

### 3. INCOME FROM SALARIES

#### 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 (70% spent on official duties) | 24,000       |              |
| Less: Exempted (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:

Taxable value = 15% of salary as per above calculation i.e. Rs.22,860 (Rs.1,52,400 x15%)

(or)

Actual rent paid by the employer (Rs.7000 x 12) Rs.84,000

Whichever is lower.

Therefore taxable value = Rs.22,860.

#### PROBLEM NO.2

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

| Particulars               | Rs.           |
|---------------------------|---------------|
| RFA 15%(15000+2500)x12    | 31,500        |
| Add: furniture 27,000x10% | 2,700         |
| <b>Taxable value</b>      | <b>34,200</b> |

- 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                        | Rs.           |
|------------------------------------|---------------|
| RFA 15% (15000 + 2500) x 12        | 31,500        |
| Add: furniture (27,000 x10%)       | 2,700         |
| Less: amount recovered (2000 x 12) | (24,000)      |
| <b>Taxable value</b>               | <b>10,200</b> |

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

| Particulars                        | Rs.      |
|------------------------------------|----------|
| RFA 15% (15000 + 2500) x 12        | 31,500   |
| Add: Furniture (27,000 x 10%)      | 2,700    |
| Less: Amount recovered (4000 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. 2018-19

| Particulars   | Amount (Rs.)     |
|---|------------------|
| 1. Reimbursement of following medical expenses incurred by Ms. Rakhi  |                  |
| a) On treatment of her self employed daughter in a private clinic   | Rs.4,000         |
| b) On treatment of herself by family doctor   | Rs.8,000         |
|   | <b>Rs.12,000</b> |
| Since the amount doesn't exceeded 15,000 it is totally exempted   | Exempted         |
| c) On treatment of her mother-in-law dependent on her, in a nursing home (Note-2)                             | 5,000            |
| 2. Payment of premium on Medi claim Policy taken on her health  | Exempted         |
| 3. Medical Allowance (Rs.2,000x12)  | 24,000           |
| 4. Medical expenses reimbursed on her son's treatment in a government hospital                                | Exempted         |
| 5. Expenses incurred by company on the treatment of her minor son abroad (Note-1)                             | Exempted         |
| 6. Expenses in relation to foreign travel and stay of Rakhi and her son abroad for medical treatment (Note-1) | Exempted         |
| <b>Taxable value</b>  | <b>29,000</b>    |

**Note-1:** Assuming that medical treatment for her minor son below the prescribed limit specified by the RBI and ms. Rakhi gross total income is also less than Rs.2,00,000. So that entire value is exempted.

**Note-2:** Since the term mother-in-law is not covered in the definition of "family", amount spend of Rs.5,000 was fully taxable.

**PROBLEM NO.4**

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

| Particulars   | Rs.             | Rs.           |
|---|-----------------|---------------|
| Treatment of Mrs. G in a Government hospital                |                 | -             |
| Treatment of Mr. G's father (75 years and dependant) 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 (dependant) by family doctor    | 8,000           |               |
| Treatment of Mr. G's sister (dependant) in a nursing home   | <u>3,000</u>    |               |
|   | 16,000          |               |
| Less: Exempt up to Rs. 15,000                               | <u>(15,000)</u> | 1,000         |
| Add: Treatment of Mr. G's grandfather in a private clinic   |                 | 12,000        |
| Add: Treatment of Mr. G's brother (independent)             |                 | 6,000         |
| <b>Taxable value of perquisite</b>                          |                 | <b>24,000</b> |

**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. 2018-19

| Particulars | Rs. | 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          |
| <b>Gross Salary</b>  |               | <b>4,25,100</b> |
| Less: Deduction under section 16(iii)                          |               |                 |
| Professional tax paid  |               | 2,000           |
| <b>Income from Salary</b>                                      |               | <b>4,23,100</b> |

