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GOVERNMENT COLLEGE FOR GIRLS  
LUDHIANA

**INCOME-TAX LAW AND ACCOUNTS****P.Y. 2022-23****A.Y. 2023-24****CHAPTER- 6****SALARY INCOME****(sec. 15 to sec. 17)**

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Any income, which accrues or arises or received by a person from another person on account of **employee vs. employer relationship**, will fall under the head 'Salary'. The **relationship** of employer and employee should be of **master and servant**. The **following points** must be kept in mind while calculating salary income:

1	<b><u>All allowances and perquisites</u></b> received by an employee <b><u>from his employer</u></b> , will be included in the salary income.
2	Salary <b><u>received in advance</u></b> will be taxable in the year of receipt and when such salary, accrue then it will not be included in the salary income of the employee. In other words, <b><u>salary is taxable on receipt or accrual basis, whichever is earlier</u></b> .
3	Salary received by M.P., M.L.A. and M.L.C. will not be taxable under this head.
4	Salary, bonus, commission or remuneration received by <b><u>partner of the firm from partnership firm</u></b> , will not be taxable under this head. It is taxable under the head <b><u>Business income</u></b> .
5	<b><u>Family pension</u></b> or lump sum amount of compensation received by the widow or legal

	representative of deceased employee will not be taxable under this head. This will be <b><u>taxable under the head Income from Other Source.</u></b>
6	Pension earned and received abroad is taxable only for resident and ordinary resident.
7	<b><u>Voluntary surrender of salary to the Central Govt.</u></b> under the Voluntary Surrender of Salaries (Exemption from taxation) Act, 1961 is not included in the taxable salary of that employee.
8	Salary or monthly pension or family pension received by an employee or by the widow of former <b><u>employee of UNO from the UNO is fully exempted.</u></b>
9	<b>Any remuneration</b> received by the employee from his employer for that work, which is <b><u>not connected with his service,</u></b> is not being taxable under this head.
10	<p><b><u>Basis of Charge u/s 15—</u></b></p> <ul style="list-style-type: none"> <li>• Section 15 deals with the basis of charge. Salary is chargeable to tax either on due basis or on receipt basis, whichever is earlier.</li> <li>• 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.</li> <li>• If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.</li> </ul> <p><b>e.g.</b> If A draws his salary in advance for the month of April, 2023 in the month of March 2023 itself, the same becomes chargeable on receipt basis and is to be assessed as income of the PY 2022-23 i.e AY 2023-24. However, the salary for the AY 2024-25 will not include that of April, 2023. If the salary due for March, 2023 is received by A later in the month of April, 2023, it is still chargeable as income of the PY 2022-23 i.e. AY 2023-24 on due basis. Obviously, salary for the AY 2024-25 will not include that of March, 2023.</p>
11	<b><u>Salary Grade</u></b> Certain employees are entitled to a graded system of salary. Under this system, the normal annual increments to be given to the employee are already fixed in the grade. <b>e. g.</b> if an employee joins the service on 01-05-2021 and is placed in the grade of Rs. 12,200-300-17,400-500-19,400. In this case the employee will get a basic salary of Rs. 12,200/- w.e.f. 01-05-2021. He will get annual increment of Rs. 300/- w.e.f. 01-05-2022 and onwards till his salary reaches Rs. 17,400/- and after that he will get increment of Rs. 500/- till his salary reaches Rs. 19,400/-
12	<b><u>Tax free Salary:</u></b> When tax is paid on salary by employer on behalf of employee, then amount of salary paid to employee is called 'Tax free Salary'. But in salary <b><u>income tax on such salary will be added</u></b> in the salary of the employee.
13	<b><u>Foregoing of salary :</u></b> When an employee <b><u>waives the right to receive his earned salary</u></b> income then waiver of salary by employee will be treated as application of income and such waived salary income will be taxable in the hands of employee. <b>e.g.</b> Mr. A, an employee instructs his employer that he is not interested in receiving the salary of April, 2022 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, 2022. It is only 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 2022 will be taxable in the hands of Mr. A. He is, however entitled to claim a deduction <b><u>u/s 80G</u></b> for the amount donated to the institution.
14	<b><u>Salary paid by Foreign Govt. / Enterprises:</u></b> Salary paid by Foreign Govt. / enterprises to its

	employee who is serving in India, is not taxable under the head Salary <b>provided it is specifically</b> exempted u/s 10.
15	<b>Place of accrual of salary</b> —U/s 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. 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.
16	<b>Arrears of salary</b> relating to any previous year will be taxable In the year of receipt provided such arrears have not been charged to income tax in earlier years.
17	<b>LOAN OR ADVANCE AGAINST SALARY</b> —Loan is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified installments, the <b>loan amount cannot be brought to tax as salary</b> of the employee. Similarly, <b>advance against salary is different from advance salary</b> . It is an advance taken by the employee from his employer. This advance is generally <b>adjusted with his salary</b> over a specified time period. It <b>cannot be taxed as salary</b> .
18	<b>Wages</b> : There is <b>no difference between salaries and wages</b> . So that wages are treated just like salary and taxable under the head salary.
19	<b>Annuity</b> : Annuity is the <b>annual grant</b> and will be taxable under the head salary when an employee receives annuity from his present employer voluntary or on account of contractual agreement. And in case <b>it is received from a former employer</b> then it is taxable as profit in lieu of salary. <b>A deferred annuity will be taxable only in that year when the right to receive</b> the same arises. When the annuity is received from LIC or other person then it will be taxable under the head 'Income from Other Sources'
20	<b>Meaning of salary includes</b> 'Basic Pay + Allowances + Perquisites + Fee + Commission + Bonus + Pension + Taxable portion of Gratuity + taxable portion of all other retirement benefits + advance salary + arrears of salary + profit in lieu of salary
21	Salary, allowance and perquisites received by the teacher or professor from SAARC member States are fully exempted with the fulfillment of certain conditions.

**Q 1(KP)** Mr. Taranjot Singh was appointed as a manager on 1<sup>st</sup> July 2018 in the grade of 20,000-500-22000-1000-25000 with two advance increments. Find out his salary for the previous year 2022-23 if:

- Salary is due on first day of the month: and
- Salary is due on last day of the month.

**Answer**—Computation of salary of Mr. Taranjot for the previous year 2022-23 (AY 2023-24)

Pay Fixation: Pay on 1.7.2018 : Rs 20,000+ two increments of Rs 500 each = Rs 21000.

Pay on 1.7.2019	21500
1.7.2020	22000
1.7.2021	23000
1.7.2022	24000

a) **Due on First day of the month**

On 1.4.2022 to 1.7.2022	23000X4=92,000
On 1.8.2022 to 31.3.2023	24000X8= <u>192000</u>

Salary for the year 2,84,000

**b) Due on the last day of the month**

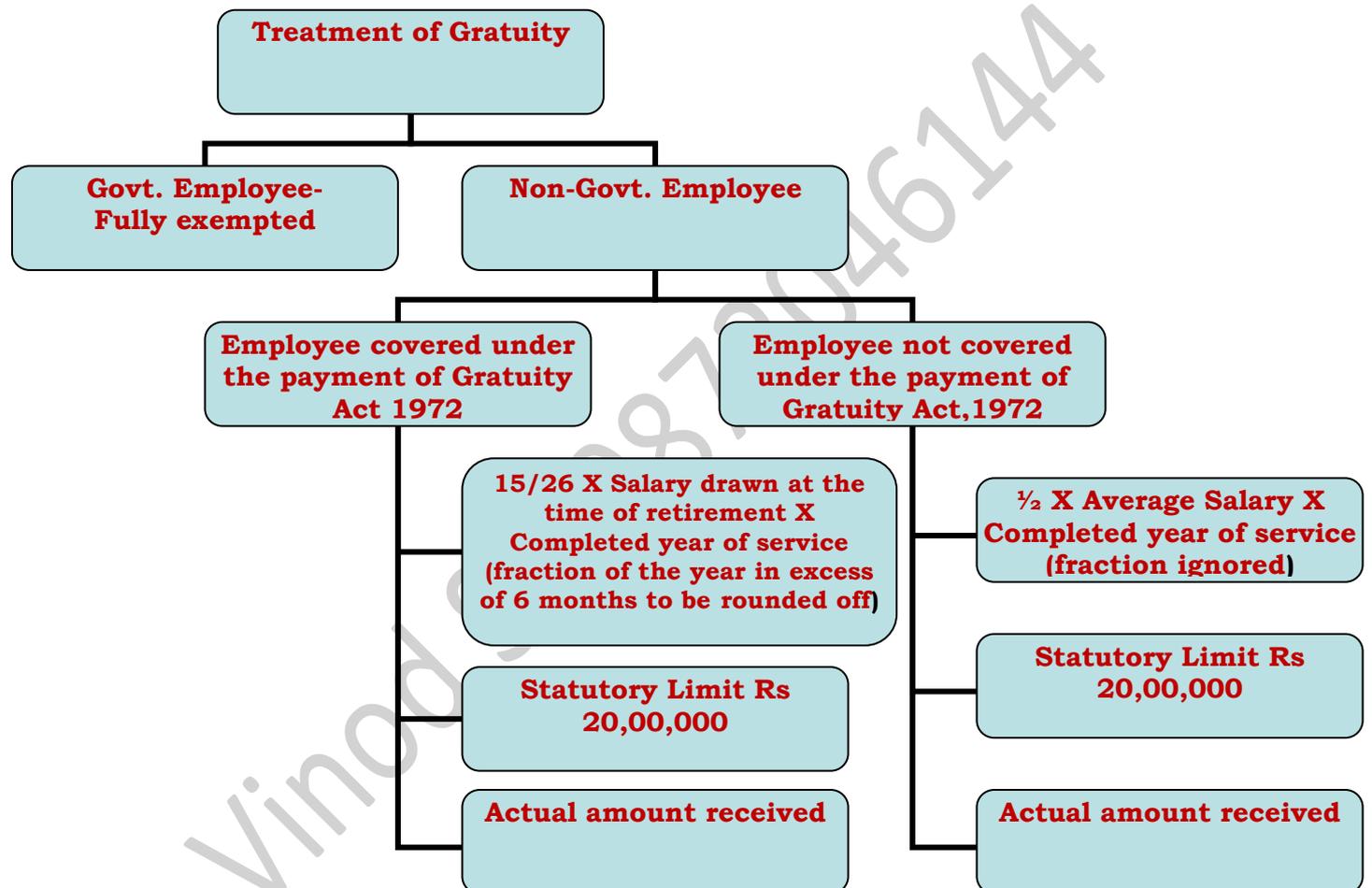
on 30.4.2022 to 30.6.2022  $23000 \times 3 = 69000$

