

6. INCOME FROM SALARIES

ASSIGNMENT SOLUTIONS

PROBLEM NO.1

- a) Accommodation is owned by the company

Computation of taxable value of RFA:

Taxable value = 15% of salary i.e. Rs.22,860 (Rs.1,52,400 x 15%)

Computation of salary:

Particulars	Amount (Rs.)	Amount (Rs.)
Salary (10,000 x 12)		1,20,000
Bonus		19,200
Conveyance Allowance (Rs. 2,000 x 12)	24,000	
Less: Exempted (Rs. 24,000 x 70%)	(16,800)	7,200
Medical Allowance (500 x 12)		6,000
		1,52,400

- b) Accommodation has been taken on rent by the company

Computation of taxable value of RFA: Least of the following

Taxable value = 15% of salary as per above calculation i.e. Rs.22,860 (Rs.1,52,400 x 15%)

(or)

Actual rent paid by the employer (Rs.7,000 x 12) Rs.84,000

Therefore taxable value = Rs.22,860.

PROBLEM NO.2

- a) Calculate the value of perquisite of rent free accommodation:

Particulars	Amount (Rs.)
RFA 15% (15,000 + 2,500) x 12	31,500
Add: Furniture (27,000 x 10%)	2,700
Taxable value	34,200

- b) If, instead of providing the accommodation free of rent, the employer charges Rs.2,000 p.m. as rent from Mr. X, what will be the value of taxable perquisite

Particulars	Amount (Rs.)
RFA 15% (15,000 + 2,500) x 12	31,500
Add: Furniture (27,000 x 10%)	2,700
Less: Amount recovered (2,000 x 12)	(24,000)
Taxable value	10,200

- c) If rent payable by X to his employer is Rs.4,000 p.m.

Particulars	Amount (Rs.)
RFA 15% (15,000 + 2,500) x 12	31,500
Add: Furniture (27,000 x 10%)	2,700
Less: Amount recovered (4,000 x 12)	(48,000)
Taxable value	Nil

PROBLEM NO.3

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2019-20

1.	Reimbursement of medical expenses incurred by Ms. Rakhi on treatment of employee or his family is been treated as a taxable perquisite. Hence Amount reimbursed on the occasion of treatment of Rakhi and her family is treated as taxable perquisite (Rs. 4,000 + Rs. 8,000 + Rs. 5,000 = Rs. 17,000)
2.	Medical insurance premium of Rs 7,500 paid by the employer for insuring health of Ms. Rakhi is an exempt perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of Rs 2,000 per month i.e., Rs 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of Rs 5,000 on her son's treatment in a hospital maintained by the Government is an exempt perquisite.
5. & 6.	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions
	i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [Rs. 1,05,000, in this case];
	ii) Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [Rs. 1,20,000, in this case].
	The conditions subject to which the above expenditure would be exempt are as follows -
	i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
	ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed Rs. 2 lakh.
	Assuming that the limit of Rs 2 lakh prescribed by RBI pertains to both expenditure on medical treatment of minor son as well as expenditure on stay abroad of Ms. Rakhi and her minor son, such expenditure would be excluded from perquisite subject to a maximum of Rs 2 lakh. If such expenditure is less than Rs 2 lakh, it would be fully excluded. The foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed Rs 2 lakh.

PROBLEM NO.4**Computation of taxable value of perquisite in the hands of Mr. G**

Particulars	Amount (Rs.)	Amount (Rs.)
Treatment of Mr.G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	<u>30,000</u>	
	80,000	
Less: Exempt up to limit specified by RBI	<u>(75,000)</u>	5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor	5,000	
Treatment of Mr. G's mother (dependent) by family doctor	8,000	
Treatment of Mr. G's sister (dependent) in a nursing home	<u>3,000</u>	16,000
Add: Treatment of Mr. G's grandfather in a private clinic		12,000
Add: Treatment of Mr. G's brother (independent)		6,000
Taxable value of perquisite		39,000

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

PROBLEM NO.5

Computation of Income from Salary of Mr. X for the A.Y. 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Basic salary [Rs. 25,000 × 12]		3,00,000
Commission [Rs. 1,000 × 12]		12,000
Entertainment allowance [Rs. 1,000 × 12]		12,000
Rent free accommodation [Note 1]	48,600	
Add: Value of furniture [Rs. 2,40,000 × 10% p.a. for 8 months]	<u>16,000</u>	64,600
Interest on personal loan [Note 2]		22,500
Use of motor cycle [Rs. 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,25,100
Less: Deduction under section 16		
Under section 16(ia) - Deduction of up to Rs.40,000	40,000	
Under Section 16(iii) - Professional tax paid	2,000	42,000
Income from Salary		3,83,100

Note 1: Value of rent free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of (Rs. 3,00,000 + Rs. 12,000 + Rs. 12,000) = Rs. 48,600

Note 2: Value of perquisite for interest on personal loan

= [Rs. 5,00,000 × (12.75% - 6.75%) for 9 months] = Rs. 22,500

Note 3: Depreciated value of the motor cycle

= Original cost - Depreciation @ 10% p.a. for 3 completed years.

