr>
<tr>
<td>February</td>
<td>6,25,000</td>
<td>6,25,000 x 7% x 1/12 = 3,645.83</td>
</tr>
<tr>
<td>March</td>
<td>6,00,000</td>
<td>6,00,000 x 7% x 1/12 = 3,500.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>27,124.99</strong></td>
</tr>
</tbody>
</table>

So, perquisite value of interest free loan = `27,124.99

(ii) **Computation of perquisite value of the loan**

\`
10,00,000 x 5.5% x 10/12  
9,45,000 x 5.5% x 1/12
\`

Perquisite value of interest free loan  
50,164.58

(iii) **Computation of perquisite value of the loan**

\`
2,50,000 x 12% x 1/12  
1,50,000 x 12% x 1/12
\`

Perquisite value of interest free loan  
4,000.00

(iv) **Computation of perquisite value of the loan**

\`
18,000 x 12% x 1/12
\`

Total perquisite value  
81,469.57

**Solution 15:**

**Computation of perquisite value of Furniture**

Cost of the furniture  
1,00,000

Less: Depreciation on straight line method @ 10% from 31.03.2010 to 30.03.2011  
10,000

Less: Depreciation on straight line method @ 10% from 31.03.2011 to 30.03.2012  
10,000

Less: Depreciation on straight line method @ 10% from 31.03.2012 to 30.03.2013  
10,000

Written down value  
70,000

Less: Amount paid by the assessee  
40,000

Perquisite value of Furniture  
30,000

**Computation of perquisite value of Air-conditioner**

Cost of the Air-conditioner  
45,000

Less: Depreciation on straight line method @ 10% from 01.07.2012 to 30.06.2013  
4,500

Written down value  
40,500

Less: Amount paid by the assessee  
15,000

Perquisite value of Air-conditioner  
25,500

**Computation of perquisite value of Video Camera**
Income Under The Head Salary

Cost of the Video Camera
Less: Depreciation on straight line method @ 10% from 11.07.2011 to 10.07.2012
Written down value
Less: Depreciation on straight line method @ 10% from 11.07.2012 to 10.07.2013
Written down value
Less: Amount paid by the assessee
Perquisite value of Video Camera

Computation of perquisite value of Motor car
Cost of the motor
Less: Depreciation on reducing balance method @ 20% from 01.10.2009 to 30.09.2010
Written down value
Less: Depreciation on reducing balance method @ 20% from 01.10.2010 to 30.09.2011
Written down value
Less: Depreciation on reducing balance method @ 20% from 01.10.2011 to 30.09.2012
Written down value
Less: Depreciation on reducing balance method @ 20% from 01.10.2012 to 30.09.2013
Written down value
Less: Amount paid by the assessee
Perquisite value of motor car

Computation of perquisite value of Computer
Cost of the Computer
Less: Depreciation on reducing balance method @ 50% from 10.01.2011 to 09.01.2012
Written down value
Less: Depreciation on reducing balance method @ 50% from 10.01.2012 to 09.01.2013
Written down value
Less: Depreciation on reducing balance method @ 50% from 10.01.2013 to 09.01.2014
Written down value
Less: Amount paid by the assessee
Perquisite value of computer

Solution 16:
Computation of income under the head Salary
Basic Pay
(8,000 x 12)
Medical Facilities
{Proviso to Sec 17(2)}

Working Note:
Expenses on treatment = 3,60,000
Exempt = Permitted by RBI = 3,50,000
(A)Taxable = 10,000
Expenses on Stay = 1,50,000
Exempt = Permitted by RBI = 1,05,000
(B)Taxable = 45,000
Treatment of father in law = 7,000
Total = 10,000 + 45,000 + 7,000 = 62,000

Medical Allowance
Motor Car {Sec 17(2) (iii), Rule 3(2)}
Since basic pay is `96,000 so monetary income is more than `50,000 hence, he is a specified employee

(1,800 x 12)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>1,89,600.00</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>1,89,600.00</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>500.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>1,91,100.00</td>
</tr>
<tr>
<td>Less: Deductions u/s 80C to 80U</td>
<td>3,500.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>1,87,600.00</td>
</tr>
</tbody>
</table>

Tax Liability                                      Nil

**Note:** Since Gross total income before taking into consideration travelling expenses is not exceeding `2 lakhs. Hence travelling is exempt.

**Solution 17:**

(a) He is covered under Payment of Gratuity Act, 1972

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>1,36,900.00</td>
</tr>
</tbody>
</table>

**Working Note:**

- From April to May: 
  
  23,000 x 2 = 46,000

- From June to August: 
  
  27,000 x 3 = 81,000

- For September: 
  
  11/30 x 27,000 = 9,900

Total = `46,000 + 81,000 + 9,900 = 1,36,900

Dearness Allowance                 19,466.67

**Working Note:**

- From April to May: 
  
  3,000 x 2 = 6,000.00

- From June to August: 
  
  4,000 x 3 = 12,000.00

- For September: 
  
  11/30 x 4,000 = 1,466.67

Total = 6,000 + 12,000 + 1,466.67 = 19,466.67

Gratuity {Sec 10(10)}                         95,384.62

**Working Note:**

Least of the following is exempt:

1. `3,10,000
2. `10,00,000
3. 15/26 x (27,000 + 4,000) x 12 = `2,14,615.38

Received = `3,10,000.00

Exempt = `2,14,615.38

Taxable = `95,384.62

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>2,51,751.29</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>2,51,751.29</td>
</tr>
<tr>
<td>Gross Total Income / Total Income</td>
<td>2,51,750.00</td>
</tr>
</tbody>
</table>

(Rounded off u/s 288A)

**Computation of Tax Liability**
Income Under The Head Salary

Tax on `2,51,750 at slab rate 5,175.00
Less: Rebate u/s 87A (`5,175 or `2,000 whichever is less) 2,000.00
Tax before Education cess 3,175.00
Add: Education cess @ 2% 63.50
Add: SHEC @ 1% 31.75
Tax Liability 3,270.25
Rounded off u/s 288B 3,270.00

(b) He is not covered under Payment of Gratuity Act, 1972
Basic Salary 1,36,900.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>From April to May</strong></td>
<td></td>
</tr>
<tr>
<td>23,000 x 2 =</td>
<td>46,000</td>
</tr>
<tr>
<td><strong>From June to August</strong></td>
<td></td>
</tr>
<tr>
<td>27,000 x 3 =</td>
<td>81,000</td>
</tr>
<tr>
<td><strong>For September</strong></td>
<td></td>
</tr>
<tr>
<td>11/30 x 27,000 =</td>
<td>9,900</td>
</tr>
<tr>
<td>Total = `46,000 + 81,000 + 9,900 =</td>
<td>1,36,900</td>
</tr>
</tbody>
</table>

Dearness Allowance 19,466.67

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>From April to May</strong></td>
<td></td>
</tr>
<tr>
<td>3,000 x 2 =</td>
<td>6,000.00</td>
</tr>
<tr>
<td><strong>From June to August</strong></td>
<td></td>
</tr>
<tr>
<td>4,000 x 3 =</td>
<td>12,000.00</td>
</tr>
<tr>
<td><strong>For September</strong></td>
<td></td>
</tr>
<tr>
<td>11/30 x 4,000 =</td>
<td>1,466.67</td>
</tr>
<tr>
<td>Total = `6,000 +12,000 + 1,466.67 =</td>
<td>19,466.67</td>
</tr>
</tbody>
</table>

Gratuity {Sec 10(10)} 1,67,825.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Least of the following is exempt</td>
<td></td>
</tr>
<tr>
<td>1.`3,10,000</td>
<td></td>
</tr>
<tr>
<td>2.`10,00,000</td>
<td></td>
</tr>
<tr>
<td>3. ½ x 25,850 x 11 = `1,42,175</td>
<td></td>
</tr>
<tr>
<td>Received = `3,10,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = `1,42,175</td>
<td></td>
</tr>
<tr>
<td>Taxable = `1,67,825</td>
<td></td>
</tr>
</tbody>
</table>

**Calculation of Average Salary**
Basic Pay
From November to May `23,000 x 7 = 1,61,000
From June to August `27,000 x 3 = 81,000
Total = 2,42,000
D.A.
From November to May `1,500 x 7 = 10,500
From June to August `2,000 x 3 = 6,000
Total = 16,500
Average Salary = (2,42,000 + 16,500)/10 = 25,850

Gross Salary 3,24,191.67
Income under the head Salary 3,24,191.67
Gross Total Income / Total Income 3,24,190.00
(Rounded off u/s 288A)
**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `3,24,190 at slab rate</td>
<td>12,419.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A (<code>12,419 or </code>2,000 whichever is less)</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Tax before Education cess</td>
<td>10,419.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>208.38</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>104.19</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>10,731.57</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>10,730.00</td>
</tr>
</tbody>
</table>

**Solution 18:**

**Computation of income under the head Salary**

- **Basic Pay**
  
  \[(9,000 \times 5) + (9,000 \times 17/30)\]  
  
  50,100.00

- **Dearness Allowance**
  
  \[(3,000 \times 5) + (3,000 \times 17/30)\]  
  
  16,700.00

- **Gratuity** \{Sec 10(10)\}
  
  \[3.15/26 \times 12,000 \times 20 = \text{1,38,461.54}\]  
  
  Received = `2,70,000  
  Exempt = `1,38,461.54  
  Taxable = `1,31,538.46

- **Uncommuted Pension** \{Sec 17(1)(ii)\}
  
  \[5,000 \times 13/30 = \text{2,166.67} \]
  
  From September
  
  2,166.67

  \[5,000 \times 3 = \text{15,000.00}\]  
  
  From October to December
  
  15,000.00

  \[5,000 \times 52\% \times 3 = \text{7,800.00}\]  
  
  From January to March
  
  7,800.00

  Total = 2,166.67 + 15,000 + 7,800 = 24,966.67

- **Committed Pension** \{Sec 10(10A)\}
  
  \[\text{Received} = 2,88,000 \]
  
  Exempt = 2,88,000 / 48\% x 100\% x 1/3 = 2,00,000
  
  Taxable = 88,000

- **Gross Salary**
  
  3,11,305.13

- **Income under the head Salary**
  
  3,11,305.13

- **Gross Total Income**
  
  3,11,305.13

- **Less: Deductions u/s 80C to 80U**
  
  Nil

- **Total Income (Rounded Off u/s 288A)**
  
  3,11,310.00

**Computation of Tax Liability**

- **Tax on `3,11,310 at slab rate**
  
  11,131.00

- **Less: Rebate u/s 87A (`11,131 or `2,000 whichever is less)**
  
  2,000.00

- **Tax before Education cess**
  
  9,131.00
Solution 19:

Computation of income under the head Salary

Basic Pay 98,750.00

Gratuity {Sec 10(10)} 1,81,250.00

Working Note:
Least of the following is exempt:
1. `2,50,000
2. `10,00,000
3. ½ x 1,25,000/10 x 11 = `68,750

Received = `2,50,000
Exempt = `68,750
Taxable = `1,81,250

Uncommuted Pension {Sec 17(1)(ii)} 18,972.00

Working Note:

\[
\begin{align*}
\text{From November} & : 6,200 \times 3/30 = 620 \\
\text{From December and January} & : 6,200 \times 2 = 12,400 \\
\text{From February to March} & : 6,200 \times 2 \times 48\% = 5,952 \\
\text{Total} = 620 + 12,400 + 5,952 & = 18,972
\end{align*}
\]

Commuted Pension {Sec 10(10A)} 1,38,880.00

Working Note:

\[
\begin{align*}
\text{Received} & = 3,86,880.00 \\
\text{Exempt} = 3,86,880 / 52\% \times 1/3 & = 2,48,000.00 \\
\text{Taxable} & = 1,38,880.00
\end{align*}
\]

Gross Salary 4,37,852.00
Income under the head Salary 4,37,852.00
Gross Total Income 4,37,852.00
Less: Deductions u/s 80C to 80U Nil
Total Income (rounded off u/s 288A) 4,37,850.00

Computation of Tax Liability

Tax on `4,37,850 at slab rate 23,785.00
Less: Rebate u/s 87A (`23,785 or `2,000 whichever is less) 2,000.00
Tax before Education cess 21,785.00
Add: Education cess @ 2% 435.70
Add: SHEC @ 1% 217.85
Tax Liability 22,440.00
Rounded off u/s 288B 22,440.00

Solution 20:

Computation of income under the head Salary
## Income Under The Head Salary

### Basic Pay

\[
[(17,900 \times 3) + (18,400 \times 2) + (18,400 \times 15/30)]
\]