on 31.7.2022 to 31.3.2023  $24000 \times 9 = \underline{216000}$

Salary for the year 2,85,000

## RETIREMENT BENEFITS

### (i) GRATUITY



The payment, which is made by employer to an employee at the time of retirement in appreciation of the past services rendered by the employee, is known as gratuity. Gratuity is taxable under the head 'Salary'. However, the assessee can avail the exemption of gratuity u/s 10(10) up to a certain limit. From exemption point of view, employees are broadly classified into the following two categories: -

- (A) Govt. employees & employees of local authorities but not employees of Statutory Corp.
- (B) Non- Govt. employee

**(A) Govt. employee**—When the govt. employee receives death cum retirement gratuity at the time of retirement then such amount of gratuity is **fully exempted** for such employee. If gratuity is received by the Govt. Employee during service, then it is fully taxable.

**(B) Non Govt. employees** For exemption purposes, such employees are broadly classified into two categories: -

**Case I When employee receives gratuity under the payment of gratuity Act, 1972**

When the employee, who is covered under the payment of gratuity Act, 1972, receives amount of gratuity then it will be exempted in the following manner: -

**Least** of the following **three** will be the exempted amount of gratuity.

1)	<b>15/26</b> x salary drawn at the time of retirement x completed year of service (part of the year in excess of 6 month to be rounded off)
2)	Rs. 20,00,000/- ( <b>Statutory Limit</b> )
3)	<b>Actual amount of Gratuity received</b>

**Taxable portion of gratuity** = Actual amount of gratuity received – exempted amount of gratuity.

**Note :-**

**1. Salary for this purpose** = Basic Salary + D.P. + Dearness Allowance

If the employee receives daily wages (piece rated) then 15 days salary will be calculated by taking the average of 3 month immediately preceding the termination of employment & overtime wages will not be considered for this purpose.

**2. Payment of Gratuity Act, 1972, applies** to those **employees who are working in every factory, mine, oilfield, plantation, port, railway company to do any skilled, semi-skilled, or unskilled, manual, supervisory, technical or clerical work, and whether or not such person is employed in a managerial or administrative capacity.**

**CASE II WHEN THE EMPLOYEE IS NOT COVERED UNDER THE PAYMENT OF GRATUITY ACT, 1972**

**Least** of the following three will be exempted amount of gratuity.

1)	<b>½ x average salary x completed year of service (fraction of the year to be completely ignored )</b>
2)	Rs. 20,00,000/- ( <b>Statutory Limit</b> )
3)	<b>Actual amount of Gratuity received</b>

**Taxable** Portion = Total gratuity received – exempted amount of gratuity

**Note**

- 1) **Salary for this purpose** = Basic Salary + Dearness Pay + Dearness Allowance (**if enters for all retirement benefits**) + Fixed %age of commission on sale.
- 2) Calculation of **Average Salary** = Salary drawn by an employee during **10 calendar** months prior to the month of his retirement / death etc. will be added up and then divided by ten. **e.g.** If an employee retires on 25<sup>th</sup> Jan.,2023, then average salary shall be taken as aggregate of salary for the period from 1<sup>st</sup> March, 2022 to 31<sup>st</sup> Dec.2022, divided by 10.
- 3) If an employee had received **gratuity from earlier employers** and had claimed exemption u/s 10(10) then he will still be entitled to claim this exemption. But the notified limit of Rs.20,00,000/- will be reduced by the amount so exempted in earlier years.
- 4) **Gratuity payable by LIC of India** to its **insurance agents is not qualified for exemption** because there is no employer Vs employee relationship between LIC of India and agents of corporation.
- 5) Gratuity received by an employee during **service is fully taxable under the head SALARY** for all type of employees.
- 6) If the employee had **not received** any amount of gratuity **from the former employers** then **COMPLETED SERVICE** term include total service of employee other than one from, whose service he retired.
- 7) Where an employee receives gratuity from his employer at the time of his retirement and **accepts a job under fresh agreement** with same employer, then he can also claim the exemption u/s 10(10) in respect of gratuity even if he is re-employed by the same employer.
- 8) If gratuity **due or accrue after the death of the employee**, then it is fully exempted in the hands of the deceased employee.

**Q 3 (PM)** Mr. Shah, an Accounts Manager, has retired from JK Ltd. on 15.1.2023 after rendering services for 30 years 7 months. His salary is Rs 25,000 p.m. upto 30.9.2022 and Rs 27000 thereafter. He also gets Rs 2000 p.m. as dearness allowance (55% of it is a part of salary for computing retirement benefits). He is not covered by the payment of Gratuity Act, 1972. He has received Rs 8,00,000 as gratuity from the employer company. Compute the gratuity taxable in the hands of Mr. Shah.

**Answer—Taxable amt of gratuity 399500**

*Least of the following will be the exempted amount of gratuity:--*

S. No	Particulars	Amount
1	½ of average salary X completed year of service (1/2 X 26700 X 30)	4,00,500

2	Statutory Limit	20,00,000
3	Actual amount received	8,00,000

Therefore, exempted amount of gratuity = Rs 4,00,500

**Taxable part of gratuity** = Actual amount received --- Exempted amount of gratuity= 8,00,000—  
4,00,500=3,99,500

### Working Note

#### Computation of average salary

Basic salary March 2022 to December 2022 (25000 X 7 + 27000 X3 )	2,56,000
Dearness Allowance (2,000 X 10 X 55%)	11,000
Total salary of 10 calendar month	2,67,000

**Average salary** = 267000/10 = 26700

**Q4 (41.2- 1E1)** X, a Government employee receives Rs 9,10,000 as gratuity at the time of his retirement on April 30, 2022, he joins a private sector company on monthly salary of Rs 43,000. Is the gratuity received by him exempt from tax?

**Answer—**Yes, Gratuity received by Govt. employee at the time of retirement is fully exempted. It is immaterial whether he joins the private sector job or doing any other work.

**Q5 (41.2-2E1)** X an employee of LMN Ltd. receives Rs 45000 as gratuity under the payment of Gratuity Act, 1972. He retires on Nov. 10, 2022 other rendering service of 30 years and 4 months. At the time of retirement monthly salary was Rs 2340 (inclusive of dearness allowance of Rs 200 per month). Calculate amount of gratuity chargeable to tax.

**Answer—**

Least of the following will be the exempted amount of gratuity:--

S. No	Particulars	Amount
1	15/26 of salary X completed year of service (15/26 X 2340 X 30)	40500
2	Statutory Limit	20,00,000
3	Actual amount received	45000

Therefore, exempted amount of gratuity = Rs 40500

**Taxable part of gratuity** = Actual amount received --- Exempted amount of gratuity= 45000—  
40500=4500.

**Q 6 (41.2-3E1)** X not being covered by the Payment of Gratuity Act, 1972, retires on January 6, 2020 from PQR and receives Rs 1,24,000 as gratuity after service of 29 years and 11 months. His average salary during March 1, 2022 to December 31, 2022 is Rs 8500. Besides, he gets Rs 2000 per month as dearness allowance (but it is considered only for calculating provident fund and **not gratuity or pension**). Determine the amount of; (a) taxable gratuity (b) gratuity exempt from tax for the assessment year 2023-24.

**Answer—**

Least of the following will be the exempted amount of gratuity:--

S. No	Particulars	Amount
1	½ of average salary X completed year of service (1/2 X 8500X29)	123250

2	Statutory Limit	20,00,000
3	Actual amount received	124000

Therefore, exempted amount of gratuity = Rs 123250

**Taxable part of gratuity** = Actual amount received --- Exempted amount of gratuity= 124000—123250=750

**Q 7 (41.2-3E2)** X, a marketing specialist of Madras, is working with two concerns, viz., P Co. and Q Co. He retires from P Co. on June 30, 1999 (salary at the time of retirement Rs 2800) and receives Rs 16000 as gratuity out of which Rs 4000 is exempt from tax u/s 10(10)

He retires from Q Co. on January 10, 2023 after 8 years and 7 months service and receives Rs 192000 as gratuity. Basic salary (average) drawn from Q Co. for proceeding 10 months ending December 31, 2022 is Rs 19000. Besides, he has received Rs 1000 p.m. as DA only 20% DA is considered for computing gratuity and pension. For provident fund, the entire amount is considered. Further, X gets 3% commission on turnover achieved by him. Total turnover achieved by him during the period of 10 months ending December 31, 2022 is Rs 287500. Determine the amount of gratuity taxable for the assessment year 2023-24.