= Rs. 60,000 - (Rs. 60,000 × 10% p.a. × 3 years) = Rs. 42,000.

Value of Perquisite = Rs. 42,000 - Rs. 30,000 = Rs. 12,000.

PROBLEM NO.6a) He is covered by the Payment of Gratuity Act, 1972:

Particulars	Amount (Rs.)
Gratuity received at the time of retirement	6,00,000
Less: Exemption under section 10(10)	
Least of the following:	
i) Gratuity received	Rs.6,00,000
ii) Statutory limit	Rs.20,00,000
iii) 15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months	
$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$	
$\frac{15}{26} \times (\text{Rs.5,000} + \text{Rs.3,000}) \times 27 =$	<u>Rs.1,24,615</u>
Taxable Gratuity	<u>4,75,385</u>

b) He is not covered by the Payment of Gratuity Act, 1972.

Particulars	Amount (Rs.)
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 Rs.6,00,000
 ii) Statutory limit Rs.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., $\frac{1}{2} \times \text{Average Salary} \times \text{years of service}$

$$= \frac{1}{2} \times \frac{\left[(5,000 \times 10) + (3,000 \times 60\% \times 10) + \left(1\% \times 12,00,000 \times \frac{10}{12} \right) \right]}{10} \times 26 = \text{Rs.1,01,400.}$$

c) **He is a government employee:**

Particulars	Amount (Rs.)
Gratuity received at the time of retirement	6,00,000
Less: Exemption under section 10(10)	6,00,000
Taxable gratuity	Nil

PROBLEM NO.7

- a) As per section 10(10)(i), gratuity received by a Government employee on retirement is fully exempt from tax. Since Mr. Arpan is a government employee, gratuity amounting to Rs. 12,00,000 received would be fully exempt.

The taxable portion of gratuity shall be Nil.

- b) If Mr. Arpan is not a Government employee but covered by the Payment of Gratuity Act, 1972, then, gratuity received by him would be exempt up to least of the following:

Particulars	Amount (Rs.)
i) Statutory limit	20,00,000
ii) Actual gratuity received	12,00,000
iii) $15/26 \times \text{last drawn salary} \times \text{Completed years of service (including part of the year in excess of 6 months)}$ $15/26 \times \text{Rs. 63,000} \times 28 \text{ years}$	10,17,692

Therefore, Rs. 10,17,692 is exempt under section 10(10)(ii).

Taxable gratuity = Rs. 12,00,000 - Rs.10,17,692 = **Rs. 1,82,308**

Salary, for the purpose of computing exempt gratuity in this case, means basic salary plus dearness allowance i.e. Rs. 63,000 (Rs. 38,000 + Rs. 25,000).

- c) If Mr. Arpan is not a Government employee and not covered under the Payment of Gratuity Act, 1972 then, gratuity received by him would be exempt up to the least of the following:

Particulars	Amount (Rs.)
i) Statutory limit	10,00,000
ii) Actual gratuity received	12,00,000
iii) $\frac{1}{2} \times \text{Average salary of 10 months immediately preceding the month of retirement} \times \text{years of service (shall not include part of the year in excess of 6 months)}$ $= \frac{1}{2} \times \text{Rs. 63,000} \times 27 \text{ years}$	8,50,500

Therefore, Rs. 8,50,500 is exempt under section 10(10)(iii) The taxable gratuity is Rs. 3,49,500 (Rs.12,00,000 - Rs. 8,50,500)

Salary, for the purpose of computation of exempt gratuity, means basic salary plus dearness allowance i.e. Rs. 38,000 + Rs. 15,000 = Rs. 63,000

Average salary for 10 months = $\frac{(\text{Rs.38,000} + \text{Rs.15,000})}{10} = \frac{\text{Rs.63,000}}{10} = \text{Rs. 63,000}$

Assumption: Dearness Allowance forming part of salary for retirement benefits.

PROBLEM NO.8

Computation of gratuity taxable in the hands of Mr. Shah for the P.Y. 2018-19: As per section 10(10)(iii), gratuity received by an employee would be exempt up to the least of the following limits.

S.No.	Particulars	Amount (Rs.)
(i)	Gratuity received	8,00,000
(ii)	Half-month's salary for every year of completed service (See Note below)	4,00,500
(iii)	Monetary limit	10,00,000

Therefore, Rs. 4,00,500 would be exempt under section 10(10) (iii). The balance Rs.3,99,500 (i.e. Rs.8,00,000 - Rs.4,00,500) would be taxable.

Note: One of the limits for calculation of gratuity exempt under section 10(10) (iii) is one - half month's salary for each year of completed service (fraction of a year to be ignored), {{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, 2019. Therefore, average salary for the months of March 2018 to December 2018 has to be considered.

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.