**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.  
Perquisite = Rs. 42,000 – Rs. 30,000 = Rs. 12,000.

### PROBLEM NO.6

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

| Particulars   | Rs.                    |
|---|------------------------|
| Gratuity received at the time of retirement                 | 6,00,000               |
| <b>Less: Exemption under section 10(10)</b>                 |                        |
| <b>Least of the following:</b>                              |                        |
| i. Gratuity received  | Rs.6,00,000            |
| ii. Statutory limit   | Rs.10,00,000           |
| iii. $\frac{15}{26}$ x last drawn salary x years of service |                        |
| i.e., $\frac{15}{26}$ x (Rs.5,000 + Rs.3,000) x 27 =        | <u>Rs.1,24,615</u>     |
| <b>Taxable Gratuity</b>                                     | <b><u>4,75,385</u></b> |

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

| Particulars                                   | 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:**

- Gratuity received                      Rs.6,00,000
- Statutory limit                              Rs.10,00,000
- $\frac{1}{2}$  x Average salary x years of service

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

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

| Particulars                                 | Rs.         |
|---|-------------|
| Gratuity received at the time of retirement | Rs.6,00,000 |
| Less: Exemption under section 10(10)        | Rs.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   | 10,00,000    |
| ii) Actual gratuity received   | 12,00,000    |
| iii) $15/26 \times$ last drawn salary $\times$ years of service (including part of the year in excess of 6 months) $15/26 \times$ Rs. 63,000 $\times$ 28 years | 10,17,692    |

Therefore, Rs. 10,00,000 is exempt under section 10(10)(ii).

Taxable gratuity = Rs. 12,00,000 – Rs.10,00,000 = **Rs. 2,00,000**

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) $1/2 \times$ Average salary of 10 months immediately preceding the month of retirement $\times$ years of service (shall not include part of the year in excess of 6 months) $1/2 \times$ Rs. 38,000 $\times$ 27 years | 5,13,000    |

Therefore, Rs.5,13,000 is exempt under section 10(10)(iii) The taxable gratuity is Rs.6,87,000 (Rs.12,00,000 – Rs. 5,13,000)

Salary, for the purpose of computation of exempt gratuity, means basic salary of Rs.38,000 p.m. [Average salary for 10 months = (Rs. 38,000  $\times$  10)/10]

**Note:** It is assumed that dearness allowance does not form part of salary for retirement benefits.

**PROBLEM NO.8**

**Computation of gratuity taxable in the hands of Mr. Shah for the P.Y. 2017-18:** As per section 10(10)(iii), gratuity received by an employee would be exempt upto the least of the following limits

| S.No. | Particulars       | Amount   |
|-------|-------------------|----------|
| (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, 2018. Therefore, average salary for the months of March 2017 to December 2017 has to be considered. The salary is Rs. 25,000 p.m. up to 30.9.2017 and Rs. 27,000 p.m. from 1.10.2017. Hence, average salary would be Rs. 26,700  $\{[(Rs. 25,000 \times 7) + (Rs. 27,000 \times 3) + (2000 \times 55\% \times 10)]/10\}$ . 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.

| Computation of average salary  |  | Amount   |
|--|--|----------|
| Basic salary March 2017 to December 2017 $[(25,000 \times 7) + (27,000 \times 3)]$                         |  | 2,56,000 |
| Dearness allowance $(2,000 \times 10 \times 55\%)$   |  | 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) $[30 \times 26,700/2]$ |  | 4,00,500 |

### **PROBLEM NO.9**

#### Computation of taxable income of Shri Hari for the A.Y. 2018-19

| 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   |                 |
| Less: Exemption under section 10(14) (read with Rule 2BB @ Rs.1,600 p.m.)   | (19,200) | 4,800           |
| 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             |
| <b>Gross Salary</b>   |          | <b>3,31,200</b> |
| 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          |
| <b>Taxable income</b>   |          | <b>3,06,200</b> |

### **PROBLEM NO.10**

#### Computation of total income of Mr. Madhav for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|-------------|-----|-----|
|-------------|-----|-----|