**Answer—**

**Calculate Average Salary based on 10 months**

Salary for 10 months (19000X10)	190000
<b>Add:</b> DA (200X10)	2000
<b>Add:</b> Commission (287500X3%)	8625
Total Salary for 10 months	200625
<b>Average Salary</b> (200625/10)	20062.5

**Least of the following will be the exempted amount of gratuity:--**

S. No	Particulars	Amount
1	½ of average salary X completed year of service (1/2 X 20062.5X8)	80250
2	Statutory Limit (20,00,000—4000)	19,96,000
3	Actual amount received	192000

Therefore, exempted amount of gratuity = Rs 80250

**Taxable part of gratuity** = Actual amount received --- Exempted amount of gratuity= 192000—80250=111750

**Q 8 (KP32)** Mr. Ashish retired on 30.11.22 from a coal mine after putting a service of 28 years and 10 months. At the time of his retirement he was getting a salary of Rs 16000 p.m. and he use to get an increment of Rs 500 p.m. on 1<sup>st</sup> April every year. His DA was Rs 2000 p.m. Gratuity received Rs 3,40,000. Find out his taxable gratuity, if he is covered under Gratuity Act, 1972.

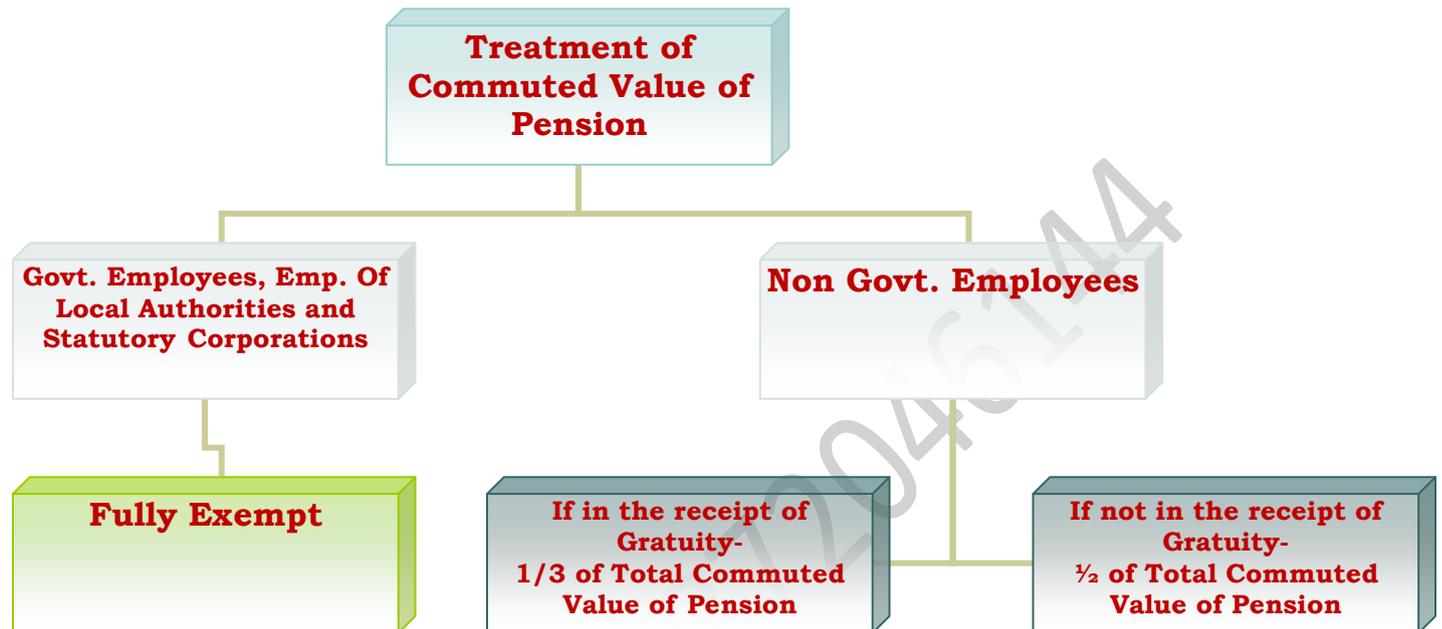
**Answer—**Taxable gratuity Rs 38835

**Q 9 (KP33)** Mr. D retired on 15.6.2022 from a manufacturing company after putting service of 30 years and 7 months. He received a Gratuity of Rs 3,60,000. Basic salary of Mr. D was Rs 20,000 p.m. during 2019 and Rs 22,000 p.m. during 2022. He was also getting DA @ Rs 5000 p.m. which was increased

from Rs 4000 on 1.4.2022. 50% of DA is presumed to enter into salary for computation of all retirement benefits but 100% of DA is part of basic salary for calculation of pension benefits. Compute his taxable gratuity, if he is not covered under payment of Gratuity Act, 1972.

**Answer**—Taxable gratuity Rs 13500.

**(ii) COMMUTED VALUE OF PENSION U/S 10(10A)**



When an employee **receives his pension in a lump sum** then such lump sum amount of pension is termed as commuted value of pension. From **exemption point of view**, the employees are broadly classified into two categories;-

- 1) **GOVT. EMPLOYEES OR EMPLOYEES OF LOCAL AUTHORITIES OR STATUTORY CORPORATION**:--- According to Govt. rules, full pension cannot be computed. Computed part of pension will be **fully exempted** in the hands of such employees and **uncommuted part of pension** will be fully **taxable** under the head salary income.

**2) NON GOVT. EMPLOYEE**

**CASE I** If an employee also receives the amount of gratuity then  $1/3^{\text{rd}}$  of commuted value of pension, which he is normally entitled to receive, is exempt from tax.

**CASE II** If an employee does not receive the amount of gratuity then  $1/2$  of commuted value of pension, which he is normally entitled to receive, is exempt from tax.

Pension is a payment made by the employer after the retirement/death of the employee as a reward for past service.

**Q 10 (P)** Mr. Sagar retired on 1.10.2022 receiving Rs 5000 p.m. as pension. On 1.2.2023, he commuted 60% of his pension and received Rs 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee
- He is a non-government employee, receiving gratuity of Rs 5,00,000 at the time of retirement.
- He is a non-government employee and is in receipt of no gratuity at the time of retirement.

**Answer—**

- He is a government employee

If the assessee is a govt. employee, then whole amount of commuted value of pension will be exempted. But pension will be taxable.

<b>Uncommuted pension received (Oct-March)</b>		
(5000 X 4 + 40% of 5000X2 )		24,000
Commuted pension received	3,00,000	
<b>Less: Exempt u/s 10(10A)</b>	3,00,000	NIL
<b>Taxable pension</b>		24,000

- He is a non-government employee, receiving gratuity

If the assessee is a non-govt. employee, then taxable part of commuted value of pension will be as follows:--

<b>Uncommuted pension received (Oct-March)</b>		
(5000 X 4 + 40% of 5000X2 )		24,000
Commuted pension received	3,00,000	
<b>Less: Exempt u/s 10(10A)</b>	1,66,667	1,33,333
1/3 <sup>rd</sup> of total commuted value of pension(300000X100/60=5,00,000x1/3)		
<b>Taxable pension</b>		157333

- He is a non-government employee, not receiving gratuity

<b>Uncommuted pension received (Oct-March)</b>		
(5000 X 4 + 40% of 5000X2 )		24,000
Commuted pension received	3,00,000	
<b>Less: Exempt u/s 10(10A)</b>	2,50,000	
1/2 of total commuted value of pension(300000X100/60=5,00,000x1/2)		50,000
<b>Taxable pension</b>		74,000

**Q 11 (41.3-1E1)**—Determine the amount of taxable pension for the assessment year 2023-24 in the following cases on the assumption that pension becomes due on the last day of month:

- X retires from the Indian Economic Service on August 31,2022 and receives Rs 10,000 per month as Pension.

- b) X retires from the Indian Administrative Service on May 31, 2021. He gets pension of Rs 19000 p.m. upto June 30, 2022. With effect from July 1, 2022, he gets 30% of his pension commuted for Rs 3,00,000.
- c) X retires from PQR (P) Ltd. in December 2016 and receives 7000 p.m. upto February 28, 2023 when he dies.
- d) X retires from PQR (P) Ltd. on March 31, 2022. PQR (P) Ltd. pays Rs 14000 p.m. as pension but does not pay any gratuity. On the request of X, PQR(P) Ltd. pays Rs 2,00,000 in lieu of commutation of 20% of pension with effect from February 1, 2023.
- e) What will be the amount of taxable pension if X, under the circumstances mentioned at (d) receives Rs 71800 as gratuity at the time of retirement?