<table>
<thead>
<tr>
<th>Date Range</th>
<th>Amount (p.m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.1995 – 30.06.1996</td>
<td>10,800</td>
</tr>
<tr>
<td>01.07.1996 – 30.06.1997</td>
<td>11,200</td>
</tr>
<tr>
<td>01.07.1997 – 30.06.1998</td>
<td>11,600</td>
</tr>
<tr>
<td>01.07.1998 – 30.06.1999</td>
<td>12,000</td>
</tr>
<tr>
<td>01.07.1999 – 30.06.2000</td>
<td>12,400</td>
</tr>
<tr>
<td>01.07.2000 – 30.06.2001</td>
<td>12,800</td>
</tr>
<tr>
<td>01.07.2001 – 30.06.2002</td>
<td>13,200</td>
</tr>
<tr>
<td>01.07.2002 – 30.06.2003</td>
<td>13,600</td>
</tr>
<tr>
<td>01.07.2003 – 30.06.2004</td>
<td>14,000</td>
</tr>
<tr>
<td>01.07.2004 – 30.06.2005</td>
<td>14,400</td>
</tr>
<tr>
<td>01.07.2005 – 30.06.2006</td>
<td>14,800</td>
</tr>
<tr>
<td>01.07.2006 – 30.06.2007</td>
<td>15,200</td>
</tr>
<tr>
<td>01.07.2007 – 30.06.2008</td>
<td>15,600</td>
</tr>
<tr>
<td>01.07.2008 – 30.06.2009</td>
<td>16,000</td>
</tr>
<tr>
<td>01.07.2009 – 30.06.2010</td>
<td>16,400</td>
</tr>
<tr>
<td>01.07.2010 – 30.06.2011</td>
<td>16,900</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012</td>
<td>17,400</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013</td>
<td>17,900</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014</td>
<td>18,400</td>
</tr>
</tbody>
</table>

### Dearness Allowance

49,850.00

### Gratuity {Sec 10(10)}

17,000.00

### Calculation of average salary

- **Basic Pay**
  \[
  [(17,900 \times 8) + (18,400 \times 2)] = 1,80,000
  \]

- **Dearness Allowance**
  \[
  50\% \text{ of } 1,80,000 = 90,000
  \]

- **Average Salary**
  \[
  2,70,000/10 = 27,000
  \]

- **Received** = `2,60,000
- **Exempt** = `2,43,000
- **Taxable** = `17,000

### Uncommuted Pension {Sec 17(1)(ii)}

25,500.00

### Working Note:

#### From September

6,000 x 15/30 = 3,000

#### From October to December

6,000 x 3 = 18,000

#### From January to March

6,000 x 3 x 25% = 4,500

Total = `3,000 + 18,000 + 4,500 = 25,500
## Working Note:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received</td>
<td>6,00,000.00</td>
</tr>
<tr>
<td>Exempt = (6,00,000 x 4/3 x 1/3)</td>
<td>2,66,666.67</td>
</tr>
<tr>
<td>Taxable =</td>
<td>3,33,333.33</td>
</tr>
</tbody>
</table>

## Gross Salary

- Income under the head Salary: 5,25,383.33
- Total Income: 5,25,383.33

## Computation of Tax Liability

- Tax on 5,25,380 at slab rate: 35,076.00
- Add: Education cess @ 2%: 701.52
- Add: SHEC @ 1%: 350.76
- Tax Liability: 36,128.28

## Solution 21:

- Basic Salary: 2,88,000.00

## Working Note:

1. `5,00,000
2. `3,00,000
3. `10 x `2,72,000/10 = `2,72,000
4. `2,72,000 /10 x 19 = `5,16,800

## Calculation of average salary

- Basic Pay: 2,44,000
- Dearness Allowance: 28,000
- Average Salary: 27,200

## Computation of leave at credit

- Leave Entitlement: 30
- Less: Leave Availed: 7
- Less: Leave Encashed: 4
- Leave at Credit: 19

## Total Income

- Income under the head Salary: 5,80,000.00
- Total Income: 5,80,000.00
**Computation of Tax Liability**

Tax on ₹5,80,000 at slab rate = 46,000.00
Add: Education cess @ 2% = 920.00
Add: SHEC @ 1% = 460.00
Tax Liability = 47,380.00

**Solution 22:**

**Computation of income under the head Salary**

**Basic Pay**

1,22,000.00

**Working Note:**

\[ (9,500 \times 6) + (13,000 \times 5) \]

12,200.00

**Dearness Allowance**

(10% of basic pay)

12,200.00

**Gratuity**

1,35,550.00

**Working Note:**

Least of the following is exempt:
1. ₹2,50,000
2. ₹10,00,000
3. ₹1,09,000/10 = ₹1,14,450

Received = ₹2,50,000

Exempt = ₹1,14,450

Taxable = ₹1,35,550

**Calculation of Average Salary**

**Computation of Basic Pay**

\[ (9,500 \times 6) + (13,000 \times 4) \] = 1,09,000

Average Salary = 1,09,000/10 = 10,900

**Committed Pension**

48,000.00

**Working Note:**

\[ 2,88,000 / 40\% \times 100\% \times 1/3 = 2,40,000 \]

Taxable = 48,000

**Uncommitted Pension**

3,600.00

**Working Note:**

(6,000 x 60%) x 1 = ₹3,600

**Leave Salary**

1,97,500.00

**Working Note:**

Least of the following is exempt:
1. ₹3,10,000
2. ₹3,00,000
3. ₹1,12,500/10 = ₹1,12,500
4. ₹1,12,500/10 x 520/30 = ₹1,95,000

Received = ₹3,10,000

Exempt = ₹1,12,500

Taxable = ₹1,95,000

**Computation of leave at credit**

Leave Entitlement = 30 x 21 = 630 days
Less: Leave Encashed = 45 days  
Less: Leave Availed = 65 days  
Leave at Credit = 520 days  

**Calculation of Average Salary**

**Computation of Basic Pay**

\[
[(9,500 \times 5) + (13,000 \times 5)] = 1,12,500  
\text{Average Salary} = 1,12,500/10 = 11,250
\]

Gross Salary 5,18,850.00  
Income under the head Salary 5,18,850.00  
Gross Total Income 5,18,850.00  
Less: Deductions u/s 80C to 80U Nil  
Total Income 5,18,850.00

**Computation of Tax Liability**

Tax on `5,18,850 at slab rate 33,770.00  
Add: Education cess @ 2% 675.40  
Add: SHEC @ 1% 337.70  
Tax Liability 34,783.10  
Rounded off u/s 288B 34,780.00

**Solution 23:**

**Computation of income under the head Salary**

Basic Pay 1,04,000.00  
(13,000 \times 8)  

Leave Salary (Sec 10(10AA)) 2,16,666.67

**Working Note:**

**Computation of leave availed and encashed by the employee**

<table>
<thead>
<tr>
<th>Description</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leave entitlement at the rate of 30 days</td>
<td>480</td>
</tr>
<tr>
<td>Leave availed and encashed by the employee</td>
<td>260</td>
</tr>
<tr>
<td>Leave at the credit</td>
<td>220</td>
</tr>
<tr>
<td>Leave allowed by employer (65 \times 16)</td>
<td>1040</td>
</tr>
<tr>
<td>Less: Leave encashed by the employee at the time of retirement</td>
<td>780</td>
</tr>
<tr>
<td>Hence leave availed/encashed while in service</td>
<td>260</td>
</tr>
<tr>
<td>Average salary of 10 months ending November 30, 2013</td>
<td>13,000</td>
</tr>
</tbody>
</table>

**Least of the following is exempt:**

1. Cash equivalent of leave at the credit of the employee at the time of retirement (i.e. \(13,000 \times 220/30\)) = 95,333.33
2. 10 Months Average Salary = 13,000 \times 10 = 1,30,000
3. 3,00,000
4. 3,12,000

Received = `3,12,000.00  
Exempt = `95,333.33  
Taxable = `2,16,666.67

Gross Salary 3,20,666.67  
Income under the head Salary 3,20,666.67  
Gross Total Income 3,20,666.67  
Less: Deductions u/s 80C to 80U Nil  
Total Income (Rounded off u/s 288A) 3,20,670.00

**Computation of Tax Liability**

Tax on `3,20,670 at slab rate 12,067.00
Income Under The Head Salary

Less: Rebate u/s 87A (\textdollar 12,067 or \textdollar 2,000 whichever is less) \hspace{1cm} 2,000.00
Tax before Education cess \hspace{1cm} 10,067.00
Add: Education cess @ 2\% \hspace{1cm} 201.34
Add: SHEC @ 1\% \hspace{1cm} 100.67
Tax Liability \hspace{1cm} 10,369.01
Rounded off u/s 288B \hspace{1cm} 10,370.00

**Solution 24:**

*Computation of income under the head Salary*

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay ((10,000 \times 12))</td>
<td>\textdollar 1,20,000</td>
</tr>
<tr>
<td>Dearness Allowance ((5,000 \times 12))</td>
<td>\textdollar 60,000</td>
</tr>
<tr>
<td>Commission ((1.5% \text{ of } 20,00,000))</td>
<td>\textdollar 30,000</td>
</tr>
</tbody>
</table>

Employer's contribution to provident fund \{Rule 6 of Part A of schedule IV\} \hspace{1cm} \textdollar 14,400

\begin{tabular}{|l|c|}
\hline
**Working Note:** & \textdollar 18,000 \\
\hline
Retirement benefit salary = \textdollar 1,20,000 + 30,000 + 30,000 = \textdollar 1,80,000 & \\
12\% of retirement benefit salary = \textdollar 21,600 & \\
Employer contribution = \textdollar 36,000 & \\
Allowed = 12\% of retirement benefit salary = \textdollar 21,600 & \\
Taxable = \textdollar 14,400 & \\
\hline
\end{tabular}

Rent Free Accommodation \{Sec 17(2)(i), Rule 3(1)\} \hspace{1cm} \textdollar 18,000

\begin{tabular}{|l|c|}
\hline
**Working Note:** & \textdollar 36,000 \\
\hline
10\% of rent free accommodation salary = \textdollar 18,000 & \\
Rent free accommodation Salary = \textdollar 1,80,000 & \\
\hline
\end{tabular}

Gross Salary \hspace{1cm} \textdollar 2,42,400
Income under the head Salary \hspace{1cm} \textdollar 2,42,400

**Solution 25:**

*Computation of Taxable Income*

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay ((20,000 \times 12))</td>
<td>\textdollar 2,40,000</td>
</tr>
<tr>
<td>Dearness Allowance ((7,000 \times 12))</td>
<td>\textdollar 84,000</td>
</tr>
</tbody>
</table>

Employer's contribution in excess of 12\% of salary \{Rule 6 of Part A of schedule IV\} \hspace{1cm} \textdollar 19,200

Rent Free Accommodation \{Sec 17(2)(i) Rule 3(1)\} \hspace{1cm} \textdollar 36,000

\begin{tabular}{|l|c|}
\hline
**Working Note:** & \textdollar 3,79,200 \\
\hline
15\% of rent free accommodation salary or rent paid whichever is less & \\
Rent free accommodation salary = Basic Pay = \textdollar 2,40,000 & \\
15\% of rent free accommodation salary = \textdollar 36,000 & \\
Rent Paid = \textdollar 36,000 & \\
Perquisite value = \textdollar 36,000 & \\
\hline
\end{tabular}

Gross Salary \hspace{1cm} \textdollar 3,79,200
Income under the head Salary 3,79,200
Gross Total Income 3,79,200
Less: Deduction u/s 80C 48,000
{Employee’s contribution in recognised provident fund}
Total Income 3,31,200

Solution 26:
Computation of income under the head Salary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>1,40,000</td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>49,000</td>
</tr>
<tr>
<td>Refund of employer’s contribution in unrecognised provident fund</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Refund of Interest on employer’s contribution in unrecognised provident fund</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Gratuity {Sec 10(10A)}</td>
<td>60,000</td>
</tr>
</tbody>
</table>

Working Note:
Least of the following is exempt:
1. 2,60,000
2. 10,00,000
3. \( \frac{1}{2} \times 20,000 \times 20 = 2,00,000 \)
Received = 2,60,000
Exempt = 2,00,000
Taxable = 60,000

Uncommuted Pension {Sec 17(1)(ii)} 19,000

Working Note:
For November to December
5,000 x 2 = 10,000
For January to March
5,000 x 60% x 3 = 9,000
Total = 10,000 + 9,000 = 19,000