Computation of average salary	Amount (Rs.)
Basic salary March 2018 to December 2018 [(25,000 × 7) + (27,000 × 3)]	2,56,000
Dearness allowance (2,000 × 10 × 55%)	11,000
	2,67,000
Average salary = 2,67,000/10 = Rs.26,700	
Half-month's salary for every year of completed service (fraction is to be ignored) [30 × 26,700/2]	4,00,500

PROBLEM NO.9

Since Mr. Honey stays in India for at least 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of Total Income from salary of Mr. Honey for the A.Y. 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Basic Salary		
Salary received outside India for 6 months (Rs. 50,000 × 6)	3,00,000	
Salary received in India for 6 months (Rs. 50,000 × 6)	3,00,000	6,00,000
Children Education and Hostel Allowance		
Amount received from employer (Rs. 3,000 × 12)	36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	Nil	36,000
Perquisites:		
Value of rent-free accommodation in USA		95,400
Lower of:		
- 15% of Rs. 6,36,000 (Basic Salary + Children Education and Hostel Allowance)	95,400	
- Rent paid by employer = Rs. 15,000 × 12	1,80,000	
Value of guest house in India		-
[not taxable, since it is provided for stay when he visits India wholly for official purposes]		
Lunch facility provided by employer [Taxable perquisite, since the value exceeds Rs. 50 per meal] [See Note 1 below]		48,000

Motor car provided by employer [Rs.14,400 + Rs. 70,000] [See Note 2 below]		84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is Rs.14,400 [Rs. 2,400 x 6], since cubic capacity exceeds 1.6 litres, assuming that expenses are fully met by employer.	14,400	
Used for personal purposes by his family members for 6 months when he is in India		
Actual running and maintenance expenditure [Rs. 5,000 x 6]	30,000	
Normal wear and tear [10% of actual cost of motor car for 6 months] = Rs. 8,00,000 x 10% x 6/12	40,000	70,000
Education expenditure of elder son in India met by employer [Fully taxable perquisite]		12,000
Life insurance premium paid by the employer - any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite		10,000
Accident insurance premium paid by employer - exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.		-
Gross Salary		8,85,800
Less: Deductions under section 16		
Standard deduction u/s 16(ia)		(40,000)
Taxable Salary		8,45,800

Note:

1. Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed Rs. 50 per meal. In this case since the value far exceeds Rs. 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly.

However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of Rs. 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.

Note: Alternatively, If Lunch facility provided to Mr. Honey is > Rs. 50 per meal, the excess of Rs. 50 per meal will be taxable. In that case Lunch Allowance would be: Rs. 48,000 - (300 x Rs. 50 per meal) = Rs. 33,000. Then, the taxable salary will be Rs. 8,30,800.

2. In the above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully meets the running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows:

Particulars	Amount (Rs.)
Motor car provided by employer [Rs.5,400 + Rs.40,000]	
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is Rs.900 p.m., since cubic capacity exceeds 1.6 litres,	5,400
Used for personal purposes by his family members for 6 months when he is in India	
Normal wear and tear [10% of actual cost of motor car for 6 months] = Rs. 8,00,000 x 10% x 6/12	40,000
	45,400

In this case, the taxable salary would be Rs.8,06,800.

PROBLEM NO.10

Computation of taxable income of Shri Hari for the A.Y. 2019-20

Particulars	Rs.	Rs.
Basic salary (Rs. 20,000 x 12)		2,40,000
Dearness allowance @ 30%		72,000
Transport allowance (Rs. 2,000 x 12)		24,000
Motor car maintenance borne by employer [Rs.36,000 - Rs.21,600 (Rs.1,800 x 12)]		14,400
Expenditure on accommodation while on official duty not a perquisite and hence not chargeable to tax		Nil
Loan from recognized provident fund - not chargeable to tax		Nil
Value of lunch provided during working hours (not chargeable to tax as per rule 3(7)(iii) - Free food provided by the employer during working hours is not treated as perquisite provided that the value thereof does not exceed fifty rupees per meal)		Nil
Computer provided in the residence of employee by the employer - not chargeable to tax [Rule 3(7)(vii)]		Nil
Gross Salary		3,50,400
Less: Deductions u/s 16		
Standard deduction u/s 16 (ia)		(40,000)
Net Salary		3,10,400
Less: Deduction under Chapter VI-A		
Deduction under section 80D in respect of medical insurance premium paid by cheque, restricted to Rs. 25,000	25,000	
Premium paid in cash not eligible for deduction	Nil	25,000
Taxable Income		2,85,400

PROBLEM NO.11

Computation of total income of Mr. Madhav for the A.Y. 2019-20

Particulars	Rs.	Rs.
Basic salary (Rs.22,500 x 12)		2,70,000
Dearness allowance (1/4 th of basic salary)		67,500
Transport allowance (Rs.2,000 x 12)		24,000
Facility for use of laptop		Nil
Conveyance Allowance received	12,000	
Less: Expenditure incurred for official purpose	(10,000)	2,000
Expenditure on accommodation while on official duty not a perquisite and hence, not chargeable to tax		Nil
Value of lunch provided during working hours not exceeding Rs.50 per meal.		Nil
Value of concessional accommodation [See Note 1]		38,000
Gross Salary		4,01,500
Less: Deductions u/s 16		
Standard Deduction u/s 16 (ia)		(40,000)
Net Salary / Gross Total Income		3,61,500
Less: Deduction under Chapter VI-A		
Under section 80C Contribution to PPF	1,00,000	
Under section 80D Medical insurance premium paid by cheque Premium paid in cash not eligible for deduction	4,500 Nil	1,04,500
Total income		2,57,000