**Answer-**

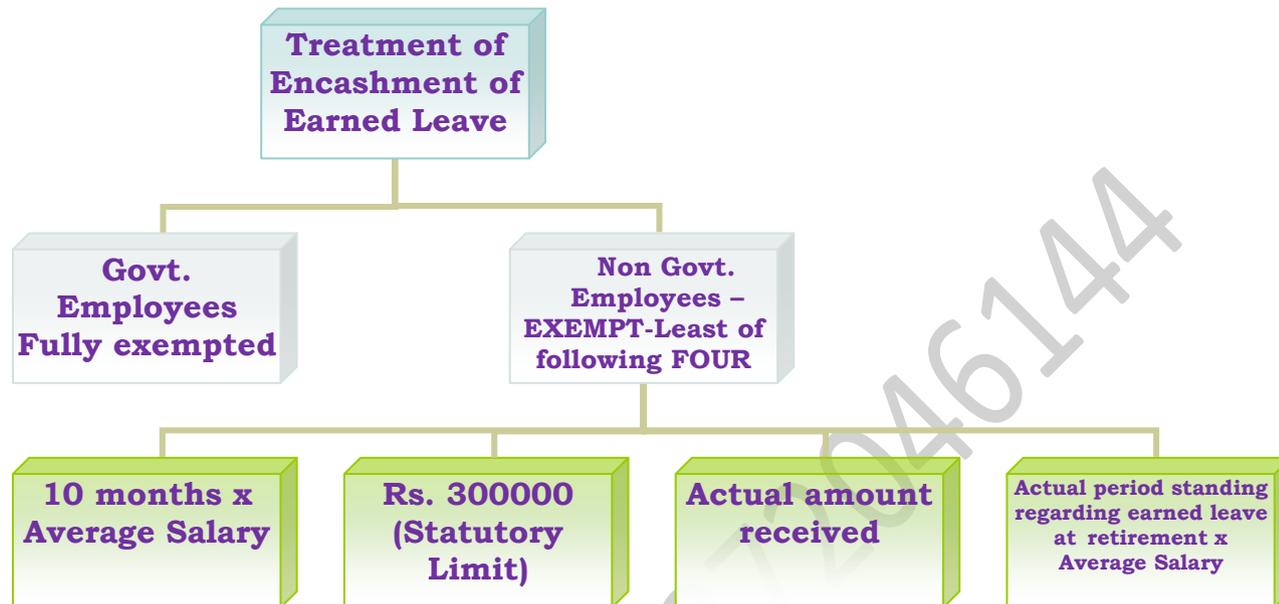
a)	Un-commuted Pension (10000 X7)		70,000
b)	<b>Un-commuted Pension</b> From April to June (19000X3) From July to March (19000—5700=13300X9) Total Un-commuted Pension Add: Commuted Value of Pension (Fully Exempted)	57000 <u>119700</u> 176700 <u>NIL</u>	176700
c)	<b>Un-commuted Pension—</b> From (April to Feb)(7000X11)		77000
d)	<b>Un-commuted Pension—</b> From April to Jan (14000X10) From Feb to Mar (14000—20% of 14000=11200X2) Total Un-commuted Pension Add: Commuted Value of Pension (Taxable Part) Total Commuted value of pension (200000X100/20) 1000000 Exempted Part = Least of the following two $\frac{1}{2}$ of 1000000= 500000 Actual amount received Rs 200000 Therefore, exempted part = 2,00,000 Taxable part = 200000—200000=	140000 <u>22400</u> 162400           NIL	162400
e)	<b>Un-commuted Pension—</b> From April to Jan (14000X10) From Feb to Mar (14000—20% of 14000=11200X2) Total Un-commuted Pension Add: Commuted Value of Pension (Taxable Part) Total Commuted value of pension (200000X100/20) 1000000 <b>Exempted Part</b> = Least of the following two $\frac{1}{3}$ of 1000000= 333333 Actual amount received Rs 200000 Therefore, exempted part = 2,00,000 Taxable part = 200000—200000=	140000 <u>22400</u> 162400           NIL	162400

**Q12 (KP36)** Mr. Varinder retired on 31.12.2022 and his pension was fixed at Rs 3600 p.m. He got 3/4<sup>th</sup> of the pension commuted for which he received Rs 1,80,000 from his employer, A Ltd. Co. Find out the taxable amount of commuted value of pension if:

- a) He gets gratuity; and (b) he does not get gratuity.

**Answer—**(a) Rs 1,00,000 (b) Rs 60,000

iii) **ENCASHMENT OF EARNED LEAVE U/S 10(10AA)**



When the employee encash his earned leave at the time of retirement then he can avail the exemption u/s 10(10AA). For exemption purposes, employees are broadly classified into two categories:-

(A) Govt. employee (Central or State employees only) -- Fully exempted.

(B) Other employee (including employees of local authority and public sector undertaking)

Least of the following **four will be exempted** amount.

1)	10 months X average salary
2)	Rs. 3,00,000 (Statutory Limit)
3)	Actual amount received
4)	Actual period standing regarding earned leave at the time of retirement etc. X average salary

**Taxable Portion** = Actual amount received – exempted amount

**Note:**

- 1) **Maximum period** allowed in a year is 30 days and not more than that.
- 2) **Salary for this purpose** = Basic salary + D.P. + D.A. (if enters) + fixed %age of commission on sales.
- 3) **Average Salary:** - Salary drawn by employee during 10 months immediately from the month of retirement/ leaving of service, etc. will be added up and then divided by 10. e.g. if an

employee retires on 31<sup>st</sup> Jan., 2023, the average salary shall be taken as the aggregate of salary drawn by him for the period 1<sup>st</sup> April, 2022 to 31<sup>st</sup> Jan., 2023 divided by 10. On the other hand, if he retires on 15<sup>th</sup> Jan., 2023, the average salary shall be taken as aggregate of salary drawn by him for the period 16<sup>th</sup> March, 2022 to 15<sup>th</sup> Jan., 2023 divided by 10.

- 4) Encashment **of earned leave during service will be fully taxable** for all employees.
- 5) Any **amount paid to the legal representative of the deceased employee** in respect of earned leave standing to the credit of such employee at the time of his death is **not taxable**.
- 6) If an employee has been **already availed the exemption** under this section from the previous employers then the notified limit of Rs. 3,00,000/- will be reduced by such already exempted amount.

**Q 13 (41.1-E1)** X, an employee of the Central Govt., receives Rs 8,90,000 as cash equivalents of earned leave to his credit at the time of his retirement on August 31, 2022. He joins a private sector organization on October 1, 2022. The assessing officer is of the view that since X has joined a private sector organization, the amount of earned leave received by him is fully taxable. Do you agree with him?

**Answer—**No, AO view is not correct. Whole amount received by X is fully exempted because he was a central Govt. Employee. This exemption is not effected due to joining of private sector organization.

**Q 14 (41.1E2)** X, an non-govt. employee, receives Rs 3,75,000 as leave salary at the time of retirement on February 20, 2023. On the basis of the following information, determine the amount of taxable leave salary: Basic pay: Rs 15000 per month since 2003; duration of service: 26 years; leave at the credit of X at the time of retirement: 25 months; entitlement at leave salary: 60 day's salary for every year of service and leave availed while in service: 27 months.

**Answer—**

Total Leave as per Income Tax Rules	26
<b>Less:</b> Leave Availed during service	(27)
Total Leave un availed as per IT Rules	NIL

*Least of the following four will be the exempted amount of encashment of earned leave.*

1)	10 months X average salary	150000
2)	Rs. 3,00,000 (Statutory Limit)	3,00,000
3)	Actual amount received	375000
4)	Actual period standing regarding earned leave at the time of retirement etc. X average salary	NIL

Therefore, exempted amount of encashment of earned leave = Nil

Taxable amount of encashment of earned leave = 375000—NIL = 375000

**Question 15 (41.1-E3)** From the following information, find out the **amount chargeable to tax** for the assessment year 2023-24:

Date of retirement of X from a private job	Nov., 15, 2022
Basic salary from January 1, 2022 to April 30, 2022	Rs 10,000 per month
Basic salary from May 1, 2022 onwards	Rs 12000 per month
Dearness Allowance	Nil
Commission	Nil
Leave standing to the credit at the time of retirement ( <b>according to service rules</b> )	660 days
Rate of leave entitlement according to the service rule	60 days leave for each year of service
Duration of service	16 years
Amount of leave encashment given at the retirement (leave encashment was not given earlier) (i.e. Rs 12000 X 660/30)	Rs 264000

**Answer—**

1	Total Leave entitlement as per employer (60X16)=960	2	Total leave as per IT rules (30X16)= 480
.	Less: Leave unavailed as per employer = 660	.	<b>Less: Leave availed</b> = 300
	Total leave availed during service = 300		Leave un availed as IT rules = 180

**Calculate average salary**

1/2	Nov. 2022 (1-15)	6000
2	October 2022	12000
3	September 2022	12000
4	August 2022	12000
5	July 2022	12000
6	June 2022	12000
7	May 2022	12000
8	April 2022	10000
9	March 2022	10000
10	Feb., 2022	10000
1/2	Jan 2022 (16-31)	5000
	Total salary of 10 months	1,13,000

$$\text{Average salary} = 113000/10 = 11300$$

**Least of the following four will be the exempted amount of encashment of earned leave.**

1)	10 months X average salary	113000
2)	Rs. 3,00,000 (Statutory Limit)	3,00,000
3)	Actual amount received	264000
4)	Actual period standing regarding earned leave at the time of retirement etc. X average salary (11300/30 X 180)	67800

Therefore exempted amount of encashment of earned leave = 67800

Taxable part of encashment of earned leave = 264000—67800= 196200

**Q 16 (KP 38)** Mr. Nain retired on 13.02.2023 and received Rs 1,80,000 as leave encashment for 15 months. He has served for 20 years and his employer allowed him 45 days leave for every one year of service. His salary for calendar year 2022 was Rs 11,000 p.m. and it was raised to Rs 12500 p.m. with

effect from 1.1.2023. His salary is due on last day of the month. Compute taxable amount of leave encashment.

**Answer—**Taxable amount Rs 123925; Average salary Rs 11215

**Q 17 (KP22)** Mr. Ghosh retires on 31.10.2022 after 20 years service and received Rs 1,80,000 as leave encashment for 12 months. His employer allows him 1.5 month of leave for every one year of service. He has already encashed leave for 18 months. His salary for 2021-22 was Rs 15000 and from 1.4.2022 it was raised to Rs 16000 p.m. Compute the taxable amount of leave encashment.