Commuted Pension {Sec 10(10A)} 40,000

Working Note:
Received = 2,40,000
Exempt = 2,40,000 / 40% x 100% x 1/3 = 2,00,000
Taxable = 40,000

Gross Salary 8,08,000
Income under the head Salary 8,08,000
Income under the head Other Sources 1,00,000
(Interest on employee’s contribution)
Gross Total Income 9,08,000
Less: Deduction u/s 80C to 80U Nil
Total Income 9,08,000

Computation of Tax Liability
Tax on 9,08,000 at slab rate 1,11,600
Solution 27:

**Computation of income under the head Salary**

Basic Pay  
(45,000 x 11)

Medical Facilities {Proviso to Sec 17(2)}  
87,000.00

**Working Note:**

(a) To father in law  =  15,000
(b) Outside India  =  1,50,000
Less: Permitted by RBI  =  1,23,000
Taxable  =  27,000
(c) Travelling Expenses  =  45,000
Taxable Amount = (a) + (b) + (c) =  87,000

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}  
52,300.00

**Working Note:**

15% of Salary or rent paid whichever is less
Rent free accommodation salary
= Basic Pay + Entertainment Allowance
= `4,95,000 + `7,700 = `5,02,700
15% of rent free accommodation = `75,405
Rent Paid = `(4,500 x 11) = `49,500
Perquisite value of unfurnished house  49,500
Add: Value of furniture (48,000 x 10% x 7/12)  2,800
Perquisite value of furnished house  52,300

Value of housing loan {Sec 17(2)(viii), Rule 3(7)(i)}  
4,375.00

**Working Note:**

[(7,00,000 x 1% x 5/12) + (3,50,000 x 1% x 5/12)]
= `2,916.67 + `1,458.33 = `4,375

Gift to Mrs. X {Sec 17(2)(viii), Rule 3(7)(iv)}  
28,550.00

**Working Note:**

(a) In Kind = `4,750
(b) Furniture = `(48,000 – 10% x 48,000 x 4) = `28,800
Total Value = a + b = `33,550
Exempt = `5,000
Taxable = `28,550

Perquisite value of credit card {Sec 17(2)(viii) Rule 3(7)(vi)}  
4,000.00

Perquisite value of motor car {Sec 17(2)(iii), Rule 3(2)}  
21,600.00
(2,400 x 9)

Value of motor car {Sec 17(2)(viii) Rule 3(7)(viii)}  
2,400.00

**Working Note:**
### Income Under The Head Salary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sale of motor car on 01.01.2014</strong></td>
<td></td>
</tr>
<tr>
<td>Depreciation @ 20% of w.d.v</td>
<td></td>
</tr>
<tr>
<td>I Year = ‘2,50,000 x 20% = 50,000</td>
<td></td>
</tr>
<tr>
<td>II Year = ‘2,00,000 x 20% = 40,000</td>
<td></td>
</tr>
<tr>
<td>III Year = ‘1,60,000 x 20% = 32,000</td>
<td></td>
</tr>
<tr>
<td>IV Year = ‘1,28,000 x 20% = 25,600</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong> = 1,47,600</td>
<td></td>
</tr>
<tr>
<td><strong>Balance</strong> = ‘2,50,000 – 1,47,600 = 1,02,400</td>
<td></td>
</tr>
<tr>
<td><strong>Less: Amount recovered</strong> = 1,00,000</td>
<td></td>
</tr>
<tr>
<td><strong>Taxable</strong> = 2,400</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entertainment Allowance</strong></td>
<td>7,700.00</td>
</tr>
<tr>
<td>{700 x 11}</td>
<td></td>
</tr>
<tr>
<td><strong>Professional Tax</strong></td>
<td>2,500.00</td>
</tr>
<tr>
<td><strong>Employer’s Contribution to recognised provident fund [Sec 10 (12)]</strong></td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Working Note:</strong></td>
<td></td>
</tr>
<tr>
<td>Retirement benefit salary = 4,95,000</td>
<td></td>
</tr>
<tr>
<td>12% of retirement benefit salary = 59,400</td>
<td></td>
</tr>
<tr>
<td>Employer’s Contribution = ‘3,500 x 11 = 38,500</td>
<td></td>
</tr>
<tr>
<td><strong>Taxable</strong> = Nil</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Uncommuted Pension [Sec 17(1)(ii)]</strong></td>
<td>Nil</td>
</tr>
<tr>
<td>{Since it is due on first of next month so taxable portion in this year is nil}</td>
<td></td>
</tr>
<tr>
<td><strong>Committed Pension [Sec 10 (10A)]</strong></td>
<td>64,000.00</td>
</tr>
<tr>
<td><strong>Working Note:</strong></td>
<td></td>
</tr>
<tr>
<td>Received = 3,84,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = 3,84,000 / 40% x 100% x 1/3 = 3,20,000</td>
<td></td>
</tr>
<tr>
<td><strong>Taxable</strong> = 64,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gratuity [Sec 10 (10)]</strong></td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Working Note:</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Least of the following is exempt:</strong></td>
<td></td>
</tr>
<tr>
<td>1. ‘3,67,000</td>
<td></td>
</tr>
<tr>
<td>2. 10,000,000</td>
<td></td>
</tr>
<tr>
<td>3. ½ x (4,50,000/10) x 25 = ‘5,62,500</td>
<td></td>
</tr>
<tr>
<td><strong>Receipt</strong> = ‘3,67,000</td>
<td></td>
</tr>
<tr>
<td><strong>Exempt</strong> = ‘3,67,000</td>
<td></td>
</tr>
<tr>
<td><strong>Taxable</strong> = Nil</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Salary</strong></td>
<td>7,69,425.00</td>
</tr>
<tr>
<td>Less: 16 (iii) Professional Tax</td>
<td>2,500.00</td>
</tr>
<tr>
<td>Income under the head salary</td>
<td>7,66,925.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>7,66,925.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>1,00,000.00</td>
</tr>
<tr>
<td>Employee’s contribution to Recognised Provident Fund (3,500 x 11)</td>
<td>38,500</td>
</tr>
<tr>
<td>Repayment of housing Loan</td>
<td>7,00,000</td>
</tr>
<tr>
<td>Total</td>
<td>7,38,500</td>
</tr>
<tr>
<td>But maximum upto ‘1,00,000</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>6,66,925.00</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>6,66,930.00</td>
</tr>
</tbody>
</table>
**Computation of Tax Liability**

- Tax on `6,66,930 at slab rate: 63,386.00
- Add: Education cess @ 2%: 1,267.72
- Add: SHEC @ 1%: 633.86
- Tax Liability: 65,287.58
- Rounded off u/s 288B: 65,290.00

**Solution 28:**

*Computation of income under the head Salary of Dr. Vimil*

- Salary: 30,000
- House Rent Allowance: 5,000
- Gratuity (Exempt u/s 10(10) - Government Employee): Nil
- Leave encashment at the time of retirement: Nil
- Provident Fund (Exempt u/s 10 (11)): Nil
- Commuted Pension (Exempt u/s 10(10A)): Nil
- Pension from Government: 20,000
- Honorarium from charitable dispensary: 1,92,000
  (Assuming he is in part time employment: 32,000 x 6)

**Gross Salary:** 2,47,000

**Income under the head Salary:** 2,47,000

**Computation of income under the head House Property**

- Gross Annual Value: Nil
- Less: Municipal Taxes: Nil
- Net Annual Value: Nil
- Less: 30% of NAV u/s 24(a): Nil
- Less: Interest on capital borrowed u/s 24(b): 14,000
- Income under the head House Property: (14,000)

**Gross Total Income:** 2,33,000

- Less: Deduction u/s 80C: 32,000
- Public Provident Fund Contribution: 32,000
- Repayment of loan taken from HDFC (As loan is paid after 31.03.2014, it is not qualified for deduction u/s 80C for the previous year 2013-14): Nil

**Total Income:** 2,01,000

**Computation of Tax Liability**

- Tax on `2,01,000 at slab rate: 100
- Less: Rebate u/s 87A (`100 or `2,000 whichever is less): 100
- Tax Liability: Nil

**Solution 29:**

Caultimates.com
Income Under The Head Salary

*Computation of Income of X, an individual*

**Salary From XY Co. Ltd.**

- Basic Salary: \(1,00,000.00\)  
  \((10,000 \times 10)\)

- Dearness Allowance: \(15,000.00\)  
  \((1,500 \times 10)\)

- Commission: \(4,000.00\)

- Gratuity: \(21,000.00\)

**Working Note:**  
**Least of the following is exempt:**

1. \(1,25,000\)
2. \(10,00,000\)
3. \(\frac{1}{2} \times 10,400 \times 20 = 1,04,000\)

Received = \(1,25,000\)
Exempt = \(1,04,000\)
Taxable = \(21,000\)

**Salary From LM Co. Ltd.**

- Basic Salary: \(14,000.00\)  
  \((7,000 \times 2)\)

- Entertainment Allowance: \(2,000.00\)  
  \((1,000 \times 2)\)

- Medical Allowance: \(1,000.00\)  
  \((500 \times 2)\)

- House Rent Allowance: \(1,200.00\)  
  \((600 \times 2)\)  
  (Exemption is not available at X resides in his own house)

- Leave Salary: \(5,000.00\)

- Gross Salary: \(1,63,200.00\)
- Income under the head Salary: \(1,63,200.00\)
- Gross Total Income: \(1,63,200.00\)
- Less: Deduction u/s 80C: \(20,000.00\)
- Insurance premium on life of minor child: \(7,000\)
- Approved Superannuation Fund: \(8,000\)
- Jeevan Dhara Scheme: \(5,000\)
- Total Income: \(1,43,200.00\)
- Tax Liability: Nil
EXERCISES

1. Where there is a decision to increase the D.A. in March, 2014 with retrospective effect from 01.04.2013, and the increased D.A. is received in April, 2014, the increase is taxable –

   a) in the previous year 2013-14
   b) in the previous year 2014-15
   c) in the respective years to which they relate.

2. The entertainment allowance received by a Government employee is exempt up to the lower of the actual entertainment allowance received, 1/5th of basic salary and –

   a) `4,000
   b) `6,000
   c) `5,000.

3. Rajesh is provided with a rent free unfurnished accommodation, which is owned by his employer, XY Pvt. Ltd., in New Delhi. The value of perquisite in the hands of Rajesh is –

   a) 20% of salary
   b) 15% of salary
   c) 10% of salary

4. Anirudh is provided with furniture to the value of `70,000 along with house from February, 2013. The actual hire charges paid by his employer are `5,000 p.a. The value of furniture to be included along with value of unfurnished house for A.Y.2014-15 is –

   a) `5,000
   b) `7,000
   c) `14,000

5. Employer’s contribution to superannuation fund during the previous year 2013-14 is –

   a) subject to fringe benefits in the hands of the employer
   b) fully taxable as perquisite in the hands of the employee
   c) taxable as perquisite in the hands of the employee if it exceeds `1 lakh.

6. Write short notes on –

   a) Profits in lieu of salary
   b) Specified employees

7. Is retrenchment compensation received by workmen taxable under the Act? If yes, to what extent is it taxable?

8. When is provision of medical facilities or assistance by an employer not treated as a perquisite in the hands of the employee? Discuss.
9. Can an assessee claim relief under section 89 in respect of VRS compensation of ` 6 lakh received by him from his employer, if he has claimed exemption of ` 5 lakh in respect of the same under section 10(10C)? Discuss.

10. Explain the term “Profit in lieu of salary”.

11. Write short note on valuation of paid holidays for perquisite purposes under section 17(2).

12. The maximum ceiling limit for exemption under section 10(10) in respect of gratuity for employees covered by the Payment of Gratuity Act, 1972 is –
   a) 3,50,000
   b) 10,00,000
   c) 5,00,000

13. The maximum ceiling limit for exemption under section 10(10C) with respect to compensation received on voluntary retirement is –
   a) 3,00,000
   b) 3,50,000
   c) 5,00,000

14. The HRA paid to an employee residing in Patna is exempt up to the lower of actual HRA, excess of rent paid over 10% of salary and –
   a) 40% of salary
   b) 50% of salary
   c) 60% of salary

15. Anirudh stays in New Delhi. His basic salary is ` 10,000 p.m., D.A. (60% of which forms part of pay) is 6,000 p.m., HRA is ` 5,000 p.m. and he is entitled to a commission of 1% on the turnover achieved by him. Anirudh pays a rent of ` 5,500 p.m. The turnover achieved by him during the current year is 12 lakhs. The amount of HRA exempt under section 10(13A) is –
   a) ` 48,480
   b) ` 45,600
   c) ` 49,680

16. Write short notes on :
   (i) Exemption for retrenchment compensation under section 10(10B).
   (ii) Exceptions under section 10(10D) as regards exemption of any sum received under a life insurance policy.
   (iii) ‘Encashment of Earned Leave’ and its taxability under the Act.