Notes:**1. Perquisite Value of Furnished Accommodation provided at concessional rent:**

Particulars	Rs.	Rs.
Basic Salary		2,70,000
Transport Allowance		24,000
Conveyance Allowance		2,000
"Salary" for the purpose of perquisite value of accommodation		2,96,000
15% of salary (A)	44,400	
Rent paid by the company for the accommodation @ Rs. 3,500 p.m. (B)	42,000	
Lower of (A) and (B) would be taken as the perquisite value of accommodation		42,000
Less: Rent paid by Madhav (Rs. 1,000 × 12)		<u>(12,000)</u>
		30,000
Add: Value of furniture provided by employer:		
Rent for furniture (Rs. 500 × 12)	6,000	
Television (Rs. 20,000 × 10% p.a.)	2,000	8,000
Value of furnished accommodation given at concessional rent		38,000

Note: It is assumed that dearness allowance does not form part of retirement benefits and therefore, the same has not been considered for computation of value of furnished accommodation.

PROBLEM NO.12**Computation of Income chargeable under the head "Salaries" of Mr. Narayan for A.Y. 2019-20**

Particulars	Amount (Rs.)
Basic Salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	25,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of Rs. 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Narayan's birthday (entire amount is taxable since the perquisite value exceeds Rs. 5,000) as per Rule 3(7)(iv) [See Note below]	15,000
Life insurance premium of Mr. Narayan paid by employer is a taxable perquisite as per section 17(2)(v)	42,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes - perquisite value would be Rs. 21,600 [Rs.1,800 × 12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	12,57,600
Less: Deductions under section 16	
Standard Deduction u/s 16 (ia)	(40,000)
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Narayan is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	(2,500)
Income chargeable under the head "Salaries"	12,15,100

Note: As per Rule 3(7)(iv), the value of any gift or voucher 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. However, the value of any gift or voucher received by the employee or by member of his household below Rs. 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of Rs. 15,000 was received by Mr. Narayan from his employer on the occasion of his birthday.

Since the value of the gift voucher exceeds the limit of Rs. 5,000, the entire amount of Rs. 15,000 is liable to tax as perquisite.

An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to Rs. 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be Rs. 10,000.

In such case, the gross salary and net salary would be, Rs. 12,52,600 and Rs. 12,10,100, respectively.

Note: Students are advised to rectify the hint answer given in our material.

PROBLEM NO.13

Computation of taxable salary of Mr. Anand for A.Y. 2019-20

Particulars	Amount (Rs.)
Basic pay [(Rs. 25,000 × 11) + (Rs. 27,500 × 1)] = Rs. 2,75,000 + Rs. 27,500	3,02,500
Dearness allowance [15% of basic pay]	45,375
Bonus [Rs. 27,500 × 1.5]	41,250
Employer's contribution to Recognized Provident Fund in excess of 12% (18% - 12% = 6% of Rs. 3,47,875)	20,873
Taxable allowances:	
Telephone allowance	12,000
Taxable perquisites:	
Rent-free accommodation [Note 1]	60,169
Medical reimbursement	40,000
Reimbursement of salary of housekeeper [Rs. 2,000 × 12]	24,000
Gift voucher [Note 3]	-
Motor car owned and driven by employee, running and maintenance charges borne by the employer [Rs. 36,600 - Rs. 21,600 (i.e., Rs. 1,800 × 12)]	15,000
Value of free lunch facility less than Rs.50 per meal [Note 4]	-
Gross Salary	5,61,167
Less: Deductions u/s 16	
Standard deduction u/s 16 (ia)	(40,000)
Net Salary / Taxable Salary	5,21,167

Notes:

- 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:

S.No.	Particulars	Amount (Rs.)
1.	Basic salary	3,02,500
2.	Dearness allowance	45,375
3.	Bonus	41,250
4.	Telephone allowance	12,000
	Total	4,01,125

15% of salary = Rs. 4,01,125 × 15/100 = Rs. 60,169

Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. Rs.1,80,000) or
- 15% of salary (i.e., Rs.60,169),

Whichever is lower.

Therefore, the perquisite value is Rs. 60,169.

2. Medical insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt.
3. If the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is less than Rs. 5,000 in aggregate during the previous year, the perquisite value is Nil. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum is less than Rs.5,000. Therefore, the perquisite value of gift voucher is Nil.
4. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed Rs.50 per meal.

PROBLEM NO.14

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

- i) 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 = Rs. 1,500 × 12 = Rs. 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 Rs. 18,000.