**Answer—**Exempted amount Rs 31400 taxable amount Rs 148600; Average salary Rs 15700

(iv) **RETRENCHMENT COMPENSATION U/S 10(10B)**

Compensation received by a worker under the Industrial Dispute Act, 1947 at the time of his retrenchment will be exempted in the following manner: -

**Least of the following three will be exempted.**

1)	Actual amount received.
2)	Rs. 5,00,000/- (Statutory Limit)
3)	As per Industrial Dispute Act, 1947, the compensation will be calculated 15 days average salary for each completed year of continuous service or any part thereof in excess of six months to be rounded off. $(15/26 \times \text{average salary} \times \text{completed year of service})$

**Note: -**

**Meaning of average salary :-**

- If worker gets monthly salary then salary of last three calendar month will be added up and then divided by three
- If worker gets weekly wages then wages of last four complete weeks will be added up and then divided by four.
- If worker gets daily wages then wages of last 12 full working days will be added up and then divided by 12.
- When worker gets compensation under any scheme accrued by Central Govt. then entire amount of compensation will be fully exempted for such worker.

Retrenchment means discharge the workmen from service due to closure of business or shortage of work

**Q 18 –** Mr. Garg received retrenchment compensation of Rs 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was drawing basic salary Rs 20,000 p.m.; dearness allowance Rs 5,000 p.m. Compute his taxable retrenchment compensation.

**Answer—**

Retrenchment compensation received	= Rs 10,00,000
Less: Exemption u/s 10(10B)	= Rs 4,32,692
Taxable retrenchment compensation	= Rs 5,67,308

Note 1 Exemption is to the extent of least of the following :--

1)	Actual amount received Rs 10,00,000
2)	Rs. 5,00,000/- ( <b>Statutory Limit</b> )
3)	$15/26 \times \text{Average salary of last 3 months} \times \text{Completed year of service and part thereof in excess of 6 months} = 15/26 \times (20000 \times 3 + 5000 \times 3)/3 \times 30 = 4,32,692$

(v) **COMPENSATION RECEIVED ON VOLUNTARY RETIREMENT U/S 10(10C)**

When the employee of public sector company or any other company or statutory corporation or local authority or co-operative authority or university established under a Central, State or Provincial Act and an institution declared to be a university u/s 3 of U.G.C. Act, 1956 or State Govt. or Central Govt. received compensation on account of voluntary retirement under the Golden Hand Shake Scheme then such amount of compensation will be exempted in the following manner.

**Least** of the following four will be the exempted amount: -

1)	Number of year service x Three x monthly salary
2)	Rs. 5,00,000/- (Statutory Limit)
3)	Number of months service left before retirement x monthly salary
4)	Actual amount received

The scheme of voluntary retirement is applicable only in that case when the institution satisfies the **following guidelines**: -

- 1) The employee must be **40 years** age or more
- 2) He must have rendered **at least 10 years** of service
- 3) This scheme is applicable for all employees except directors of a company or co-operative society.
- 4) The scheme of voluntary retirement or voluntary separation should have been drawn to result in overall reduction in the existing strength of employees.
- 5) Vacant place so caused cannot be filled.
- 6) The retired employee cannot accept any post in the same company or any other concern of the same management.

**Note:-**

**Salary for this purpose includes** basic salary + D.P (if enters) + D. A. (if enters) + Fixed %age of commission on sales.

Requirement of (a) and (b) would not be applicable on the employees of public sector company under scheme of voluntary separation framed by such public sector company.

**Q 19** —Mr. Dutta received voluntary retirement compensation of **Rs 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 Rs 20,000 p.m.**; **DA (which forms part of pay) Rs 5,000 p.m.** Compute his taxable voluntary retirement compensation.

**Answer—**

Voluntary retirement compensation received	Rs 7,00,000
<b>Less:</b> Exemption u/s 10(10C) (note 1)	Rs 5,00,000
Taxable voluntary retirement compensation	2,00,000

**Note 1—Exemption is to the extent of least of the following:--**

1)	Rs 5,00,000 (Statutory limit)
2)	Completed year of service X 3 X Last salary drawn (30 X 3 X 25000) Rs 22,50,000
3)	Remaining months of service X Last drawn salary (12 X 6 X 25000) Rs 18,00,000
4)	Compensation <b>actually received</b> Rs 7,00,000.

**Question 20 (P)** John is employed in a public company and is paid a sum of Rs 6,00,000 on Voluntary retirement from service. The normal age of retirement in the **company is 60** and John, **who was 45** at the time of retirement has **completed 20 years of service**. His monthly salary at the time of retirement was as follows—

Basic pay	Rs 10,000	Dearness Allowance (50% includible for pension)	Rs 6000
HRA	Rs 3000	Conveyance Allowance	Rs 800

What is the amount of compensation taxable under the Act ?

**Answer—**Taxable part of compensation = Rs 1,00,000

(vi) **BONUS**

Bonus is taxable in the salary **on receipt basis.**

(vii) **SALARY IN LIEU OF NOTICE PERIOD**

It is taxable in the previous year in which **it is received.**

(viii) **OVERTIME PAYMENTS**

Overtime payment received by an employee from employer for working beyond office hours or for any extra work done by employee is taxable under the head 'Salaries'

(ix) **PENSION OF GALLANTRY AWARDEE**

Pension received by gallantry awardees is **fully exempted** from tax provided **such awardees has been in service of Central or State Govt.** Gallantry Award here means Paramvir Chakra or Mahavir Chakra or Vir Chakra etc.

**Family pension** received the family members of such awardee shall also **be exempted.**

**Family members here include: -**

Spouse and children of individual

Parents, brothers and sisters of the individual wholly and mainly dependent on individual.

(XX) **Pension Scheme for Central Government Employees or any other employee**

The Central Govt has **introduced a new pension scheme for central govt. employees** who join service on or after **1-1-2004**. Under this scheme, **each employee is required to contribute 10%** of his salary every month and the employer shall also make a matching contribution to this pension fund. Out of

this pension fund, pension will be given to the employee after retirement. The treatment of this contribution is as follows:

### 1) Employee's contribution-

Employee's contribution towards this pension fund is eligible for deduction u/s 80CCD in the following manner:-

Actual contribution or 10% of salary (Basic Pay + D.A. (if enters)); Whichever is less.

### 2) Contribution by the Employer

Entire amount contributed by the Employer will be added in the salary income of the employee. The employee shall qualify for deduction up to least of the following:

Actual contribution or 10% of salary.

### 3) Pension received out of this fund by employee or his nominee

Pension out this fund will be fully taxable in the hands of such employee or nominee.

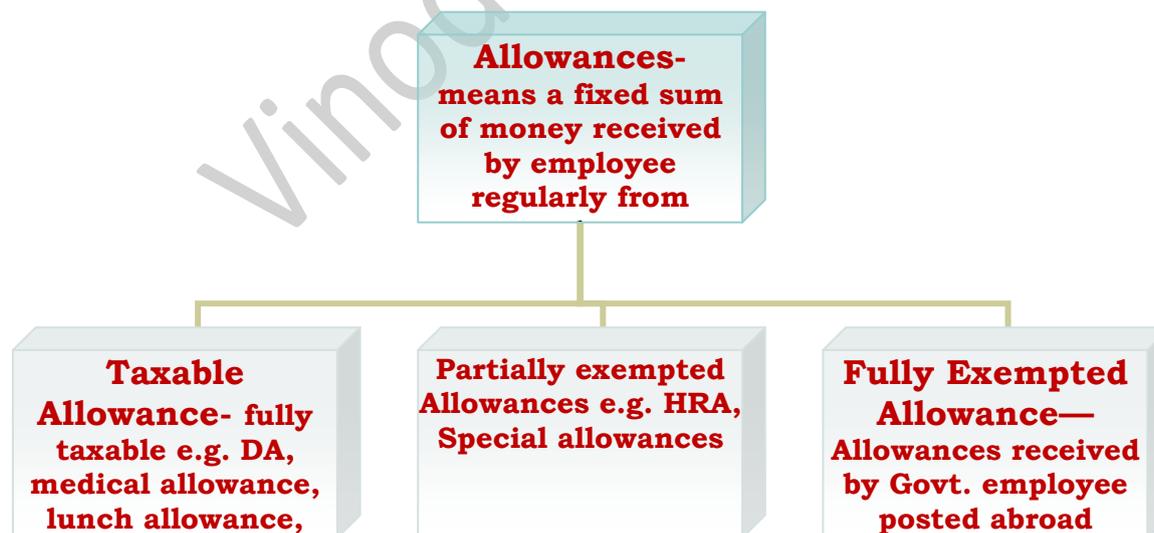
4) **Lump sum received out of this fund** by employee or his nominee on opting out of this scheme Such amount shall be fully taxable.

**Note**—Now any self-employed can become the member of this pension fund and amount contributed by him will be eligible for deduction. Deduction u/s 80CCD will be as under in this case:-

Actual amount contributed OR 10% of Gross Total Income.

## ALLOWANCES

A fixed sum of money received by employee regularly in addition to the salary from employer for meeting some particular requirement is known as allowances.