17. How is exemption granted by section 10(10CC) in respect of income-tax paid by employer?

Answers
1. a; 2. c; 3. b; 4. a; 5. c 12. b; 13. c; 14. a; 15. a
Question 3(a)(i) (4 Marks)
Rajesh went to Shrinagar on a holiday on 15.11.2013 with his wife and two children (one son – age 6 years; twin daughters – age 3 years). They went by aeroplane (economy class) and the total cost of tickets by his employer was `58,000 (`43,000 for adults and `15,000 for the three minor children). Compute the amount of Leave Travel Concession exempt.

Will the answer be any different if among his three children the twins are 6 years old and son 3 years old? Discuss. (Modified)

Solution:
Section 10(5) exempts the leave travel concession received by an employee from his employer for himself and his family which includes, inter alia, his spouse and children, in connection with proceeding on leave to any place in India. The exemption is not available to more than two surviving children of an individual. However, this restriction shall not apply in case of multiple births on the second occasion (i.e., after the first child).

In the present case, Mr. Rajesh can avail exemption for all his three children since the son’s age is more than the age of his twin daughters. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement of `58,000 towards leave travel concession met by the employer is fully exempt under section 10(5).

However, if the twins’ age is more than the age of the son, Mr. Rajesh cannot avail exemption for all his three children. The exemption in respect of leave travel concession under section 10(5) can be availed in respect of only two children.

The taxable leave travel concession, in this case, will be `5,000, being one-third of `15,000.

The leave travel concession exempt under section 10(5), in such a case, would be `53,000 (`58,000 – `5,000)

Question 3(a)(ii) (4 Marks)
Mr. Gobind received retrenchment compensation of `10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of `20,000 p.m.; dearness allowance of `5,000 p.m. Compute his taxable retrenchment compensation.

Solution:
As per section 10(10B), exemption available to Mr. Gobind in respect of retrenchment compensation, in this case, will be the least of the following limits:

Compensation actually received
Statutory limit
Amount calculated in accordance with the provisions of section 25F of the Industrial Disputes Act, 1947

\[
\frac{15}{26} \times \left( \frac{(20,000 \times 3) + (5,000 \times 3)}{3} \right) \times 30 \text{ years} = `4,32,692
\]

Therefore, `4,32,692, being the least of the above limits, would be exempt under section 10(10B).
The taxable retrenchment compensation will be:
Retrenchment compensation received \( \text{'10,00,000} \)
Less: Exemption under section 10(10B) \( \text{'4,32,692} \)
Taxable Retrenchment Compensation \( \text{'5,67,308} \)

**IPCC NOV – 2012**

**Question No. 6(a)**

Discuss whether the following receipts are taxable and also indicate the head of income under which the same is taxable:

(i) Bonus shares received by equity shareholder and preference shareholder.

(ii) Loan advanced by a company in which public are not substantially interested to a person holding 15% of the beneficial ownership of the share capital of the company.

(iii) Medical allowance received by an employee, the entire amount of which has been spent by him for medical treatment.

(iv) Receipt of cash gift of `60,000/- from a friend on the occasion of wedding anniversary.

(v) Contribution to provident fund recovered from an employee by an employer/

(vi) Gift of a plot of land given to a chartered accountant by one of his clients. The chartered accountant has been fully compensated for his services and this gift has been given in appreciation of his personal qualities.

(vii) A lawyer closed down his profession. Subsequently he accepted a case on the insistence of his friend but advised his friend to pay the fee payable to him directly to a charitable trust.

(viii) Payment from unrecognised provident fund at the time of retirement which consists of employee’s contribution, employer’s contribution and interest on both contributions.

(Modified)

**Answer:**

(i) Bonus shares received by equity shareholders is not taxable. Bonus share is deemed dividend in the hands of preference shareholder only and it is covered under the head Other Sources.

However, it is tax free u/s 10(34) as company is liable to pay additional income tax on it.

(ii) Such loan is deemed dividend in the hand of shareholder u/s 2(22)(e). He is liable to tax thereon under the head other sources.

(iii) Fully taxable under the head salary.

(iv) `60,000 taxable as gift under the head other Sources.

(v) Taxable under the head Business/Profession.

(vi) Perquisites under section 28 taxable as PGBP

(vii) Taxable as income under the head Business/Profession.
(viii) Employer’s contribution & interest is taxable as salary. Employee’s contribution is not taxable. However, interest on his contribution is taxable as Income from other Sources.

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**IPCC MAY – 2012**

**Question 7**  (8 Marks)

Mr. Mohit is employed with XY Ltd. on a basic salary of `10,000 p.m. He is also entitled to Dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of `6,000 p.m. which was increased to `7,000 p.m. with effect from 01.01.2014. He also got an increment of `1,000 p.m. in his basic salary with effect from 01.02.2014. Rent paid by him during the previous year 2013-14 is as under:

April and May, 2013 - Nil, as he stayed with his parents.
June to October, 2013 - `6,000 p.m. for an accommodation in Ghaziabad.
November, 2013 to March, 2014 - `8,000 p.m. for an accommodation in Delhi.

Compute the gross salary for Assessment Year 2014-15.  

**Answer:**

**Computation of gross salary of Mr. Mohit for A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>April-May (`)</th>
<th>June-Oct (`)</th>
<th>Nov-Dec (`)</th>
<th>Jan (`)</th>
<th>Feb-March (`)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary [(<code>10,000 × 10) + (</code>11,000 × 2)]</td>
<td>122,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance (100% of basic salary)</td>
<td></td>
<td></td>
<td></td>
<td>122,000</td>
<td></td>
</tr>
<tr>
<td>House Rent Allowance (See Note below)</td>
<td></td>
<td></td>
<td></td>
<td>21,300</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Salary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,65,300</td>
</tr>
</tbody>
</table>

**Note: Computation of Taxable House Rent Allowance (HRA)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>April-May (`)</th>
<th>June-Oct (`)</th>
<th>Nov-Dec (`)</th>
<th>Jan (`)</th>
<th>Feb-March (`)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary per month</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Dearness allowance (included in salary as per terms of employment) (50% of basic salary)</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,500</td>
</tr>
<tr>
<td>Salary per month for the purpose of computation of house rent allowance</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
<td>16,500</td>
</tr>
<tr>
<td>Relevant period (in months)</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Salary for the relevant period (Salary per month × relevant period)</td>
<td>30,000</td>
<td>75,000</td>
<td>30,000</td>
<td>15,000</td>
<td>33,000</td>
</tr>
<tr>
<td>Rent paid for the relevant period</td>
<td>Nil</td>
<td>30,000</td>
<td>16,000</td>
<td>8,000</td>
<td>16,000</td>
</tr>
<tr>
<td>House rent allowance (HRA) received during the relevant period (A)</td>
<td>12,000</td>
<td>30,000</td>
<td>12,000</td>
<td>7,000</td>
<td>14,000</td>
</tr>
<tr>
<td>(<code>6,000×2) (</code>6,000×2) (<code>7,000×1) (</code>7,000×2)</td>
<td>(`6,000×5)</td>
<td>(`8,000×2)</td>
<td>(`8,000×1)</td>
<td>(`8,000×2)</td>
<td></td>
</tr>
<tr>
<td>Least of the following is exempt [u/s 10(13A)]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Actual HRA received</td>
<td>12,000</td>
<td>30,000</td>
<td>12,000</td>
<td>7,000</td>
<td>14,000</td>
</tr>
<tr>
<td>2. Rent paid – 10% of salary</td>
<td>N.A.</td>
<td>22,500</td>
<td>13,000</td>
<td>6,500</td>
<td>12,700</td>
</tr>
<tr>
<td>3. 40% of salary (Residence at Ghaziabad–June to Oct, 2011)</td>
<td>N.A.</td>
<td>30,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(<code>40% × </code>75,000) (40% × `75,000)</td>
<td>(`6,000×2)</td>
<td>(`6,000×2)</td>
<td>(`7,000×1)</td>
<td>(`7,000×2)</td>
<td></td>
</tr>
<tr>
<td>50% of salary (Residence at Delhi–Nov’11- March’12)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(<code>50% × </code>30,000) (<code>50% × </code>15,000) (<code>50% × </code>33,000)</td>
<td>(`6,000×2)</td>
<td>(`6,000×2)</td>
<td>(`7,000×1)</td>
<td>(`7,000×2)</td>
<td></td>
</tr>
</tbody>
</table>
Exempt HRA (B)

<table>
<thead>
<tr>
<th>Taxable HRA (Actual HRA – Exempt HRA) (A-B)</th>
<th>Nil</th>
<th>22,500</th>
<th>12,000</th>
<th>6,500</th>
<th>12,700</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,000</td>
<td>7,500</td>
<td>Nil</td>
<td>500</td>
<td>1,300</td>
<td></td>
</tr>
</tbody>
</table>

Taxable HRA (total) = \(12,000 + 7,500 + 500 + 1,300 = 21,300\)

---

**PCC MAY – 2012**

**Question 1 (a) (5 Marks)**

Ms. Vaishali, employed in a private sector company, furnishes following information for the year ended 31.03.2014

- Income from salary (computed) 3,45,000
- Bank interest on savings bank account 15,000
- Tax on non-monetary perquisite paid by employer 20,000
- Amount contributed by her during the year of given below:
  - Contribution to Recognized Provident Fund 60,000
  - Health Insurance Premium –on self (paid by crossed cheque) 7,000
  - Medical expenditure for dependent sister with disability 20,000

**Answer:**

**Computation of Total Income of Ms. Vaishali for the A.Y. 2014-15**

Income under the head Salary 3,45,000

Income under the head Other Sources (Bank Interest) 15,000

Gross Total Income 3,60,000

Less: Deduction u/s 80C – Contribution to Recognized Provident Fund 60,000

Less: Deduction u/s 80D – Health Insurance Premium 7,000

Less: Deduction u/s 80DD – Medical expenditure for dependent sister with disability 50,000

Less: Deduction u/s 80TTA (10,000 or 15,000 whichever is less) 10,000

Total Income 2,33,000

**Note:** Tax on non-monetary perquisite paid by employer is exempt u/s 10(10CC)

---

**Question 3 (8 Marks)**

Mr. Harish is Production Manager of XYZ Ltd. From the following details, compute the Total Income for the Assessment Year 2014-15.

- Basic salary \('50,000 per month\)
- Dearness allowance 40% of basic salary
- Transport allowance(for commuting between \('3,000 per month\)
Place of residence and office

Motor car running and maintenance charges fully paid by employer ` 60,000

The motor car is owned by the company and driven by the employee. The engine cubic capacity is above 1.60 litres. The motor car is used for both official and personal purpose by the employee.