|   |                    |                 |
|---|--------------------|-----------------|
| Basic salary (Rs.22,500 x 12)   |                    | 2,70,000        |
| Dearness allowance (1/4th of basic salary)  |                    | 67,500          |
| Transport allowance (Rs.2,000 x 12)<br>Less: Exemption (Rs.1600 p.m. x12)   | 24,000<br>(19,200) | 4,800           |
| Facility for use of laptop  |                    | Nil             |
| Conveyance Allowance received<br>Less: Expenditure incurred for official purpose  | 12,000<br>(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 <b>not exceeding Rs.50 per meal.</b>                                       |                    | Nil             |
| Value of concessional accommodation [See Note 1]  |                    | 37,520          |
| <b>Gross Total Income</b>   |                    | <b>3,81,820</b> |
| Less: Deduction under Chapter VI-A  |                    |                 |
| <b>Under section 80C</b><br>Contribution to PPF   | 1,00,000           |                 |
| <b>Under section 80D</b><br>Medical insurance premium paid by cheque<br>Premium paid in cash not eligible for deduction | 4,500<br>Nil       | <b>1,04,500</b> |
| <b>Total income</b>   |                    | <b>2,77,320</b> |

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

| Particulars  | Rs.    | Rs.           |
|--|--------|---------------|
| Basic Salary   |        | 2,70,000      |
| Transport Allowance (the portion which is chargeable to tax)                 |        | 4,800         |
| Conveyance Allowance   |        | 2,000         |
| "Salary" for the purpose of perquisite value of accommodation                |        | 2,76,800      |
| 15% of salary (A)  | 41,520 |               |
| 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 |        | 41,520        |
| Less: Rent paid by Madhav (Rs. 1,000 x 12)                                   |        | (12,000)      |
|  |        | 29,520        |
| <b>Add:</b> Value of furniture provided by employer:                         |        |               |
| Rent for furniture (Rs. 500 x 12)  | 6,000  |               |
| Television (Rs. 20,000 x 10% p.a.)   | 2,000  | 8,000         |
| <b>Value of furnished accommodation given at concessional rent</b>           |        | <b>37,520</b> |

**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.11****Computation of taxable salary of Mr. Anand for A.Y. 2018-19**

| Particulars  | 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 x 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   |

|  |                 |
|--|-----------------|
| <b>Taxable allowances:</b>   |                 |
| Telephone allowance  | 12,000          |
| <b>Taxable perquisites:</b>  |                 |
| Rent-free accommodation [Note 1]   | 60,169          |
| Medical reimbursement [Note 2] (40,000 -15,000)  | 25,000          |
| Reimbursement of salary of housekeeper [Rs. 2,000 × 12]  | 24,000          |
| Gift voucher [Note 4]  | -               |
| 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 5]   | -               |
| <b>Salary income chargeable to tax</b>   | <b>5,46,167</b> |

**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         | Rs.             |
|-------|---------------------|-----------------|
| 1.    | Basic salary        | 3,02,500        |
| 2.    | Dearness allowance  | 45,375          |
| 3.    | Bonus               | 41,250          |
| 4.    | Telephone allowance | 12,000          |
|       | <b>Total</b>        | <b>4,01,125</b> |

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.

- 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 is exempt to the extent of Rs.15,000. Therefore, in this case, the balance of Rs.25,000 (i.e., Rs.40,000 – Rs.15,000) is a taxable perquisite.
- Medical insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt.
- 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.
- 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.12****Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala**

| Particulars  | Rs.      |
|--|----------|
| Medical facility   | Exempted |
| Domestic servant (Rs.1500x12)  | 18,000   |
| Education facility provided to his children arthy not exceeding Rs.1,000 p.m           | Exempted |
| Education facility provided to his children ashok exceeding Rs.1,000 p.m (Rs.200 x 12) | 2,400    |

|   |               |
|---|---------------|
| Taxable value of television, refrigerator and air conditioner (Rs.1,10,000 x 10%) | 11,000        |
| Gift  | Rs.10,000     |
| Less: exempted  | (Rs.5,000)    |
| Telephone facility  | Exempted      |
| The value of concessional loan  | 20,880        |
| <b>Total taxable value of perquisites</b>   | <b>57,280</b> |

**Note:**

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

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

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

| Month           | Maximum outstanding balance as on last date of month (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                                      |
|                 | <b>Total value of this perquisite</b>                      | <b>20,880</b>                              |

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].