- ii) 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 Rs. 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 Rs. 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds Rs. 1,000 per month. The taxable perquisite value would be Rs 14,400 (Rs 1,200 × 12).

Note: An alternate view possible is that only the sum in excess of Rs 1,000 per month is taxable. In such a case, the value of perquisite would be Rs 2,400.

- iii) 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 Rs.1,10,000.

The perquisite value would be 10% of the actual cost i.e., Rs 11,000, being 10% of Rs 1,10,000.

- iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of Rs. 5,000.

Therefore, the entire amount of Rs 10,000 is liable to tax as perquisite.

Note: An alternate view possible is that only the sum in excess of Rs 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts up to Rs 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be Rs. 5,000.

- v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.
- vi) 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 requisite value for computation is $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month (Rs)	Perquisite value at 4% for the month (Rs)
April, 2017	5,88,000	1,960
May, 2017	5,76,000	1,920
June, 2017	5,64,000	1,880
July, 2017	5,52,000	1,840
August, 2017	5,40,000	1,800
September, 2017	5,28,000	1,760
October, 2017	5,16,000	1,720
November, 2017	5,04,000	1,680
December, 2017	4,92,000	1,640
January, 2018	4,80,000	1,600
February, 2018	4,68,000	1,560
March, 2018	4,56,000	1,520
Total value of this perquisite		20,880

Total value of taxable perquisite = Rs. 74,280 [i.e. Rs. 18,000 + Rs. 14,400 + Rs. 11,000 + Rs. 10,000 + Rs. 20,880].

Note: In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be Rs 57,280 [i.e., Rs 18,000 + Rs 2,400 + Rs 11,000 + Rs 5,000 + Rs 20,880].

PROBLEM NO.15

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y. 2019-20

Particulars	Amount (Rs.)	
1. Value of concessional accommodation		
Actual amount of lease rental paid by X Ltd.	1,80,000	
15% of salary i.e., 15% of Rs. 10,00,000	1,50,000	
Lower of the above		1,50,000
Less: Rent paid by Mr. Y (Rs. 5,000 × 12)		<u>(60,000)</u>
		90,000
Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (3,000 × 12)		36,000
		1,26,000
2. Perquisite value of santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(Rs. 1,800 + Rs. 900) × 12]		32,400
3. Value of gift voucher		10,000
Value of perquisites chargeable to tax		1,68,400

PROBLEM NO.16

Computation of taxable salary of Mr. M. for the A.Y. 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Basic Salary (Rs.20,000 × 5) + (Rs.25,000 × 7)		2,75,000
Transport allowance (Rs.2,000 × 12)		24,000
Children education allowance (Rs.500 × 12)	6,000	
Less: Exempt under section 10(14) (Rs.100 × 2 × 12)	<u>(2,400)</u>	3,600
City Compensatory Allowance (Rs.300 × 12)		3,600

Hostel Expenses Allowance (Rs.380 x 12)	4,560	
Less: Exempt under section 10(14) (Rs.300 x 2 x 12 i.e. Rs.7,200 but restricted to the actual allowance of Rs.4,560)	<u>(4,560)</u>	Nil
Tiffin allowance (fully taxable)		5,000
Tax paid on employment [See Note Below]		2,500
Employer's contribution to recognized provident fund in excess of 12% of salary (i.e., 3% of Rs.2,75,000)		8,250
Gross Salary		3,21,950
Less: Deduction under section 16		
Standard deduction u/s 16 (ia)		(40,000)
Tax on employment under section 16(iii)		<u>(2,500)</u>
Taxable salary		2,79,450

Note: 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.

PROBLEM NO.17

Computation of total income of Mr. Balaji for the A.Y. 2019-20

No.	Particulars	Rs.
1.	Basic Salary (50,000 x 7 + 60,000 x 5)	6,50,000
2.	Dearness allowance (40% of basic salary)	2,60,000
3.	Motor car (engine cubic capacity above 1.6 litres), owned by employer, running expenses met by Mr. Balaji. Perquisite value (Rs. 2,400 per month x 5)	12,000
4.	Bonus (50,000 + 50,000 x 40%)	70,000
5.	Leave travel concession (See note)	Exempted
6.	Employer contribution to PF (Rs.6,50,000 x 16%) Less: 12% of basic pay (Rs.6,50,00 x 12%)	Rs.1,04,000 <u>(Rs.78,000)</u>
7.	Professional tax paid by employer	2,000
	Gross Salary	10,20,000
	Less: Deduction under section 16	
	Standard Deduction u/s 16 (ia)	(40,000)
	Professional tax u/s 16(iii)	(3,000)
	Salary income chargeable to tax in the hands of Mr. balaji	9,77,000