Expenditure on accommodation in hotels while touring on official duties met by the employer ` 80,000

Loan from recognized provident fund (maintained by the employer) ` 60,000

Lunch provided by the employer during office hours.
Cost to the employer ` 24,000

Computer (cost `35,000) kept by the employer in the residence of Mr. Harish from 01.06.2013

Mr. Harish made the following payments:

Medical insurance premium: Paid in cash ` 4,800
Paid by account payee crossed cheque ` 15,200 (Modified)

Answer:

Basic Pay [ (50,000 x 12) ] 6,00,000.00
Dearness Allowance (50,000 x 40% x 12) 2,40,000.00
Transport Allowance {Sec 10(14) Rule 2BB} 26,400.00

| Working Note: | 
| Received = `3,000 x 12 = | 36,000 |
| Exempt = `800 x 12 = | 9,600 |
| Taxable = | 26,400 |

Motor Car Facility {Section 17(2)(iii) Rule 3(2)} [2,400 x 12] 28,800.00

Gross Salary 8,95,200.00
Gross Total Income 8,95,200.00
Less: Deduction u/s 80D-Medical Insurance Premium 15,000.00
Total Income 8,80,200.00

Notes:
1. Expenditure on accommodation in hotels while touring on official duties met by the employer is not taxable.
2. Lunch provided by the employer during office hours is not taxable as per Section 17(2)(viii) Rule 3(7)(iii). It is assumed that expenditure per meal is up to `50.
3. Computer provided at the residence of Mr. Harish is not taxable as per section 17(2)(viii) Rule 3(7)(vii)

Question 4 (8 Marks)
Mr. Ashok, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2014

(i) Salary income for the year 7,25,000
(ii) Arrear of Salary for previous year 2012-13 received during the year 80,000
(iii) Assessed income for the previous year 2012-13 2,40,000
You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961 in terms of tax payable for assessment year 2014-15:

The rates of income tax for the previous year 2012-13 are

<table>
<thead>
<tr>
<th>Tax rate (%)</th>
<th>On first `2,00,000</th>
<th>On <code>2,00,000- </code>5,00,000</th>
<th>On <code>5,00,000- </code>10,00,000</th>
<th>Above `10,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>(Modified)</td>
</tr>
</tbody>
</table>

**Education cess**

**Answer:**

Computation of Relief under section 89 for the Assessment Year 2014-15

**Step 1. Previous Year 2013-14**

Salary 7,25,000
Add: Arrears for previous year 2012-13 80,000
Gross Salary 8,05,000
Income under the head Salary 8,05,000
Tax before education cess 91,000
Add: Education cess @ 2% 1,820
Add: SHEC @ 1% 910
Tax Liability 93,730

**Step 2. Previous Year 2013-14**

Salary 7,25,000
Gross Salary 7,25,000
Income under the head Salary 7,25,000
Tax before education cess 75,000
Add: Education cess @ 2% 1,500
Add: SHEC @ 1% 750
Tax Liability 77,250

**Step 3. Difference between Step 1 and Step 2**

16,480

**Step 4. Previous Year 2012-13**

Salary 2,40,000
Add: Arrears 80,000
Gross Salary 3,20,000
Income under the head Salary 3,20,000
Tax before education cess 12,000
Add: Education cess @ 2% 240
Add: SHEC @ 1% 120
Tax Liability 12,360

**Step 5. Previous Year 2012-13**

Salary 2,40,000
Gross Salary 2,40,000
Income under the head Salary 2,40,000
Tax before education cess 4,000
Add: Education cess @ 2% 80
Add: SHEC @ 1% 40
Income Under The Head Salary 373

Tax Liability 4,120

Step 6. Difference between Step 4 and Step 5 8,240

Step 7. Relief under section 89 Step 3 – Step 6 8,240
Tax after adjusting relief u/s 89 [93,730 – 8,240] 85,490

IPCC  NOV – 2011

Question 2 (8 Marks)

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2014:

(i) Basic salary upto 31.10.2013. `50,000 p.m.
   Basic salary from 01.11.2013. `60,000 p.m.

Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @ 40% of basic salary.

(iii) Bonus equal to one month salary. Paid in October 2013 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.

(v) Professional tax paid `3,000 of which `2,000 was paid by the employer.

(vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop `45,000 and computer `35,000 were acquired by the company on 01.12.2013.

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2013 meant for both official and personal use. Repair and running expenses of `45,000 from 01.11.2013 to 31.03.2014 were fully met by the employer. The motor car was self-driven by the employee.

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons- aged 3). Cost of air tickets (economy class) reimbursed by the employer `30,000 for adults and `45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income and also tax liability of Mr. Balaji for the assessment year 2014-15 (Modified)

Answer:

Computation of Salary chargeable to tax of Mr. Balaji for A.Y. 2014-15

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>`65,000.00</td>
</tr>
<tr>
<td>(50,000 x 7)+ (60,000 x 5)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>`2,60,000.00</td>
</tr>
<tr>
<td>(40% x 6,50,000)</td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>`70,000.00</td>
</tr>
<tr>
<td>(50,000 + 20,000)</td>
<td></td>
</tr>
<tr>
<td>Contribution to recognized provident fund</td>
<td>`26,000.00</td>
</tr>
<tr>
<td>(6,50,000 x 4%)</td>
<td></td>
</tr>
<tr>
<td>Professional Tax paid by the employer</td>
<td>`2,000.00</td>
</tr>
</tbody>
</table>
Facility of Laptop/computer                  NIL
Perquisite value of use of motor car
(2,400 x 5)                                      12,000.00
Leave Travel concession                          NIL
Gross Salary                                      10,20,000.00
Less: Deduction of professional tax u/s 16(iii)    (3,000.00)
Income under the head Salary                    10,17,000.00
Gross Total Income                               10,17,000.00
Less: Deduction u/s 80C to 80U                   Nil
Total Income                                     10,17,000.00

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `10,17,000 at slab rate</td>
<td>1,35,100.00</td>
</tr>
<tr>
<td>Add: Education Cess @ 2%</td>
<td>2,702.00</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>1,351.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,39,153.00</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>1,39,150.00</td>
</tr>
</tbody>
</table>

**Question 3**

Mrs. Deepali (aged 40 years) is working with M/s Good Company Ltd., a manufacturer of tyres based at Mumbai, has received the following payments during the financial year 2013-14 from her employer:

- Basic salary: `60,000 per month.
- Dearness allowance: 40% of basic salary.

Her employer has taken on rent her own house on a monthly rent of `15,000 and the same has been provided for residence of Mrs. Deepali. Company is recovering `2,000 per month as rent of house.

Mrs. Deepali has further furnished the following details:

(i) She has paid professional tax of `6,000 during financial year 2013-14.

(ii) She is owning only one house and payment of interest of `1,75,000 and principal of `1,00,000 was made for housing loan taken from SBI for purchase of house.

(iii) She has also taken a loan of `2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered `10,000 as interest from her salary for such loan during the year.

Compute Total Income and Tax Liability for Assessment Year 2014-15. (Modified)

**Answer:**

**Computation of Taxable Income of Mrs. Deepali for the A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td>7,20,000</td>
</tr>
</tbody>
</table>

PCC NOV – 2011
Income Under The Head Salary

(60,000 x 12)

Dearness Allowance 2,88,000
(7,20,000 x 40%)

Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)} 84,000

**Working Note:**
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 7,20,000
15% of 7,20,000 = 1,08,000
(assuming that dearness allowance does not form part of pay for retirement benefits)
Rent Paid = 15,000 x 12 = 1,80,000
Value of unfurnished house 1,08,000
Less: Amount recovered from the employee (2,000 x 12) 24,000
Perquisite value of accommodation at concessional rent 84,000

Perquisite of Interest on loan {Sec 17(2)(viii) Rule 3(7)(i)} 10,000
[(2,00,000 x 10%) – 10,000]

Gross Salary 11,02,000
Less: Professional Tax u/s 16(iii) 6,000
Income under the head Salary 10,96,000

**Computation of income under the head House Property**
Gross Annual Value 1,80,000
(15,000 x 12)
Less: Municipal Tax Nil
Net Annual Value 1,80,000
Less: 30% of NAV u/s 24(a) 54,000
Less: Interest on capital borrowed u/s 24(b) 1,75,000
Loss under the head House Property (49,000)
Gross Total Income 10,47,000
Less: Deduction u/s 80C-Repayment of principal 1,00,000
Total Income 9,47,000

**Computation of Tax Liability**
Tax on 9,47,000 at Slab rate 1,19,400
Add: Education cess @ 2% 2,388
Add: SHEC @ 1% 1,194
Tax Liability 1,22,982
Rounded off u/s 288B 1,22,980
**Question 4**

Mr. X retired from the services of M/s Y Ltd. on 31.01.2014 after completing service of 30 years and one month. He had joined the company in 1982 at the age of 30 years and received the following on his retirement:

(i) Gratuity `6,00,000. He was covered under the Payment of Gratuity Act, 1972.

(ii) Leave encashment of `3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.

(iii) As per the scheme of the company, he was offered a car which was purchased on 01.02.2011 by the company for `5,00,000. Company has recovered `2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.

(iv) An amount of `3,00,000 as commutation of 2/3 of his pension.

(v) Company presented him a gift voucher worth `6,000 on his retirement.

(vi) His colleagues also gifted him a Television (LCD) worth `50,000 from their own contribution.

Following are the other particulars:

(i) He has drawn a Basic Salary of `20,000 and 50% Dearness allowance per month for the period from 01.04.2013 to 31.01.2014.

(ii) Received pension of `5,000 per month for the period 01.02.2014 to 31.03.2014 after commutation of pension.

Compute his total income from the above for Assessment Year 2014-15. (Modified)

**Answer:**

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (20,000 x 10)</td>
<td>2,00,000</td>
</tr>
<tr>
<td>DA (2,00,000 x 50%)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Gift voucher (6,000-5,000)</td>
<td>1,000</td>
</tr>
<tr>
<td>Motor Car (Sec 17(2)(viii) Rule 3(7)(viii))</td>
<td>56,000</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Less: Depreciation @ 20%</td>
<td></td>
</tr>
<tr>
<td>01.02.2011-31.01.2012</td>
<td>1,00,000</td>
</tr>
<tr>
<td>01.02.2012-31.01.2013</td>
<td>80,000</td>
</tr>
<tr>
<td>01.02.2013-31.01.2014</td>
<td>64,000</td>
</tr>
<tr>
<td>WDV</td>
<td>2,56,000</td>
</tr>
<tr>
<td>Less: Amount Recovered</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Perquisite value of car</td>
<td>56,000</td>
</tr>
</tbody>
</table>
Uncommuted Pension {Sec 17(1)}
(5,000 x 2)  

Commuted pension {Sec 10(10A)}  

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount received</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Less: exempted</td>
<td>1,50,000</td>
</tr>
<tr>
<td>(3,00,000 x 3/2 x 1/3)</td>
<td></td>
</tr>
<tr>
<td>Taxable</td>
<td>1,50,000</td>
</tr>
</tbody>
</table>

Gratuity {Sec 10(10)}

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Least of the following is exempt</td>
<td></td>
</tr>
<tr>
<td>1. Gratuity received `6,00,000</td>
<td></td>
</tr>
<tr>
<td>2. `10,00,000</td>
<td></td>
</tr>
<tr>
<td>3. 15/26 x 30,000 x 30 = 5,19,231</td>
<td></td>
</tr>
<tr>
<td>Received = `6,00,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = `5,19,231</td>
<td></td>
</tr>
<tr>
<td>Taxable = `80,769</td>
<td></td>
</tr>
</tbody>
</table>

Leave Salary {Sec 10(10A)}  

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Least of the following is exempt</td>
<td></td>
</tr>
<tr>
<td>1. `3,30,000</td>
<td></td>
</tr>
<tr>
<td>2. <code>10 x 20,000 = </code>2,00,000</td>
<td></td>
</tr>
<tr>
<td>3. `3,00,000</td>
<td></td>
</tr>
<tr>
<td>3. 330/30 x 20,000 = 2,20,000</td>
<td></td>
</tr>
<tr>
<td>Received = `3,30,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = `2,00,000</td>
<td></td>
</tr>
<tr>
<td>Taxable = `1,30,000</td>
<td></td>
</tr>
</tbody>
</table>

Gross Salary 7,27,769
Income under the head Salary 7,27,769

Income under the head Other Sources Nil
(Since LCD is not covered under the definition of kind as given under section 56)

Gross Total Income 7,27,769
Less: Deduction u/s 80C to 80U Nil
Total Income (rounded off u/s 288A) 7,27,770

PCC MAY – 2011

Question 3 (8 Marks)
Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2013-14:

(i) Medical facility given to his family in a hospital maintained by the company. The estimated value of benefit because of such facility is `40,000.
(ii) Domestic servant was provided at the residence of Bala. Salary of domestic servant is `1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer). In case, the company has employed the domestic servant, what is the value of perquisite?

(iii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at `900 per month and for Ashok at `1,200 per month. No amount was recovered by the company for such education facility from Bala.

(iv) The employer has provided movable assets such as television refrigerator and air conditioner at the residence of Bala. The actual cost of such assets provided to the employee is `1,10,000.

(v) A gift voucher worth `10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employee above certain grade.

State the taxability or otherwise of the above said perquisites and compute the total value of taxable perquisites.

Answer.

**Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala**

(i) Medical facility to employees’ family in a hospital maintained by the employer is not a taxable perquisite. Regardless of the estimated value of benefit arising from such facility to the employee, it is exempt from tax. Therefore, the value of perquisite is Nil.

(ii) Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees. Taxable perquisite value = `1,500 × 12 = `18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be `18,000.

(iii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality.

However, there would be no perquisite if the cost of such education per child does not exceed `1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed `1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds `1,000 per month.

Only the sum in excess of `1,000 per month is taxable. The value of perquisite would be `2,400.

(iv) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is `1,10,000.

The perquisite value would be 10% of the actual cost i.e., `11,000, being 10% of `1,10,000.
(v) Only the sum in excess of `5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts up to `5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite.