### Types of Allowances:

- 1) Taxable Allowances
- 2) Partially Exempted Allowances

## 3) Fully exempted Allowances

1) **Taxable Allowances :**

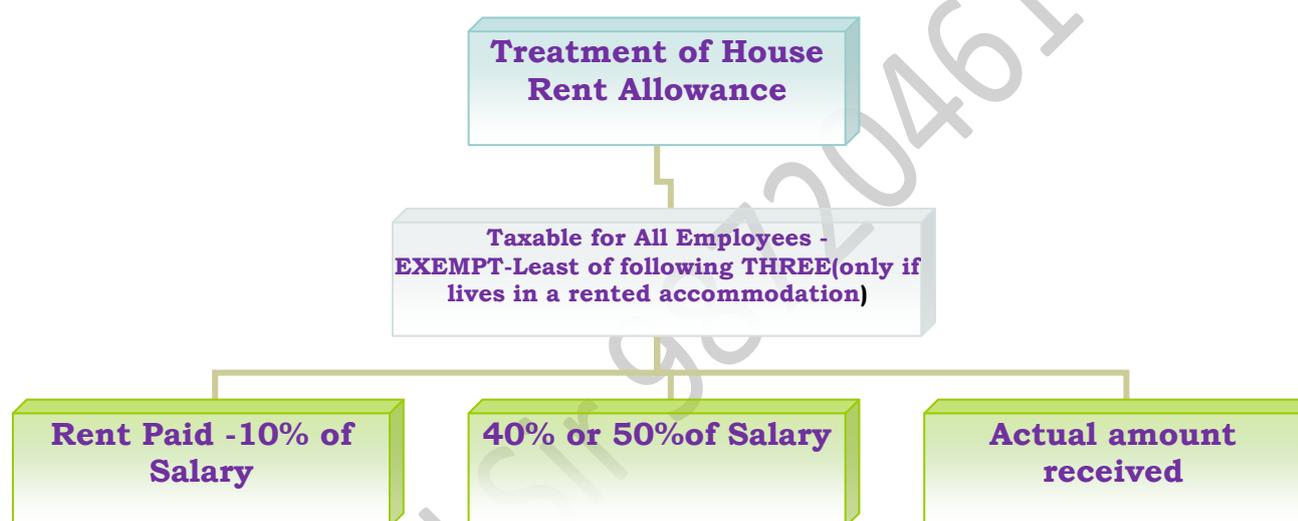
Such allowances are fully taxable in the hands of employee e.g. dearness allowance, dearness pay, fixed medical allowance, tiffin allowance, meal allowance, refreshment allowance, servant allowance, **non-practicing allowance** (it is just like compensation paid to those medical doctors who are in Govt. service for not to do private practice.), **warden allowance**, proctor allowance, deputation allowance, overtime allowance, family allowance to armed personnel while on field without family, marriage allowance, telephone allowance, rural allowance, dinner allowance, health allowance, **city compensatory allowance**, project allowance, holiday allowance, special qualification allowance, dog allowance, planning allowance.

2) **Partially exempted Allowances**

Some part of such type of allowances is exempted and remaining part is taxable.

i) **House Rent Allowance u/s 10(13A) :**

(VERY IMP. PROVISION)



Such type of allowance is given by employer to employee to meet the expenses of rental accommodation. The treatment of H.R.A. is same for all types of employees. If an employee receives H.R.A. from his employer and **stays in a rented accommodation** by actually paying rent then he can claim the exemption under this section.

Least of the following three will be exempted :-

1)	Excess of Rent paid over 10% of employee's salary for relevant period (Rent paid – 10% of employee's salary)
2)	40%/50% of employee's salary for relevant period [50% in case of Delhi, Kolkata, Mumbai & Chennai]
3)	Actual amount of H.R.A. received for relevant period

Taxable portion of H.R.A. = Total H.R.A. received – exempted amount of H.R.A.

**Note:**

- 1) **Meaning of Salary :-** Basic salary + D.P. + D.A. (if enters for all retirement benefits) + fixed %age of commission on sales
- 2) If the employee lives in his own accommodation or living in a house not paying any rent, then whole amount of H.R.A. received by such employee is fully taxable.
- 3) Relevant period means the period during which the said accommodation was occupied by the assessee during the previous year.
- 4) If rent paid is less than 10% of salary, then first limit will be taken as Nil. Therefore, HRA is fully taxable.
- 5) If Dearness allowance or Pay is part of salary for computing only some (not all) of the retirement benefits, then it is not taken into consideration for this purpose. In other words, if DA enters for all retirement benefits then it will be taken for computing exempted part of HRA.

**Q 21 (42.1-E1)** X who resides in Poona, gets Rs 2,00,000 per annum as basic salary. He receives Rs 55000 p.a. as house rent allowance, though he pays Rs 50,000 p.a. as house rent. Determine the amount of house rent allowance chargeable to tax for the **assessment year 2023-24**.

**Answer—**

Salary for this purpose = 200000

**Least of the following three will be the exempted amount of HRA.**

1)	Excess of Rent paid over 10% of employee's salary for relevant period (Rent paid – 10% of employee's salary) 50000—10% of salary (200000X10%) =30000
2)	40% of employee's salary for relevant period [ 50% in case of Delhi, Kolkota, Mumbai & Chennai] 40% of 200000= 80000
3)	Actual amount of H.R.A. received for relevant period 55000

Therefore, Exempted Amount of HRA = 30000

**Taxable part of HRA** = 55000—30000= 25000

**Q 22 (42.1E3)** X, who resides in Calcutta, receives Rs 20,000 per month as basic salary and Rs 12,500 per month as dearness pay (32 % of it forms part of salary for computing all retirement benefits) during the previous year 2020-21. He stays in his father's house upto December 31, 2022 for which he **does not pay any rent** and thereafter in an accommodation taken on monthly rent of Rs 12,000. The employer, however, pays Rs 3,000 per month as HRA. He claims that the entire HRA is exempt from tax as house rent allowance received from employer (i.e. Rs 3,000 x12) has been paid to the landlord as house rent (i.e. Rs 12,000 X 3). **Do you agree with him?** If not, find out the amount of HRA: a) exempt from tax, b) chargeable to tax for the assessment year 2023-24.

**Answer—**Mr. X claims **is not correct**. If the assessee has not been paid any rent for his residence, then HRA received by such assessee will be fully taxable. The benefit of exemption of HRA is made available only when the assessee lives in a rented accommodation by actually paying rent. In this given case, Mr. X had stayed with his parents without paying rent from 1.4.2022 to 31.12.2022, then HRA for this period

will be fully taxable in the hands of X. However, X can avail the benefit of exemption of HRA for the period 1.1.2023 to 31.3.2023 when he had stayed in a rented accommodation.

**Calculate exempted amount of HRA for 3 months (1.1.2023 to 31.3.2023)**

1)	Excess of Rent paid over 10% of employee's salary for relevant period (Rent paid – 10% of employee's salary) $36000 - 10\% \text{ of salary } (20000 \times 3 + 32\% \text{ of } 12500 \times 3) = 28800$
2)	50% of employee's salary for relevant period [ 50% in case of Delhi, Kolkata, Mumbai & Chennai] $50\% \text{ of } 72000 = 36000$
3)	Actual amount of H.R.A. received for relevant period $3000 \times 3 = 9000$

Exempted amount of HRA = 9000

**Taxable part of HRA** =  $3000 \times 12 = 36000 - 9000 = 27000$

**Q 23 (42.1-E2)** X, a resident of Mandi, receives Rs 3,80,000 per annum as basic salary. In addition, he gets Rs 30,000 per annum as DA, **which forms part of basic salary for computing pension (but not gratuity)**, 4% commission on turnover achieved by him (turnover achieved by him during the relevant previous year 2022-23 is Rs 60,00,000) and Rs 60,000 p.a. as HRA. He however, pays Rs 70,000 p.a. as house rent. Determine the quantum of house rent allowance exempt from tax.

**Answer—**

Salary for this purpose =  $3,80,000 + 2,40,000 = 6,20,000$

Least of the following three will be the exempted amount of HRA.

1)	Excess of Rent paid over 10% of employee's salary for relevant period (Rent paid – 10% of employee's salary) $70000 - 10\% \text{ of salary } (620000 \times 10\%) = 8000$
2)	40% of employee's salary for relevant period [ 50% in case of Delhi, Kolkata, Mumbai & Chennai] $40\% \text{ of } 620000 = 248000$
3)	Actual amount of H.R.A. received for relevant period 60000

**Exempted amount of HRA** = 8000

**Q 24 (42.1-E4)** From the following information submitted by X, in respect of monthly salary and allowances, find out the house rent allowance chargeable to tax for **the assessment year 2023-24**:

<b>Name of the employer of X</b>	<b>A Ltd.</b>	<b>B Ltd.</b>
Period of employment	Upto August 31, 2022	From October 1, 2022
Place of posting	Agra	Bombay (from January 1, 2023:Goa)
Basic salary (increased to Rs 18,000 from February 1, 2023)	6000	11000
House rent allowance	3000	5600
Rent paid at Agra (from April 1, 2022 to September 30, 2022)	2600	--
Rent paid at Bombay (from October 1, 2022 to February 28, 2023)	--	7000

Rent paid at Goa (From March 1, 2023)	--	1560
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**Answer—**

Month	Basic Salary	Rent Paid	10% of Salary	Excess of rent over 10% of salary	40%/50% of salary	c) Actual HRA received	Exempted HRA	Taxable HRA
April	6000	2600	600	2000	2400	3000	2000	1000
May	6000	2600	600	2000	2400	3000	2000	1000
June	6000	2600	600	2000	2400	3000	2000	1000
July	6000	2600	600	2000	2400	3000	2000	1000
Aug.	6000	2600	600	2000	2400	3000	2000	1000
Sept	NA	2600	NA	NA	NA	NA	NA	NA
Oct.	11000	7000	1100	5900	5500	5600	5500	100
Nov	11000	7000	1100	5900	5500	5600	5500	100
Dec.	11000	7000	1100	5900	5500	5600	5500	100
Jan	11000	7000	1100	5900	5500	5600	5500	100
Feb.	18000	7000	1800	5200	9000	5600	5200	400
March	18000	1560	1800	NIL	7200	5600	NIL	5600
								<b>11400</b>

**Q 25 (SM 1)** Mr. Raj Kumar has the following receipts from his employer:

- |                                                                  |            |
|------------------------------------------------------------------|------------|
| (1) Basic Salary                                                 | 3,000 p.m. |
| (2) Dearness Allowance (DA)                                      | 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 Rs 1000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits.

**Answer-** Taxable part of HRA 3120

**Q 26 (KP 11)** Mr Hari is employed at Amritsar on a salary of Rs 30000 p.m. The employer is paying HRA of Rs 8000 p.m. but the actual rent paid by him (employee) is Rs 12,000. He is also getting 2% Commission on turnover achieved by him and turnover is Rs 50,00,000. Calculate exempted HRA.