Notes: Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

PROBLEM NO.18

Computation of total income of Ms. Nandini for the A.Y. 2019-20

Particulars	Amount (Rs.)
Basic Salary [Rs. 32,000 x 12]	3,84,000
Dearness allowance [10% of basic salary]	38,400
Bonus [Taxable in the P.Y. 2018-19, assuming that the same was not subject to tax in P.Y. 2017-18]	32,000
Fixed Medical Allowance [Taxable]	20,000
Reimbursement of Medical expenditure incurred for her father-in law [Father-in law is not included in the meaning of "family"].	3,000
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or	Nil

personal purpose or both]	
Reimbursement of salary of domestic servant [Rs. 1,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	12,000
Value of equity shares allotted to her [500 equity shares x Rs. 100 (Rs. 250, being the fair market value - Rs. 150, being the amount recovered)]	50,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,800
Gross Salary	5,41,200
Less: Deduction under section 16	
Standard Deduction u/s 16(ia)	(40,000)
Professional tax paid	(2,500)
Taxable Salary/Gross Total Income	4,98,700
Less: Deduction under Chapter VI-A	Nil
Total Income	4,98,700

PROBLEM NO.19

Computation of tax payable by Mr. Hari for the A.Y.2019-20

Particulars	Incl. arrears of salary (Rs.)	Excl. arrears Of salary (Rs.)
Current year salary	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add: Health and Education cess @ 4%	8,780	4,640
Total payable	2,28,280	1,20,640

Computation of tax payable on arrears of salary if charged to tax in the respective Assessment Years

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears (Rs.)	Excl. arrears (Rs.)	Incl. arrears (Rs.)	Excl. arrears (Rs.)	Incl. arrears (Rs.)	Excl. arrears (Rs.)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of Salary	<u>1,03,000</u>	-	<u>1,17,000</u>	-	<u>1,25,000</u>	-
Taxable salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax on the Above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess @ 3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	1,00,837	78,280	1,38,638	1,02,485	1,51,925	1,18,450

Computation of relief under section 89

	Particulars	Amount (Rs.)	Amount (Rs.)
(i)	Tax payable in A.Y.2019-20 on arrears:		
	Tax on income including arrears	2,28,280	
	Less: Tax on income excluding arrears	<u>1,20,640</u>	1,07,640
(ii)	Tax payable in respective years on arrears :		
	Tax on income including arrears (Rs. 1,00,837 + Rs. 1,38,638 + Rs. 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (Rs. 78,280 + Rs. 1,02,485 + Rs. 1,18,450)	<u>2,99,215</u>	92,185
	Relief under section 89 - difference between tax on arrears in A.Y 2019-20 and tax on arrears in the respective years		15,455

Tax payable for A.Y.2019 - 20 after relief under section 89

Particulars	Amount (Rs.)
Income-tax payable on total income including arrears of salary	2,28,280
Less: Relief under section 89 as computed above	(15,455)
Tax payable after claiming relief	2,12,825

PROBLEM NO.20

Computation of gross total income of Mr. Dinesh for the A.Y. 2019-20

Particulars	Rs.	Rs.
Salaries		
Salary including dearness allowance		6,50,000
Bonus		50,000
Conveyance allowance (Fully exempt under section 10(14)(i) read with Rule 2BB(1)(c), assuming that it is granted to meet the expenditure actually incurred on conveyance in performance of duties of an office or employment of profit).		Nil
Value of perquisites:		
Salary of servant [Rule 3(3)]	48,000	
Free gas, electricity and water [Rule 3(4)]	82,000	
Cost of free education provided by employer (Rs. 2,500 x 12) is fully taxable, since the cost of education exceeds Rs. 1,000 per month [Rule 3(5)].	30,000	1,60,000
Gross Salary		8,60,000
Less: Standard deduction u/s 16 (ia)		(40,000)
Taxable Salary / Net salary		8,20,000
Income from house property		
Let-out property (At Rohini)		
Gross Annual Value (GAV) (Lease rental is taken as GAV in the absence of other information) (Rs. 35,000 x 12)	4,20,000	
Less: Municipal taxes paid	12,000	
Net Annual Value (NAV)	4,08,000	
Less: Deduction under section 24(a): 30% of NAV	1,22,400	
	(A)	2,85,600
Self-occupied property (At Dwarka)		
Net Annual Value (NAV) [Since the property is self-occupied]		Nil
Less: Deduction under section 24(a)		
Interest on loan from Bank of India @11% of Rs. 18,50,000 restricted to 2,03,500	(2,00,000)	
	(B)	(2,00,000)
Income from house property [A - B]		85,600
Income from Other Sources		
i) Interest earned by minor son from advances made out of money gifted to him by his father, Mr. Dinesh, is includible in the hands of Dinesh as per section 64(1A), since all income arising to a minor child is includible in the hands of parents whose total income (before including the income of minor child) is greater (Rs. 40,000 x 18%) Less: Exempt under section 10(32)	7,200 (1,500)	
	5,700	
ii) Interest income earned by Dinesh's wife from advances made out of money gifted to her by her husband, Mr. Dinesh, has to be included in the total		

income of Mr. Dinesh as per section 64(1) (Rs. 40,000 x 18%)	7,200	
iii) Gift received from two friends [taxable under section 56(2)(x)] since the aggregate amount received during the year exceeds Rs. 50,000 (Rs. 45,000 x 2)	<u>90,000</u>	<u>1,02,900</u>
Gross Total Income		10,08,500