**Total value of taxable perquisite = `36,400 [i.e. `18,000 + 2,400 + 11,000 + 5,000].**

### Question 5

**IPCC NOV – 2010**

From the following details find out the salary chargeable to tax for the assessment year 2014-15.

Mr. X is a regular employee of Rama & Co. in Gurgaon. He was appointed on 01.01.2013 in the scale of 20000-1000-30000. He is paid 10% D.A. (forms part for retirement benefits salary) & Bonus equivalent to one month pay. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount.

He is provided free housing facility which has been taken on rent by the company at `10,000 per month. He is also provided with following facilities.

(i) Facility of laptop costing `50,000.

(ii) Company reimbursed the medical treatment bill of his brother of `25,000, who is dependent on him.

(iii) The monthly salary of `1,000 of a house keeper is reimbursed by the company.

(iv) A gift voucher of `10,000 on the occasion of his marriage anniversary.

(v) Conveyance allowance of `1,000 per month is given by the company towards actual reimbursement.

(vi) He is provided personal accident policy for which premium of `5,000 is paid by the company.

(vii) He is getting telephone allowance @ `500 per month.

(viii) Company pays medical insurance premium of his family of `10,000. (Modified)

**Answer.**

**Computation of taxable salary of Mr. X for A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay [(20,000×9) + (21,000×3)] = 1,80,000 + 63,000</td>
<td>2,43,000</td>
</tr>
<tr>
<td>Dearness allowance [10% of basic pay]</td>
<td>24,300</td>
</tr>
<tr>
<td>Bonus [See Note (1) below]</td>
<td>21,000</td>
</tr>
<tr>
<td>Employer’s contribution to RPF in excess of 12%</td>
<td>8,019</td>
</tr>
<tr>
<td>(15%-12% =3% of `2,67,300)</td>
<td></td>
</tr>
<tr>
<td><strong>Total allowances</strong></td>
<td></td>
</tr>
<tr>
<td>Telephone allowance</td>
<td>6,000</td>
</tr>
<tr>
<td><strong>Taxable perquisites</strong></td>
<td></td>
</tr>
<tr>
<td>Rent-free accommodation [See Note (2) below]</td>
<td>44,145</td>
</tr>
<tr>
<td>Medical reimbursement (25,000 - 15,000) [See Note (4) below]</td>
<td>10,000</td>
</tr>
</tbody>
</table>
Reimbursement of salary of housekeeper 12,000

Gift voucher (10,000 – 5,000) 5,000

**Salary income chargeable to tax** 3,73,464

**Notes:**
(1) Bonus has been taken as one month’s basic pay as at the end of the year i.e. `21,000. In the alternative, the problem can also be worked out by taking bonus as `20,000, being one month’s basic pay up to 31.12.2013.

(2) Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:
(i) Basic salary i.e., `2,43,000
(ii) Dearness allowance i.e. `24,300
(iii) Bonus i.e., `21,000
(iv) Telephone allowance i.e., `6,000

Therefore, salary works out to
2,43,000 + 24,300 + 21,000 + 6,000 = 2,94,300.

15% of salary = 2,94,300 \times \frac{15}{100} = 44,145

Value of rent-free house = Lower of rent paid by the employer (i.e. `1,20,000) or 15% of salary (i.e., `44,145).

Therefore, the perquisite value is `44,145.

(3) Facility of laptop is not a taxable perquisite.

(4) Proviso to section 17(2) exempts any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family to the extent of `15,000.

Therefore, in this case, the balance of `10,000 (i.e., `25,000 – `15,000) is a taxable perquisite. Medical insurance premium paid by employer is exempt.

(5) Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.

(6) Premium of `5,000 paid by the company for personal accident policy is not liable to tax.

(7) As per Circular No.15/2001, dated: 12.12.2001, Gift, voucher or token in lieu of gift - It is customary in India, as it is in other parts of the world, to provide presents directly or indirectly in the form of vouchers or tokens to employees on social and religious occasions like Diwali, Christmas, New Year, the anniversary of the organization etc. Such gifts upto `5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. However, gifts made in cash or convertible into cash, like gift cheques etc. do not fall in the purview of this sub-rule.

**Question 7** (4 Marks)
Mr. Shah, an Accounts Manager, has retired from JK Ltd. on 15.01.2014 after rendering services for 30 years 7 months. His salary is `25,000/- p.m. upto 30.09.2013 and `27,000 p.m. thereafter. He also gets
`2,000/- p.m. as dearness allowance (55% of it is a part of salary for computing retirement benefits).

He is not covered by the payments of Gratuity Act, 1972.

He has received ` 8 Lacs as gratuity from the employer company.  

Answer.

**Computation of gratuity taxable in the hands of Mr. Shah for the P.Y. 2013-14**

As per section 10(10), gratuity received by an employee would be exempt upto the least of the following limits –

(i) Gratuity received = ` 8,00,000
(ii) Half-month’s salary for every year of completed service
    = ½ x 26,700 x 30 = ` 4,00,500
(iii) Monetary limit = ` 10,00,000

<table>
<thead>
<tr>
<th>Received</th>
<th>8,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Exempt</td>
<td>4,00,500</td>
</tr>
<tr>
<td>Taxable</td>
<td>3,99,500</td>
</tr>
</tbody>
</table>

**Note:**

(1) One of the limits for calculation of gratuity exempt under section 10(10) is one-half-month’s salary for each year of completed service (fraction of a year to be ignored), calculated on the basis of average salary for the ten months immediately preceding the month of retirement. In this case, the month of retirement is January, 2014. Therefore, average salary for the months of March 2013 to December 2013 have to be considered. The salary is ` 25,000 p.m. upto 30.09.2013 and ` 27,000 p.m. from 01.10.2013. Hence, average salary would be (` 26,700([` 25,000 × 7) + (` 27,000 × 3) + (2000× 55%×10)])/10.

Further, half-month’s salary should be multiplied by the number of years of completed service and any fraction of a year has to be ignored. Therefore, in this case, half-month’s salary should be multiplied by 30 and the fraction of 7 months should be ignored.

(2) PS – The requirement of the question has not been specified. Having regard to the information given in the question, the taxable gratuity has been computed.

---

**PCC  NOV – 2010**

**Question 5**

Mr. Raghu, Marketing Manager of KL Ltd. based at Mumbai furnishes you the following information for the year ended 31.03.2014:

- Basic salary - ` 1,00,000 per month
- Dearness allowance - `  50,000 per month (forming part for retirement benefit salary)
- Bonus - 2 Months basic salary

Contribution of employer to Recognized Provident Fund @ 15% of basic salary plus Dearness allowance
Rent free unfurnished accommodation was provided by the company at Mumbai (accommodation owned by the company).

(i) Recognized Provident Fund contribution made by Raghu.  

1,50,000

(ii) Health insurance premium for his family paid by cheque.  

20,000

(iii) Health insurance premium in respect of parents (senior citizens) paid by cheque.  

28,000

(iv) Medical expenses of dependent brother with ‘severe disability’ (covered by Section 60,000
2(o) of National Trust of Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999).

(v) Interest on loan taken for education of his son studying B.com (full-time) in a recognized college. 

24,000

(vi) Interest on loan taken for education of a student for whom Mr. Raghu is the legal guardian for pursuing B.Sc. (Physics) (full-time) in a recognized university.

20,000

Compute the Total Income of Mr. Raghu for the Assessment Year 2014-15. (Modified)

**Answer.**

**Computation of Total Income of Mr. Raghu for the Assessment Year 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Dearness allowance</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Employer contribution to RPF in excess of 12% is taxable</td>
<td>54,000</td>
</tr>
<tr>
<td>Rent free accommodation @ 15% of `20 lakh (basic salary + dearness allowance + bonus)</td>
<td>3,00,000</td>
</tr>
<tr>
<td><strong>Less: Deductions under Chapter VI-A</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Section 80C</strong></td>
<td></td>
</tr>
<tr>
<td>Contribution to RPF `1,50,000 restricted to</td>
<td>1,00,000</td>
</tr>
<tr>
<td><strong>Section 80D</strong> – Health insurance premium</td>
<td></td>
</tr>
<tr>
<td>Family `20,000 restricted to</td>
<td>15,000</td>
</tr>
<tr>
<td>Parents (Senior Citizens) `28,000 restricted to</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Section 80DD</strong></td>
<td></td>
</tr>
<tr>
<td>Medical treatment of dependent brother with severe disability</td>
<td>1,00,000</td>
</tr>
<tr>
<td>(flat deduction irrespective of expenditure incurred)</td>
<td></td>
</tr>
<tr>
<td><strong>Section 80E</strong> – Interest on loan taken for full-time education of</td>
<td></td>
</tr>
<tr>
<td>- his son studying B.Com.</td>
<td>24,000</td>
</tr>
<tr>
<td>- a student studying B.Sc. for whom he is the legal guardian</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>20,75,000</td>
</tr>
</tbody>
</table>

**Question 6** (2 Marks)

Allowance received by an employee working in a transport system at `10,000 per month to meet his personal expenditure while in duty. He is not receiving any daily allowance.

**Answer.**

Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., `7,000 per month, being 70% of `10,000) or `10,000 per month, whichever is less. Hence, `84,000 (i.e., 7,000 × 12) is allowable as deduction under section 10(14).
Amount withdrawn from Public Provident Fund as per relevant rules.

Answer.
Any amount withdrawn from public provident fund as per relevant rules is not exigible to tax. Such exemption is provided in section 10(11).

Question 6 (2 Marks)
Telephone provided at the residence of employee and the bill aggregating to `25,000 paid by the employer. Determine the perquisite value taxable in the hands of employee.

Answer.
Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite as per section 17(2)(viii) Rule 3(7)(ix).

Question 7 (4 Marks)
AB Co. Ltd., allotted 1000 sweat equity shares to Shri Chand in June 2013. The shares were allotted at `200 per share as against the fair market value of `300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

(i) What is the perquisite value of sweat equity shares allotted to Sri Chand?
(ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?

Answer.
(i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair market value of 1,000 sweat equity shares @ `300 each</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Less: Amount recovered from Sri Chand 1,000 shares @ `200 each</td>
<td>2,00,000</td>
</tr>
<tr>
<td><strong>Value of perquisite of sweat equity shares allotted to Sri Chand</strong></td>
<td><strong>1,00,000</strong></td>
</tr>
</tbody>
</table>

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be `3,00,000.

PCC MAY – 2010

Question 3 (6 Marks)
Following benefits have been granted by Ved Software Ltd. to one of its employees Mr. Badri:

(i) Housing loan @ 6% per annum. Amount outstanding on 01.04.2013 is `6,00,000. Mr. Badri pays `12,000 per month, on 5th of each month.
(ii) Air-conditioners purchased 4 years back for `2,00,000 have been given to Mr. Badri for `90,000.

Compute the chargeable perquisite in the hands of Mr. Badri for the Assessment Year 2014-15.

The lending rate of State Bank of India as on 01.04.2013 for housing loan may be taken as 10.50%.