**Answer—**Rs 96000

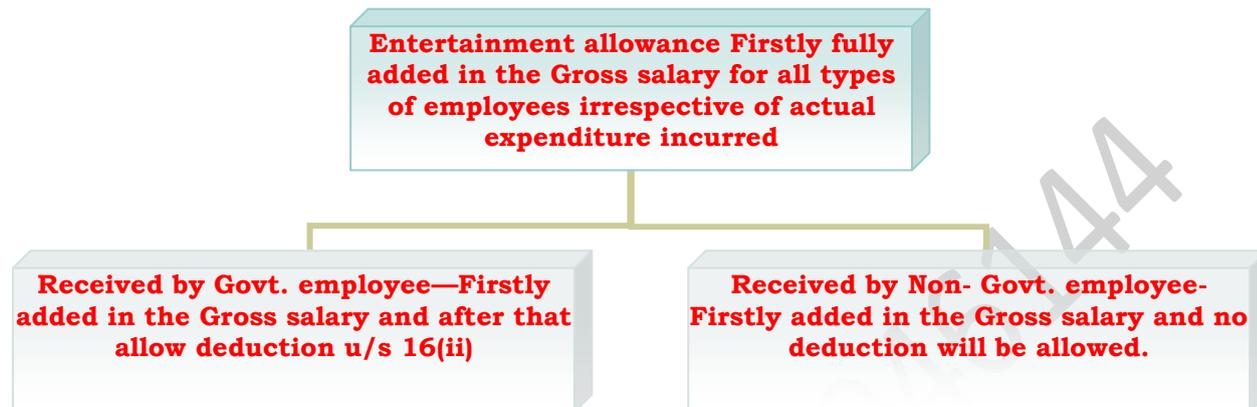
**Q 27 (42.1.P1)** X, who resides in Madras, gets Rs 3,00,000 p.a. as basic salary. He receives Rs 50,000 p.a. as house rent allowance. Rent paid by him is Rs 40,000 p.a. Find out the amount of taxable house rent allowance for the assessment year 2023-24.

**Answer—**Taxable HRA = 40,000

**Q 28 (42.1-P2)** X, a resident of Ajmer, receives Rs 1,92,000 p.a. as basic salary during the previous year 2022-23. In addition, he gets Rs 19,200 p.a. as dearness allowance forming part of basic salary for computation of all retirement benefits, 7% commission on sales made by him (sale made by X during the relevant previous year is Rs 86,000) and Rs 24,000 p.a. as house rent allowance. He, however, pays Rs 21,500 p.a. as house rent. Determine the quantum of house rent allowance exempt from tax.

**Answer**—Taxable part of HRA Rs 24,000

(ii) **ENTERTAINMENT ALLOWANCE**



Entertainment allowance received by employee is fully added in the salary income irrespective of actual expenditure incurred on official or personal purposes. If a Govt. employee receives entertainment allowance from employer then firstly whole amount of entertainment allowance is to be added in the employee's salary and after that deduction u/s 16(ii) will be allowed. Actual expenditure incurred by employee for entertainment will not be considered.

Deduction of Entertainment Allowances u/s 16(ii)—The benefit of deduction of entertainment allowance is made available to **Govt. employee only**. Least of the following three will be the eligible amount of deduction.

1)	1/5 <sup>th</sup> of basic salary
2)	Rs. 5,000/- (Statutory limit)
3)	Actual entertainment allowance received

**Q 29 (42.2-P1)** X, a Govt. employee, gets Rs 8,00,000 p.a. as basic pay. In addition, he receives Rs 8,500 as entertainment allowance. His actual expenditure on entertainment for official purposes, however, exceeds Rs 9,000. Calculate deduction of Entertainment allowance.

**Answer**—Rs 5,000

(iii) **SPECIAL ALLOWANCE U/S 10(14)**

There are two types of special allowances :

- a) **Special Allowance in the discharge of official duty u/s 10(14)(i)** :- Such type of allowances are fully exempted up to the actual expenditure incurred on the discharge of official duty. In other words, **unspent portion** of such allowances is **fully taxable** e.g. **travelling allowance, daily allowance, conveyance allowance, helper allowance, academic allowance, uniform allowance, Research Allowance.**

**Note**—An employee, being an assessee, who opts for provisions of section 115BAC would be entitled for exemption only in respect of travelling allowance, daily allowance and conveyance allowance only.

- b) Special allowance granted to meet personal expenditure at the place of posting u/s 10(14)(ii) :-
- 1) **Tribal Area Allowance, Scheduled Area/Agency area allowance**: This allowance is given in (a) MP (b) UP (c) Bihar (d) Orissa (e) Assam (f) Karnataka (g) Tamil Naidu (h) Tripura (i) West Bengal. This allowance is exempt up to **actual allowance received or Rs. 200/- p.m.** whichever is less.
  - 2) **Personal allowance received by employee who is working in a Transport system Or Running Allowance Or Flight Allowance**:-This allowance is exempt up to **70% of actual allowance received or Rs 10,000 p.m., whichever is less.** This allowance is exempted only in that case when the employee does not receive daily allowance.
  - 3) **Children Education Allowance or School Book Allowance** ; exempt up to actual allowance received per child or Rs. 100/- p.m. per child up to a maximum of two children, whichever is less. Education allowance given for **grand- child** will **not be exempted.**

- 4) **Children Hostel Allowance:** exempted up to actual allowance received per child or Rs. 300/- p.m. per child up to a maximum of two children, whichever is less.  
Hostel allowance is given for **grandchild** will not be exempted.
- 5) **Transport Allowance:** The transport allowance is granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and place of his duty. This allowance is exempted up to nil. If an employee is blind or deaf and dumb or orthopedically handicapped with disability of **lower extremities** then it is exempt up to **Rs. 3200/- p.m.**
- 6) **Underground Allowance :-** Such type allowance is granted to an employee who is working in uncongenial, unnatural climate in underground coal mines. Such allowance is exempted up to **Rs. 800/- p.m.**
- 7) Special Compensatory Allowance of the nature of (i) Special compensatory allowance (ii) High Altitude allowance (iii) Uncongenial climate allowance (iv) Snow Bound Area allowance
- |                   |                                                                                      |
|-------------------|--------------------------------------------------------------------------------------|
| CATEGORY I AREA   | EXEMPTED UP TO <b>RS. 800/- P.M.</b>                                                 |
| CATEGORY II AREA  | EXEMPTED UP TO <b>RS. 7000/- P.M.</b> (Siachen Area of J & K )                       |
| CATEGORY III AREA | EXEMPTED UP TO <b>RS. 300/- P.M.</b> (on area above sea level by <b>1000 metre</b> ) |
- 8) Special Compensatory Allowance in the nature of (i) Border area allowance (ii) Remote area allowance (iii) Difficult area allowance (iv) Disturbed area allowance
- |            |                                                                                                                                                           |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| CATEGORY A | <b>RS. 1300/- P.M.</b> (Liittle Andoman, Nicobar & Narcondum Islands, Lakshadweep & Minkay Islands, specified area of J & K, U.P., <b>Sikkim state</b> .) |
| CATEGORY B | <b>RS. 1100/- P.M.</b> (Installations in continental shelf of India)                                                                                      |
| CATEGORY C | <b>RS. 1050/- P.M.</b> (Specified area of H.P., throughout Nagaland, etc.)                                                                                |
| CATEGORY D | <b>RS. 750/- P.M.</b> (Specified area of H.P., J & K , throughout Manipur)                                                                                |
| CATEGORY E | <b>RS. 300/- P.M.</b> (Jog falls in Shimoga distt. Of Karnataka)                                                                                          |
| CATEGORY F | <b>RS. 200/- P.M.</b> (throughout H.P., Assam and Mehghalaya)                                                                                             |

**Note**—An employee, being an **assessee, who opts for provisions of section 115BAC** would be entitled for exemption only in respect of transport allowance granted to an employee who is blind or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body to the extent of Rs 3200 p.m.

**Q 30** —Mr. Srikant has two sons. He is in receipt of children education allowance of Rs 150 p.m. for his elder son and Rs 70 p.m. for his younger son. Both his sons are going to school. He also receives the **following allowances:**

Transport allowance : Rs 1800 p.m. (**amount spent Rs 600 p.m.**)

Tribal area allowance : Rs 500 p.m.

Compute his taxable allowances.

Answer—

**COMPUTATION OF TAXABLE ALLOWANCES**

Children Education Allowance		
Elder Sons (Rs 150—Rs 100= 50 X 12)	600	
Younger Sons (Rs 70 – Rs 70 = Nil X 12)	<u>NIL</u>	600
Transport allowance (1800x12)		21600
Tribal Area Allowance (Rs 500—Rs 200= Rs 300 X 12)		3600
Taxable allowance		25800

**Q 31 (P)** Mr. M is a Area manager of M/s N Steel Ltd. During the **previous year 2022-23** he gets following emoluments from his employer—

Basic salary <b>upto 31.8.2022</b>	20,000 p.m.
<b>From 1.9.2022</b>	25,000 p.m.
Transport Allowance	Rs 1200 p.m.
Contribution to Recognised Provident Fund	15% of Basic and DA
Children education allowance	Rs 500 p.m. for two children
Hostel expenses allowance	Rs 380 p.m. for two children
Tiffin Allowance (Actual Expenses Rs 3700)	Rs 5000 p.a.
Tax paid on employment	Rs 2500 p.a.
City compensatory allowance	Rs 300 p.m.