PROBLEM NO.21**Computation of Gross Salary of Mr. B for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Basic Salary [Rs. 10,000 x 12]		1,20,000
Dearness Allowance [Rs. 8,000 x 12]		96,000
Commission on turnover [0.1% x Rs. 50,00,000]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000
Employee's contribution to RPF [Note 2]		-
Employers contribution to RPF [20% of Rs. 1,20,000]	24,000	
Less: Exempt [Note 3]	<u>20,760</u>	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	
Less: Exempt @ 9.5% p.a.	<u>9,500</u>	<u>3,500</u>
Gross Salary		2,92,740

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: Employer's contribution in the RPF is exempt up to 12% of the salary.

i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [Rs. 1,20,000 + (50% x Rs. 96,000) + Rs. 5,000] = 12% of Rs. 1,73,000 = Rs. 20,760

SOLUTIONS TO ADDITIONAL PROBLEMS**PROBLEM NO.1**

Solution:

R's contention is not correct. The amount of Rs. 2,00,000 is not exempted and therefore the said sum is treated as profit in lieu of salary under section 17(3) and taxable

PROBLEM NO.2

Solution:

Computation of Taxable Salary

Particulars	Amount (Rs.)
Gross Salary before inclusion of Non-Monetary Perquisites	5,80,000
Add: Non-Monetary Perquisites	1,20,000
Gross Salary after inclusion of Non-Monetary Perquisites (A)	7,00,000
Less: Deduction u/s 16 (ia) Standard Deduction	(40,000)
Income under the Head Salary	6,60,000
Tax on above [12,500 + (6,60,000 - 5,00,000) x 20%]	44,500
Add: H&EC at 4%	1,780
Net Tax Payable (B)	46,280
Average Rate of Tax (B/A)	6.61%

- a) Tax on Non-Monetary perquisites: Perquisites x Average Rate of Tax = Rs.1,20,000 x 6.61% = Rs. 7,932.
- b) So, if the Employer prefers to pay tax on the Non-Monetary Value of Perquisites, he is required to pay Rs. 7,930 and the balance tax of **Rs.38,350** (Rs.46,280 - Rs.7,930) should be deducted from the Salary payable to the Employee.

PROBLEM NO.3**Solution:**

For the assessment year 2019-20, the taxable value of the perquisite will be as under:

- a) Rs.92,250 (being interest @ 10.25% on Rs.12,00,000 from 01.07.2018 to 31.03.2019) is taxable in the hands of R.
- b) Rs.4,000 [being interest @ 8% (i.e. 15% - 7%) on Rs. 50,000 for one year] is taxable in the hands for S.
- c) Nothing is taxable in the hands of T as the aggregate amount of loan does not exceed Rs.20,000.
- d) Maximum monthly outstanding amount for the various months in the previous year 2018-19 is as follows:

Month	Maximum monthly outstanding amount on last day of the month (Rs.)	Interest (Rs.)
30.04.2018	12,00,000	5,000 (i.e. Rs. 12,00,000 x 5% x 1/12)
31.05.2018	12,00,000	5,000
30.06.2018	12,00,000	5,000
31.07.2018	12,00,000	5,000
30.08.2018	12,00,000	5,000
30.09.2018	12,00,000	5,000
31.10.2018	12,00,000	5,000
30.11.2018	12,00,000	5,000
31.12.2018	12,00,000	5,000
31.01.2019	11,60,000	4,833 (i.e. Rs. 11,60,000 x 5% x 1/12)
28.02.2019	11,20,000	4,667 (i.e. Rs. 11,20,000 x 5% x 1/12)
31.03.2019	10,80,000	4,500 (i.e. Rs. 10,80,000 x 5% x 1/12)

Taxable value of concessional loan is Rs.59,000 for the previous year 2018-19.

PROBLEM NO.4**Solution:**

Particulars		A Ltd. (Rs.)	B Ltd. (Rs.)
Salary: (A Ltd. 10,000 x 8)		80,000	
(B Ltd. 6,000 x 3½ + 5,500 x 4)			43,000
Dearness Allowance @ 30%		24,000	12,900
Gratuity received			
From A Ltd.	1,43,000		
Less: Exempt (See working note)	1,40,140	2,860	
From B Ltd.	1,20,000		
Less: Exempt (See working note)	63,280		56,720
		1,06,860	1,12,620

Therefore Total Gross Salary = Rs. 2,19,480

Note: Gratuity shall be exempt to the extent of minimum of the following:

S.No.	Particulars	Amount (Rs.)	Amount (Rs.)
i)	Actual amount received	1,43,000	1,20,000
ii)	Half month average salary for every completed year of service		
	$\left(\frac{12,740}{2} \times 22\right)$	1,40,140	

	$\left(\frac{6,328}{2} \times 20\right)$		63,280
iii)	Specified Amount	10,00,000	10,00,000

Computation of Average Salary

Basic Salary for last 10 months (8 x 10,000 + 2 x 9,000)	98,000	Basic Salary for last 10 months (3 x 6,000 + 7 x 5,500)	56,500
DA @ 30%	29,400	DA $\left(56,500 \times \frac{30}{100} \times \frac{40}{100}\right)$	6,780
	1,27,400		63,280
∴ Average Salary	12,740	∴ Average Salary	6,328

Note: It is assumed that employee is not covered under Gratuity Act.)