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

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

The perquisite value for computation is 10.50% - 6% = 4.5%

<table>
<thead>
<tr>
<th>Month</th>
<th>Maximum outstanding balance as on last date of month</th>
<th>Perquisite value at 4.5% for the month</th>
</tr>
</thead>
<tbody>
<tr>
<td>April, 2013</td>
<td>5,88,000</td>
<td>5,88,000 x 4.5% x 1/12 = 2,205</td>
</tr>
<tr>
<td>May, 2013</td>
<td>5,76,000</td>
<td>5,76,000 x 4.5% x 1/12 = 2,160</td>
</tr>
<tr>
<td>June, 2013</td>
<td>5,64,000</td>
<td>5,64,000 x 4.5% x 1/12 = 2,115</td>
</tr>
<tr>
<td>July, 2013</td>
<td>5,52,000</td>
<td>5,52,000 x 4.5% x 1/12 = 2,070</td>
</tr>
<tr>
<td>August, 2013</td>
<td>5,40,000</td>
<td>5,40,000 x 4.5% x 1/12 = 2,025</td>
</tr>
<tr>
<td>September, 2013</td>
<td>5,28,000</td>
<td>5,28,000 x 4.5% x 1/12 = 1,980</td>
</tr>
<tr>
<td>October, 2013</td>
<td>5,16,000</td>
<td>5,16,000 x 4.5% x 1/12 = 1,935</td>
</tr>
<tr>
<td>November, 2013</td>
<td>5,04,000</td>
<td>5,04,000 x 4.5% x 1/12 = 1,890</td>
</tr>
<tr>
<td>December, 2013</td>
<td>4,92,000</td>
<td>4,92,000 x 4.5% x 1/12 = 1,845</td>
</tr>
<tr>
<td>January, 2014</td>
<td>4,80,000</td>
<td>4,80,000 x 4.5% x 1/12 = 1,800</td>
</tr>
<tr>
<td>February, 2014</td>
<td>4,68,000</td>
<td>4,68,000 x 4.5% x 1/12 = 1,755</td>
</tr>
<tr>
<td>March, 2014</td>
<td>4,56,000</td>
<td>4,56,000 x 4.5% x 1/12 = 1,710</td>
</tr>
</tbody>
</table>

**Total value of this perquisite**

<table>
<thead>
<tr>
<th>Perquisite Value of Air Conditioners:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original cost</td>
</tr>
<tr>
<td>Depreciation on SLM basis for 4 years @10% i.e. `2,00,000 x 10% x 4</td>
</tr>
<tr>
<td><strong>Written down value</strong></td>
</tr>
<tr>
<td>Amount recovered from the employee</td>
</tr>
<tr>
<td><strong>Perquisite value</strong></td>
</tr>
</tbody>
</table>

**Chargeable perquisite in the hands of Mr. Badri for the assessment year 2014-15**

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing loan</td>
</tr>
<tr>
<td>Air Conditioner</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

**Note:** It is assumed that payment of `12,000 is excluding interest.

---

**IPCC NOV – 2009**

**Question 1** *(16 Marks)*

From the following details compute the total income of Siddhant of Delhi and tax liability for the Assessment Year 2014-15:

- **Salary including dearness allowance** 3,35,000
- **Bonus** 11,000
- **Salary of servant provided by the employer** 12,000
Siddhant was provided with company's car engine capacity 1.6 litre (self driven) also for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer.

Siddhant purchased a flat in a Co-operative Housing Society for ₹4,75,000 in April, 2007, in Delhi, which was financed by a loan from Life Insurance Corporation of India of ₹1,60,000 @ 15% interest, his own savings of ₹65,000 and a deposit from a nationalised bank for ₹2,50,000 to whom this flat was given on lease for ten years. The rent payable was ₹20,000 per month. The following particulars are relevant:

(a) Municipal taxes paid  
(b) Society charges for passage lights, watchman's salary  
(c) Insurance  
(d) He earned ₹2,700 in share speculation business and lost ₹4,200 in cotton speculation business.  
(e) In the year 2007-08 he had gifted ₹30,000 to his wife and ₹20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.  
(f) Siddhant received a gift of ₹25,000 each from four friends.  
(g) He contributed ₹5,600 to public provident fund and ₹4,000 to Unit Linked Insurance Plan.  
(h) He received national award for humanitarian work from the Central Government in the form of a land whose fair market value is ₹5,00,000 as on 31st March, 2014. (Modified)

**Answer.**

**Computation of Total Income and Tax Liability of Siddhant for the A.Y. 2014-15**

**Salary Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary including dearness allowance</td>
<td>3,35,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>11,000</td>
</tr>
</tbody>
</table>

Value of perquisites:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary of servant</td>
<td>12,000</td>
</tr>
<tr>
<td>Car (1,800 x 12)</td>
<td>21,600</td>
</tr>
<tr>
<td>Free gas, electricity and water</td>
<td>11,000</td>
</tr>
</tbody>
</table>

**Income from house property**

Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (20,000 x 12)  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(20,000 x 12)</td>
<td>2,40,000</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

Less: Municipal taxes paid [See Note (ii)(a)] 4,300
Net Annual Value (NAV) 2,35,700

Less: Deductions under section 24
(i) 30% of NAV 70,710
(ii) Interest on loan from LIC @ 15% of 1,60,000 94,710 1,40,990
[See Note (ii)(b)]

Income from speculative business
Income from share speculation business 2,700
Less: Loss from cotton speculation business 4,200
Net Loss 1,500
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.

Income from Other Sources
(i) Income on account of interest earned from advancing money 3,800
gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)
Less: Exempt under section 10(32) 1,500 2,300

(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)

(iii) Gift received from four friends (taxable under section 56(2) as the aggregate amount received during the year exceeds `50,000) 1,00,000 1,08,000

Gross Total Income 6,39,590

Less: Deduction under section 80C
Contribution to Public Provident Fund 5,600
Unit Linked Insurance Plan 4,000 9,600

Total Income 6,29,990

Particulars

Tax on total income 55,998.00
Add: Education cess@ 2% 1,119.96
Add: Secondary and higher education cess @ 1% 559.98

Tax Liability (rounded off u/s 288B) 57,680.00

Notes:
(i) National Award for humanitarian work given by the Central Government is exempt under section 10(17A) of the Income-tax Act, 1961.
(ii) The following assumptions have been made while computing income under the head “Income from house property” –
   (a) It is the owner, namely, Mr. Siddhanth, who has paid the municipal taxes;
   (b) The entire loan of `1,60,000 is outstanding as on 31.03.2014; and
   (c) Society charges of `1,900 p.a. is not included in the rent of `20,000 p.m. payable by the tenant. Such charges have either been paid directly by Mr. Siddhant or recovered separately from the tenant.
Mr. Ashok Kumar, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2014:

i. Salary income for the year \[5,25,000\]

ii. Salary for Previous Year 2012-13 received during the year \[40,000\]

iii. Assessed Income for the Previous Year 2012-13 \[1,40,000\]

You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961, in terms of tax payable for assessment year 2014-15.

The rates of Income-tax for the Assessment Year 2013-14 are:

<table>
<thead>
<tr>
<th>Tax Rate (%)</th>
<th>On first [2,00,000]</th>
<th>On [2,00,000] - [5,00,000]</th>
<th>On [5,00,000] - [10,00,000]</th>
<th>Above [10,00,000]</th>
<th>Education cess</th>
<th>SHEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>30</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

(Modified)

**Answer.**  

**Computation of Relief under section 89 for the Assessment Year 2014-15**

**Particulars**

Salary Income for the year excluding the arrears \[5,25,000\]

Add: Arrears relating to Previous Year 2012-13 \[40,000\]

Total Income \[5,65,000\]

Tax on \[5,65,000\]

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total Income excluding arrears [5,25,000]</th>
</tr>
</thead>
<tbody>
<tr>
<td>First [2,00,000]</td>
<td>Nil</td>
</tr>
<tr>
<td>Next [3,00,000]</td>
<td>10%</td>
</tr>
<tr>
<td>Balance [65,000]</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>[5,65,000]</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>860</td>
</tr>
<tr>
<td>Secondary and higher education cess @ 1%</td>
<td>430</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(A)</td>
</tr>
</tbody>
</table>

Total Income excluding arrears \[5,25,000\]

Tax on \[5,25,000\]

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First [2,00,000]</td>
<td>Nil</td>
</tr>
<tr>
<td>Next [3,00,000]</td>
<td>10%</td>
</tr>
<tr>
<td>Balance [25,000]</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>[5,25,000]</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>700</td>
</tr>
<tr>
<td>Secondary and higher education cess @ 1%</td>
<td>350</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(B)</td>
</tr>
</tbody>
</table>

Difference between A & B \[I\] 8,240

**Assessment Year 2013-14**
Question 3 (6 Marks)
Mr. M is an area manager of M/s N. Steels Co. Ltd. During the financial year 2013-14, he gets the following emoluments from his employer:

- **Basic Salary**
  - Up to 31.08.2013: `20,000 p.m.
  - From 01.09.2013: `25,000 p.m.

- **Transport allowance**: `2,000 p.m.

- **Contribution to Recognised Provident Fund by employer and employee**: 15% of basic salary (each)

- **Children education allowance**: `500 p.m. for two children

- **City compensatory allowance**: `300 p.m.

- **Hostel expenses allowance**: `380 p.m. for two children

- **Tiffin allowance (actual expenses `3,700)**: `5,000 p.a.

- **Tax paid on employment**: `2,500

Compute Tax Liability of Mr. M for the Assessment Year 2014-15. (Modified)

**Answer.**

**Computation of Taxable Salary of Mr. M. for the Assessment Year 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (())</th>
<th>Amount (())</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (<code>20,000 x 5) + (</code>25,000 x 7)</td>
<td>(`2,75,000.00)</td>
<td>(`2,75,000.00)</td>
</tr>
<tr>
<td>Transport allowance (`2,000 x 12)</td>
<td>24,000</td>
<td></td>
</tr>
<tr>
<td>Less : Exempt under section 10(14) (`800 x 12)</td>
<td>9,600</td>
<td>14,400.00</td>
</tr>
<tr>
<td>Children education allowance (`500 x 12)</td>
<td>6,000</td>
<td></td>
</tr>
</tbody>
</table>
**Income Under The Head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Exempt under section 10(14) (`100 x 2 x 12)</td>
<td>2,400</td>
</tr>
<tr>
<td>City Compensatory Allowance (`300 x 12)</td>
<td>3,600.00</td>
</tr>
<tr>
<td>Hostel Expenses Allowance (`380 x 12)</td>
<td>4,560</td>
</tr>
<tr>
<td>Less: Exempt under section 10(14) (<code>300 x 2 x 12 i.e. </code>7,200 but restricted to the actual allowance of `4,560)</td>
<td>4,560</td>
</tr>
<tr>
<td>Tiffin allowance (fully taxable)</td>
<td>5,000.00</td>
</tr>
<tr>
<td>Tax paid on employment</td>
<td>2,500.00</td>
</tr>
<tr>
<td>Employer’s contribution to Recognised Provident Fund in excess of 12% of salary (i.e. 3% of `2,75,000)</td>
<td>8,250.00</td>
</tr>
</tbody>
</table>

**Gross Salary**

<table>
<thead>
<tr>
<th></th>
<th>3,12,350.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less : Tax on employment under section 16(iii)</td>
<td>2,500.00</td>
</tr>
</tbody>
</table>

**Taxable salary**

<table>
<thead>
<tr>
<th></th>
<th>3,09,850.00</th>
</tr>
</thead>
</table>

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>3,09,850.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td></td>
</tr>
<tr>
<td>Employee’s contribution in Recognised Provident Fund</td>
<td>41,250.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,68,600.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `2,68,600 at slab rate</td>
<td>6,860.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Tax before Education cess</td>
<td>4,860.00</td>
</tr>
<tr>
<td>Add: Education Cess @ 2%</td>
<td>97.20</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>48.60</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>5,005.80</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>5,010.00</td>
</tr>
</tbody>
</table>

**Notes:**
Professional tax paid by employer should be included in the salary of Mr. M as a perquisite since it is discharge of monetary obligation of the employee by the employer. Thereafter, deduction of professional tax paid is allowed to the employee from his gross salary.

---

**Question 4**

(6 Marks)

Mr. Narendra, who retired from the services of Hotel Samode Ltd., on 31.01.2014 after putting on service for 5 years, received the following amounts from the employer for the year ending on 31.03.2014:

- Salary @ `16,000 p.m. comprising of basic salary of `10,000, Dearness allowance of `3,000, City compensatory allowance of `2,000 and Night duty allowance of `1,000.
- Pension @ 30% of basic salary from 01.02.2014.
- Leave salary of `75,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year.
- Gratuity of `50,000.

---

**Caultimates.com**
Compute the Total Income of Mr. Narendra for the Assessment Year 2014-15. (Modified)

Answer.

**Computation of Total Income of Mr. Narendra for A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (())</th>
<th>Amount (())</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income from Salaries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross salary received during 01.04.2013 to 31.01.2014</td>
<td>@ () 16,000 p.m. ((\ 16,000 \times 10))</td>
<td>1,60,000</td>
</tr>
<tr>
<td>Pension for 2 months @ 30% of the basic salary of () 10,000 p.m.</td>
<td></td>
<td>6,000</td>
</tr>
<tr>
<td>Leave Salary</td>
<td>75,000</td>
<td></td>
</tr>
<tr>
<td>Less: Exempt under section 10(10AA) (Note (i))</td>
<td>50,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Gratuity</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Less: Exempt under section 10(10) (Note (ii))</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Income under the head Salary</strong></td>
<td></td>
<td>2,16,000</td>
</tr>
</tbody>
</table>

**Gross Total Income**

<table>
<thead>
<tr>
<th>Amount (())</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,16,000</td>
</tr>
</tbody>
</table>

Less: Deduction u/s 80C to 80U     Nil

**Total Income**

<table>
<thead>
<tr>
<th>Amount (())</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,16,000</td>
</tr>
</tbody>
</table>

**Notes:**

(i) Leave encashment is exempt to the extent of least of the following:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (())</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Statutory limit</td>
<td>3,00,000</td>
</tr>
<tr>
<td>(ii) Cash equivalent of leave ((10,000 \times 150 / 30))</td>
<td>50,000</td>
</tr>
<tr>
<td>(iii) 10 months average salary ((10 \times 10,000))</td>
<td>1,00,000</td>
</tr>
<tr>
<td>(iv) Actual amount received</td>
<td>75,000</td>
</tr>
</tbody>
</table>

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

(ii) Gratuity is exempt to the extent of least of the following:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (())</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Statutory limit</td>
<td>10,00,000</td>
</tr>
<tr>
<td>(ii) Half month’s salary for 5 years of service ((5 \times 5,000))</td>
<td>25,000</td>
</tr>
<tr>
<td>(iii) Actual gratuity received</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Therefore, \(\) 25,000 is exempt under section 10(10).