**PROBLEM NO.13**

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y. 2018-19

| 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> |                 |
|   |          | <b>90,000</b>   |                 |
| Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr.Y   |          | 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          |
| <b>Value of perquisites chargeable to tax</b>   |          |                 | <b>1,68,400</b> |

**PROBLEM NO.14****Computation of taxable salary of Mr. M. for the A.Y. 2018-19**

| Particulars   | Rs.             | Rs.             |
|---|-----------------|-----------------|
| Basic Salary (Rs.20,000 x 5) + (Rs.25,000 x 7)  |                 | 2,75,000        |
| Transport allowance (Rs.2,000 x 12)   | 24,000          |                 |
| Less: Exempt under section 10(14) (Rs.1600 x 12)  | <u>(19,200)</u> | 4,800           |
| Children education allowance (Rs.500 x 12)  | 6,000           |                 |
| Less: Exempt under section 10(14) (Rs.100 x 2 x 12)   | <u>(2,400)</u>  | 3,600           |
| City Compensatory Allowance (Rs.300 x 12)   |                 | 3,600           |
| Hostel Expenses Allowance (Rs.380 x 12)   | 4,560           |                 |
| Less: Exempt under section 10(14) (Rs.300 x 2 x 12 i.e. Rs. 7,200 but restricted to the actual allowance of Rs.4,560) | <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           |
| <b>Gross Salary</b>   |                 | <b>3,02,750</b> |
| Less : Tax on employment under section 16(iii)  |                 | <u>(2,500)</u>  |
| <b>Taxable salary</b>   |                 | <b>3,00,250</b> |

**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.15****Computation of total income of Mr. Rishi for the A.Y. 2018-19**

| No. | Particulars  | Rs.             |
|-----|--|-----------------|
| 1.  | Basic Salary   | 6,00,000        |
| 2.  | Dearness allowance (40% of basic salary)   | 2,40,000        |
| 3.  | Motor car (engine cubic capacity above 1.6 litres), owned by employer, running expenses met by Mr. Rishi. Perquisite value Rs. 900 per month.  | 10,800          |
| 4.  | Cost of laptop   | Rs.40,000       |
|     | Less: amount recovered from Mr. Rishi  | <u>Rs.5,000</u> |
|     |  | 35,000          |
| 5.  | Leased accommodation: Actual lease rent Rs.3 lakhs or 15% of salary i.e. 15% of Rs.8,40,000 = Rs.1,26,000; whichever is lower. Rs.1,26,000, being the lower figure, less amount recovered from employee is the value of perquisite i.e. Rs.1,26,000 minus 60,000 | 66,000          |

|    |  |                            |                 |
|----|--|----------------------------|-----------------|
| 6. | Leave travel concession (See note)   |                            | Exempted        |
| 7. | Employer contribution to PF (Rs.6,00,000 x 15%)<br>Less: 12% of basic pay and D.A. (Rs.8,40,000 x 12%) | Rs.90,000<br>(Rs.1,00,800) | Nil             |
| 8. | Professional tax paid by employer  |                            | 2,000           |
|    | <b>Gross Salary</b>  |                            | <b>9,53,800</b> |
|    | Less: Deduction u/s 16(iii)<br>Professional tax  |                            | 3,000           |
|    | <b>Net Salary / Gross Total Income</b>   |                            | <b>9,50,800</b> |
|    | Less: Deduction under section 80C<br>PF contribution at 15% of basic pay                               |                            | 90,000          |
|    | <b>Total Income</b>  |                            | <b>8,60,800</b> |

**Notes:** Mr. Rishi 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.16**

#### **Computation of Taxable Salary of Mr. Balaji for A.Y. 2018-19**

| Particulars  | Rs.              |
|--|------------------|
| Basic salary [(Rs. 50,000 × 7) + (Rs. 60,000 × 5)]   | 6,50,000         |
| Dearness Allowance (40% of basic salary)   | 2,60,000         |
| Bonus (Rs. 50,000 + 40% of Rs. 50,000) [Note 1]  | 70,000           |
| Employers contribution to recognised provident fund in excess of 12% of salary = 4% of Rs. 6,50,000 [Note 4] | 26,000           |
| Professional tax paid by employer  | 2,000            |
| Laptop facility  | Exempted         |
| Perquisite of Motor Car exceeding 1.6ltrsCC (Rs.2400x5) [See Note 5]   | 12,000           |
| Leave travel concession (Note 5)   | Exempted         |
| <b>Gross Salary</b>  | <b>10,20,000</b> |
| <b>Less: Deduction under section 16</b>  |                  |
| Professional tax (Note 6)  | 3,000            |
| <b>Taxable Salary</b>  | <b>10,17,000</b> |

**Notes:**

- Since bonus was paid in the month of October, the basic salary of Rs. 50,000 for the month of October is considered for its calculation.
- As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
- 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. It is assumed that the Leave Travel Concession was availed for journey within India.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs. 2,400 per month. The car was provided to the employee from 01.11.2017, therefore the perquisite value has been calculated for 5 months.