PROBLEM NO.5

Solution:

Particulars	Amount (Rs.)
Salary (17,000 x 12)	2,04,000
Less: Standard deduction under section 16	40,000
	1,64,000

Note: Overseas Allowance, Rent Free furnished accommodation in London, Education Allowance, Car Facility as well as service of gardener, watchman, sweeper and cook are exempt u/s 10(7) as he is a citizen of India and employed by Government of India in a country outside India

PROBLEM NO.6

Solution:

Computation of salary income of R

	Under SPF Amount (Rs.)	Under RPF Amount (Rs.)	Under URPF Amount (Rs.)
Salary	1,20,000	1,20,000	1,20,000
D.A.	72,000	72,000	72,000
Commission on turnover achieved by R	20,000	20,000	20,000
Bonus	16,000	16,000	16,000
Employer's contribution to PF			
[Taxable only for RPF = Rs. 26,400 - Rs.21,120]	-	5,280	-
Interest credited on PF balance			
[Taxable only for RPF = 14,000 - (14,000 x 9.5/14)]	-	4,500	-
Value of rent free house (Note 1)	46,800	46,800	46,800
Car at concessional rate (2,400 + 900 = 3,300) x 12	39,600	39,600	39,600
Gross salary	3,14,400	3,24,180	3,14,400
Less: Standard Deduction u/s 16 (ia)	40,000	40,000	40,000
Income under the head Salary	2,74,400	2,84,180	2,74,400

Notes:

1. Salary or P.F. = 1,20,000 + 36,000 + 20,000 = Rs. 1,76,000

2. Value of rent free house at Bangalore

Rent of furniture = Rs. 18,000

Salary = 1,20,000 + 36,000 + 20,000 + 16,000 = Rs. 1,92,000

Particulars	Amount (Rs.)
15% of salary	28,800

Add: Rent of furniture	18,000
Value of rent free furnished house	46,800

3. Qualifying amount for deduction u/s 80C

Particulars	SPF	RPF	URPF
Own contribution to PF	26,400	26,400	-
Life Insurance Premium	18,000	18,000	18,000
	44,400	44,400	18,000

PROBLEM NO.7

Solution:

Computation of tax liability of R (For the Assessment Year 2019-20)

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Income from Salary:			
Basic pay (Rs.8,600 x 7)			60,200
House Rent Allowance		4,200	
Less: Exemption, being the least of			
a) 40% of salary (as the house is in Pune)	24,080		
b) HRA actually received	4,200		
c) Excess of rent paid over 10% of salary (Rs.1,250 x 7) - 10% of 60,200	2,730	2,730	1,470
Entertainment allowance			4,200
Pension (Rs.1,000 received on 30.11.2017 and Rs.300 per month afterwards for 4 months)			2,200
Commuted Pension		35,000	
Less: Exemption, being the lower of 1/3 of full value (i.e. 35,000 x 1/3)		16,667	18,333
Gratuity		96,000	
Less: Exemption, being the least of			
a) Rs.10,00,000			
b) Rs. 73,800 (1/2 of Rs.8,200 x 18 years)			
c) Rs. 96,000 (actually received)		73,800	22,200
Salary from S Ltd.:			
Basic pay (Rs.8,500 x 3)			25,500
Medical allowance (Rs.600 x 3)			1,800
High cost of living allowance (Rs.1,800 x 3)			5,400
Rent free house			
15% of salary i.e. 32,700 + 900 (Uncommuted pension) (or) actual rent Rs.1,800 Whichever is lower			1,800
Motor car (1,800 + 900 = Rs. 2,700 x 3)			8,100
Gross salary			1,51,203
Less: Standard deduction under section 16			40,000
Income under the head salary			1,11,203
Income from other sources			2,00,000
Gross total income			3,11,203
Less: Deductions under section 80C (RPF contribution)			(6,020)

Net income			3,05,183
Net income (rounded off)			3,05,180
Tax on Rs. 3,05,180			2,759
Less: Rebate under Sec. 87A			(2,500)
			259
Add: Health and Education Cess @ 4%			11
Tax (Rounded off)			270

Notes:

1. R can claim relief under section 89 read with rule 21A in respect of gratuity of Rs.22,200 and Commuted pension of Rs.18,333.
2. Recognised provident fund repayment is not taxable as the period of service is more than 5 years.
3. Deduction under section 80C is not available in respect contribution towards unrecognised provident fund.

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THE END

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