**Question 5** (4 Marks)

How is advance salary taxed in the hands of an employee? Is the tax treatment same for loan or advance against salary?

**Answer.**

**Advance Salary**

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

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

**Loan or Advance against Salary**
Income Under The Head Salary

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

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

PCC NOV – 2007

Question 2 (20 Marks)
Ramdin working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2014:

- Basic Salary `15,000 p.m.
- DA (50% of it is meant for retirement benefits) `12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company `50 lacs
- Bonus `50,000
- Gratuity `30,000
- Own Contribution to R.P.F. `30,000
- Employer’s contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 8.5% p.a. `15,000
- Gold Ring worth `10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 02.04.2013 by the company for `85,000 and was given to him for personal use.
- Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of `6,500 p.m. Books of account are not maintained.
- Received interest of `5,860 on bank FDRs, dividend of `1,260 from shares of Indian Companies and interest of `7,540 from the debentures of Indian Companies.
- Made payment by cheque of `15,370 towards premium of Life Insurance policies and `12,500 by cheque for Mediclaim Insurance policy.
- Invested in 6 years NSC `30,000 and in FDR of SBI for 7 years `50,000.
- Donations of `11,000 by cheque to an institution approved u/s 80G and of `5,100 to Prime Minister’s National Relief Fund were given during the year.

Compute the Total Income and Tax Payable thereon for the A.Y. 2014-15. (Modified)

Answer.
**Computation of Total Income for the Assessment year 2014-15**

**Particulars**

**Income from Salaries**

- Basic Salary (15,000 x 12) 1,80,000
- DA (12,000 x 12) 1,44,000
- Commission on Turnover (0.5% of 50 lacs) 25,000
- Bonus 50,000
- Gratuity (Note (i)) 30,000

**Employer’s contribution to RPF**

- Actual contribution [20% of 1,80,000] 36,000
- Less: Exempt (Note (ii)) 33,240 2,760

**Gift of gold ring worth 10,000 on 25th wedding anniversary** 5,000

**Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of 85,000** 8,500

**Profits and Gains of Business or Profession**

Lease of 2 trucks on contract basis against fixed charges of 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. 5,000 p.m. for each of the two trucks (5,000 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account. 1,20,000

**Income from Other Sources**

- Interest on bank FDRs 5,860
- Interest from debentures 7,540
- Dividend on shares [Exempt under section 10(34)] Nil 13,400

**Gross Total Income**

5,78,660

**Less: Deductions under Chapter VI-A**

**Section 80C**

- LIC 15,370
- NSC 30,000
- FDR of SBI for 7 years 50,000
- Employee’s contribution to R.P.F. 30,000
- Total 1,25,370

**Limited to**

1,00,000

**Section 80D Mediclaim Insurance (amount actually paid or 15,000, whichever is less)** 12,500

**Section 80G (Note (iii))** 10,600 1,23,100

**Total Income**

4,55,560

**Tax on total income**

Income-tax 25,556.00

Less: Rebate u/s 87A (`25,556 or `2,000 whichever is less) 2,000.00
Income Under The Head Salary

Tax before Education cess                      23,556.00
Add: Education Cess @ 2%                    471.12
Add: SHEC @ 1%                               235.56
**Total Tax Payable**                        **24,262.68**
**Tax Payable (rounded off u/s 288B)**       **24,260.00**

Notes:
(i) Gratuity received during service is fully taxable.

(ii) Employer’s contribution in the R.P.F. is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
= 12% of (1,80,000 + (50% of 1,44,000) + 25,000)
= 12% of 2,77,000
= `33,240

(iii) Deduction under section 80G is computed as under:
Donation to PM National Relief Fund (100%)    5,100
Donation to institution approved under section 80G (50% of 11,000)
(amount contributed 11,000 or 10% of Adjusted Gross Total Income
i.e. 46,616, whichever is lower)              5,500
Total deduction                               10,600
Adjusted Gross Total Income = Gross Total Income - Deductions under section 80C and 80D
= `5,78,660 - `1,12,500 = `4,66,160

---

**PCC MAY – 2007**

**Question 2** (20 Marks)
Mr. Pankaj, aged 58 years, who retired from the services of the Central Government on 30.06.2013, furnishes particulars of his income and other details as under:
- Salary @ `6,000 p.m.
- Pension @ `3,000 p.m. for July’ 2013 to Nov’ 2013.
- On 01.12.2013, he got 1/3rd of his pension commuted for `1,20,000.
- A house plot at Ernakulam sold on 01.02.2014 for `5,00,000 had been purchased by him on 03.11.2011 for `1,17,750. The stamp valuation authority had assessed the value of said house plot at `6,00,000 which was neither disputed by the buyer nor by him.
- Received interest on bank FDRs of `72,500 (gross), dividend on mutual fund units of `15,000 and interest on maturity of NSC of `50,000 out of which an amount of `40,000 was already disclosed by him on accrual basis in the returns upto Asst. Year 2013-14.
- Investment in purchase of NSC for `30,000 and payment for mediclaim insurance for self and wife of `12,500 by cheque. Made investment in Tax Magnum units of Mutual Fund of SBI of `80,000.

Compute the Total Income and Tax Liability of Mr. Pankaj for A.Y. 2014-15.

In the event of Mr. Pankaj being ready to make appropriate investment for availing exemption in respect of capital gain arising from sale of house plot, what will be the amount to be invested and the period within which the same should be invested?

(a) if he wishes to avail exemption under section 54F by constructing a new residential house;
(b) if he wants to avail exemption under section 54EC. (Modified)

**Answer.**

**Computation of Total Income of Mr. Pankaj for A.Y. 2014-15**

### Income from salaries

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary for 3 months received from Government of India (6,000 x 3)</td>
<td>18,000.00</td>
</tr>
<tr>
<td>Pension for 5 months from July’2013 to Nov’2013 @ 3,000 p.m. (3,000 x 5)</td>
<td>15,000.00</td>
</tr>
<tr>
<td>Pension for 4 months from Dec’2013 to March’2013 @ 2,000 p.m. (2,000 x 4)</td>
<td>8,000.00</td>
</tr>
</tbody>
</table>

### Capital gains

Sale consideration received is `5,00,000. However, since the value assessed by the stamp valuation authority (i.e. `6,00,000) is higher than the sale consideration, such value assessed is deemed to be the full value of the consideration received or accruing as a result of such transfer as per section 50C

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Cost of acquisition</td>
<td>(1,17,750.00)</td>
</tr>
</tbody>
</table>

**Short Term Capital Gains**

4,82,250.00

### Income from other sources

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on bank FDRs</td>
<td>72,500.00</td>
</tr>
<tr>
<td>Dividend of `15,000 on units of Mutual Fund [exempt under section 10(35)]</td>
<td>50,000</td>
</tr>
<tr>
<td>Interest on maturity of NSC</td>
<td>40,000</td>
</tr>
<tr>
<td>Less: Interest already shown on accrual basis in the past returns</td>
<td>10,000.00</td>
</tr>
</tbody>
</table>

### Gross Total Income

6,05,750.00

### Less: Deductions

#### Under section 80C

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of NSC</td>
<td>30,000</td>
</tr>
<tr>
<td>Tax Magnum units of Mutual Fund of SBI</td>
<td>80,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,10,000</td>
</tr>
</tbody>
</table>

Maximum deduction available under section 80C 1,00,000.00

#### Under section 80D

Medical insurance premium paid `12,500/- and maximum allowable is `15,000/-

12,500.00

### Total Income

4,93,250.00

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `4,93,250 at slab rate</td>
<td>29,325.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A (<code>29,325 or </code>2,000 whichever is less)</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Tax before Education cess</td>
<td>27,325.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>546.50</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>273.25</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>28,144.75</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>28,140.00</td>
</tr>
</tbody>
</table>

### Note –

(i) Commuted value of pension of `1,20,000/- received from the Central Government is fully exempt under section 10(10A)

(ii) No exemption is allowed under section 54F or 54EC from short term capital gains
Facts
The assessee had in its regular employment three categories of salesmen: machine salesmen, mixed salesmen and supply salesmen. As a term of contract of employment between the assessee and the salesmen, the assessee, besides paying a fixed monthly salary, also paid commission to them at a fixed percentage of turnover achieved by each salesman, the rate of percentage varying according to the class of article sold and the category to which the salesman belonged. The assessee maintained a regular provident fund for its employees which was recognised by the Commissioner of Income-tax in 1937 and the said recognition continued and was in force during the relevant assessment periods for the years 1962-63, 1963-64 and 1964-65. The assessee made contributions, out of its own moneys, to the individual accounts of the salesmen in the said provident fund on the basis of salary and commission paid to them and claimed such contributions as allowable deductions under section 36(1)(iv) and in that behalf placed reliance upon rule 2 of the assessee's Recognised Provident Fund Scheme Rules under which "salary" meant to include commission as might be paid by the assessee to its employees.

Out of such total contributions, the ITO disallowed the amounts representing the commission paid by the assessee on the ground that under rule 2(h) of Part A of the Fourth Schedule, "salary" did not include such commission. The assessee filed appeals for the three years and the same were heard by two different AACs one of whom rejected the appeal for the assessment year 1962-63 in view of rule 2(h) of Part A of the Fourth Schedule and the other AAC allowed the appeals for the assessment years 1963-64 and 1964-1965 by accepting the assessee's contention. In the cross appeals, the Tribunal held that the commission paid was a part of contractual obligation and was a part of "salary" and as such the contributions made on that, basis were liable to be deducted under section 36(1)(iv). The Tribunal further held that since the provident fund maintained by the assessee was a recognised fund, the contributions were entitled to deduction. On reference, the High Court held that "salary", as defined in rule 2(h) of Part A of the Fourth Schedule, was exclusive of any allowance and perquisites; that under Circular No. 6, dated January 16, 1941, issued by the Central Board of Revenue under the Indian Income-tax Act, 1922, unless commission was a fixed periodical payment not dependent on contingency, it was not covered by the term "salary"; that in the case of Bridge & Roofs Co. Ltd. v. Union of India AIR 1968 SC 1474, commission was excluded from the definition of "basic wages" under the Provident fund Act, 1952; and that the scope and ambit of the term "salary" could not be extended by the assessee by defining it in a particular manner in the assessee's Provident Fund Scheme Rules. On appeal:

Held
1. If, under the terms of the contract of employment, remuneration or recompense for the services rendered by the employee was determined at a fixed percentage of turnover achieved by him, then such remuneration or recompense would partake of the character of salary, the percentage basis being the measure of the salary and, therefore, such remuneration or recompense must fall within the expression "salary" as defined in rule 2(h) of Part A of the Fourth Schedule. The commission paid by the assessee was a part of "salary" and proportionate contributions should be deductible under section 36(1)(iv).
2. Conceptually, there was no difference between salary and wages both being a recompense for work done or services rendered, though ordinarily the former expression was used in connection with services pf non-manual type while the latter was used in connection with manual services.
3. Under Circular No. 6 dated January 16, 1941, what were kept out of the term "salary" were payments by way of commission which did not partake of the character of salary.

4. The observations in Bridge & Roofs Co. Ltd. v. Union of India AIR 1968 SC 1474 were made in a different context.

5. It was not open to the taxing authorities to question the recognition granted by the Commissioner to the provident fund maintained by the assessee in any of the relevant years on the ground that the assessee's provident fund did not satisfy any particular condition mentioned in rule 4. It would be conducive to judicial discipline and maintaining of certainty and uniformity in administering the law that the taxing authorities should proceed on the basis that the recognition granted and available for any particular assessment year implies that the provident fund satisfied all the conditions under rule 4 of Part A of the Fourth Schedule and should not sit in judgment over it.