6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs. 3,000 is provided from salary.

**PROBLEM NO.17****Computation of tax payable by Mr. Hari for the A.Y.2018-19**

| 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 : Education cess @2% plus SHEC@1% | 6,585                         | 3,480                         |
| <b>Total payable</b>                  | <b>2,26,085</b>               | <b>1,19,480</b>               |

**Computation of tax payable on arrears of salary if charged to tax in the respective AYs**

| 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 | 1,03,000            | -                   | 1,17,000            | -                   | 1,25,000            | -                   |
| <b>Taxable salary</b>  | <b>8,13,000</b>     | <b>7,10,000</b>     | <b>9,42,000</b>     | <b>8,25,000</b>     | <b>10,75,000</b>    | <b>9,50,000</b>     |
| 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               |
| <b>Tax payable</b>     | <b>1,00,837</b>     | <b>78,280</b>       | <b>1,38,638</b>     | <b>1,02,485</b>     | <b>1,51,925</b>     | <b>1,18,450</b>     |

**Computation of relief under section 89**

|      | Particulars  | Rs.      | Rs.           |
|------|--|----------|---------------|
| (i)  | <b>Tax payable in A.Y.2018-19 on arrears:</b>  |          |               |
|      | Tax on income including arrears  | 2,26,085 |               |
|      | Less : Tax on income excluding arrears   | 1,19,480 | 1,06,605      |
| (ii) | <b>Tax payable in respective years on arrears :</b>  |          |               |
|      | 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)   | 2,99,215 | 92,185        |
|      | <b>Relief under section 89 - difference between tax on arrears in A.Y 2018-19 and tax on arrears in the respective years</b> |          | <b>14,420</b> |

**Tax payable for A.Y.2018-19 after relief under section 89**

| Particulars  | Rs.             |
|--|-----------------|
| Income-tax payable on total income including arrears of salary | 2,26,085        |
| Less : Relief under section 89 as computed above               | 14,420          |
| <b>Tax payable after claiming relief</b>                       | <b>2,11,665</b> |

**PROBLEM NO.18**

Computation of gross total income of Mr. Dinesh for the A.Y. 2018-19

| Particulars  | Rs.            | Rs.               |
|--|----------------|-------------------|
| <b>Salaries</b>  |                |                   |
| 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               |
| <b>Value of perquisites:</b>   |                |                   |
| 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          |
| <b>Income chargeable under the head "Salaries"</b>   |                | <b>8,60,000</b>   |
| <b>Income from house property</b>  |                |                   |
| <b>Let-out property (At Rohini)</b>  |                |                   |
| 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       |                   |
|  | <b>(A)</b>     | <b>2,85,600</b>   |
| <b>Self-occupied property (At Dwarka)</b>  |                |                   |
| 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>(B)</b>     | <b>(2,00,000)</b> |
| Income from house property [A - B]   |                | <b>85,600</b>     |
| <b>Income from Other Sources</b>   |                |                   |
| 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 parent whose total income (before including the income of minor child) is greater (Rs. 40,000 x 18%)<br>Less: Exempt under section 10(32) | 7,200<br>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)   | 90,000         | 1,02,900          |
| <b>Gross Total Income</b>  |                | <b>10,48,500</b>  |

**PROBLEM NO.19**

Computation of Gross Salary of Mr. B for the A.Y. 2018-19

| 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> | <u>3,240</u>    |
| Interest accrued in the RPF @ 13% p.a.              | 13,000        |                 |
| Less : Exempt @ 9.5% p.a.                           | <u>9,500</u>  | <u>3,500</u>    |
| <b>Gross Salary</b>                                 |               | <b>2,92,740</b> |

**THE END**

MASTER MINDS