Compute taxable salary of Mr. M for the **Assessment Year 2023-24.**

Answer—

**COMPUTATION OF SALARY INCOME OF MR M  
For the Assessment Year 2023-24**

Particulars	Details	Amount
Basic Salary (20,000 X 5 + 25000 X 7)		2,75,000
Transport allowance (Fully Taxable)		14,400
Employer's contribution to RPF(15% of 275000)	41,250	
<b>Less:</b> Exempt (12% of salary)	(33000)	8,250
Children Education Allowance –amount received	6000	
<b>Less;</b> Exempt u/s 10(14) (100 X 12 x 2)	(2400)	3600
City compensatory allowance (300 X 12)		3600
Children hostel expenditure allowance –Amt received (380 X 12)	4560	
<b>Less:</b> Exempt u/s 10(14) (300 X 12 x 2) restricted to	(4560)	NIL
<b>Tiffin Allowance</b> –Fully taxable irrespective of actual expenditure		5000
Gross salary		3,09,850
Less: Standard Deduction u/s 16(i)		(50000)
<b>Less:</b> Deduction u/s 16(iii) Tax paid on employment		(2500)
<b>Salary income</b>		257350

**Note—**

- 1) Salary for the purpose of computation of taxable portion of employer's contribution to PF= Basic salary + DA considered for retirement benefits + commission as a fixed percentage of turnover. = 275000 NIL + NIL = Rs 2.75000
- 2) Contribution to Provident Fund by the employee shall be eligible for deduction u/s 80C.
- 3) If the employer is assumed to have paid the professional tax on behalf of employee, then Rs 2500 shall first be included in the salary as a perquisite, and then allowed as a deduction u/s 16(ii).

**3) FULLY EXEMPTED ALLOWANCES**

- a) **Foreign Allowance-** All types of foreign allowances & perquisites are fully exempted in the hands of **Govt. employees (Indian citizens)** who is posted abroad **u/s 10(7)**.
- b) Sumptuary Allowance to High Court or Supreme Court Judges
- c) **Allowance from U.N.O.** – Allowance paid by a U.N. Organization to its employees is fully exempted.

**Q 32 (KP 12)** Mr. A is employed at Hyderabad at a Basic Salary of Rs 25000 p.m. and he is also getting following allowances:

Dearness allowance	Rs 2000 p.m.	Lunch allowance	Rs 1000 p.m.
Servant allowance (he is paying Rs 1200 p.m. to a servant)	Rs 1000 p.m.		
Transport allowance	Rs 2000 p.m.		
Education allowance @ Rs 200 p.m. per child for three children			
Hostel allowance to one child	Rs 500 p.m.	Conveyance Allowance	Rs 800 p.m.
Overtime allowance	Rs 2000 p.m.	Officiating Allowance	Rs 2000 p.m.
Cash Allowance	Rs 1200 p.m.	Entertainment allowance	Rs 2000 p.m.
Medical allowance	Rs 800 p.m.	City Compensatory Allowance	600 p.m.
House Rent Allowance	Rs 5000 p.m.		

He is having a family house at the place of his posting but he is living in a rented house and is paying a rent of Rs 7000 p.m. Find out his Gross Salary.

**Answer--** 468800

**Example—**During the previous year 2022-23 the following allowances are given to X by the employer-company.

Nature of allowance	Amount of allowance	Amount spent	Amount of exemption	Amount chargeable to tax
Tribal area allowance for X's posting in Assam for 2 months	1,000	Not relevant	200 p.m.	600
Child education allowance for X's elder son	1,800	Not relevant	100 p.m.	600
Child education allowance for X's	900	Not relevant	--	900

younger son				
Child education allowance for X's daughter	1,080	Not relevant	100 p.m.	NIL
Hostel expenditure allowance for X's elder son	6,600	Not relevant	300 p.m.	3,000
Transport allowance for commuting between office and residence	21,000	Not relevant	Nil	21,000

**Example No 2**—The following allowances are given by a transport company to its drivers to meet personal expenditure in the course of running trucks from one place to another place (none of these drivers is in receipt of daily allowance)—

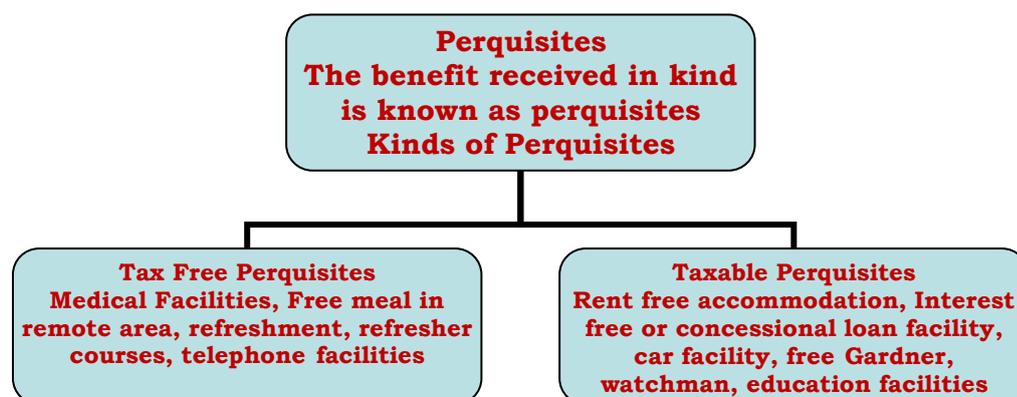
Name of drivers	Amount of allowance (p.m.)	For how many months allowance is given	Amount spent	Amount not chargeable to tax	Amount chargeable to tax
X	6000	12	Not relevant	70% of 72000	21600
Y	15000	12	Not relevant	120000	60000
Z	14000	2	Not relevant	70% of 28000	8400
A	10000	7	Not relevant	70% of 70000	21000

## PERQUISITES

The value of benefit, which is **received in kind** by the employee from his employer in addition to salary and wages, is known as perquisite. Perquisite denotes a **personal advantage**.

Important points regarding perquisites

- Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.
- 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 profit and gains of business or profession.
- Perquisite will become taxable only if it has a legal origin. An unauthorized advantage taken by an employee without his employer's sanction cannot be considered as perquisite under the Act.



**TAX FREE PERQUISITES**

The value of following perks will not be taxable in the hands of an employee: -

**1) Medical Facilities****A) Treatment in India**

i)	<p><b>Medical facilities in India</b>—The provisions are given below—</p> <ol style="list-style-type: none"> <li>1. <b>Employer hospital/Government hospital/approved hospital</b>—The perquisite in respect of medical facility provided by an employer in the following hospital/clinic is not chargeable to tax—           <ol style="list-style-type: none"> <li>a) Hospital owned/maintained by the employer</li> <li>b) Hospital of Central Govt./State Govt./local authority</li> <li>c) Private hospital if it is also recommended by the Govt. for treatment of Govt. employees</li> <li>d) Specified medical facility (given in rule 3A) in a hospital approved by the Chief Commissioner.</li> </ol> </li> <li>2. <b>Health insurance premium</b>—Medical insurance premium paid or reimbursed by the employer is not chargeable to tax.</li> <li>3. <b>Any other facility in India</b>—Any other expenditure incurred or reimbursed by the employer for providing medical facility in India is chargeable to tax.</li> </ol>
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**(B) Treatment outside India**

1)	If an employer incurs any expenditure on the medical treatment of the employee or any family member <b>outside India</b> , then such perk is <b>exempted</b> to the extent permitted by R.B.I.
2)	If an employer incurs or <b>reimburses any expenditure on travel and stay abroad of employee or any family member</b> and one attendant who accompanies the patient in connection with such treatment then expenditure on stay abroad will be exempted up to the extent permitted by RBI and on travel will be exempted only in that case when GTI ( <b>before including travel expenditure as perquisite</b> ) of employee does not exceed <b>Rs. 2,00,000/-</b>

**Notes—**

1)	<b>Medical allowance</b> received by employee is fully taxable.
2)	<p><b>Family</b> for this purpose includes the spouse and children of the employee (Children may be dependent or non-dependent, married or unmarried), parents, brothers and sisters of the employee, who are wholly or mainly dependent on such employee.</p> <p>This perk is generally taxable for specified employees only. If bills are issued in the name of an employee and the employer makes payment, then it is taxable in the hands of all employees whether specified or not.</p>

**Q 33 (44.13-E1)** Mrs X is a tax consultant in A Ltd. (annual salary being Rs 1,76,000). A Ltd. makes the following expenses for medical treatment of her husband outside India during the previous year 2022-23.

	<b>Amount incurred by A</b>	<b>Out of which permitted</b>

	Ltd.	by RBI
Cost of medical treatment of X outside India	13,90,000	13,30,000
Cost of stay abroad of X and Mrs. X in connection with medical treatment of X	3,70,000	3,60,000
Cost of travel of X and Mrs. X in connection with medical treatment of X	6,10,000	2,03,000

Find out the taxable value of medical facility chargeable to tax in the hands of Mrs X for the AY 2021-22 on the assumption that (a) Mrs. X **does not have any other income** or (b) interest income of Mrs. X from PNB is Rs 10,000.

**Answer—**

	(a)	(b)
Perk of medical treatment of X outside India	60,000	60,000
Perk of stay abroad of X and Mrs. X in connection with medical treatment of X	10,000	10,000
Perk of travel of X and Mrs. X in connection with medical treatment of X	NIL	6,10,000
<b>Taxable value of perk</b>	<b>70,000</b>	<b>6,80,000</b>

**Working Note:-**

**Computation of Gross Total Income of Mrs X**

	(a)	(b)
<b>Salary Income</b>		
Basic Salary	1,76,000	1,76,000
Perk of Medical Facility(60,000+10,000)	70,000	70,000
<b>Gross Salary</b>	<b>2,46,000</b>	<b>2,46,000</b>
<b>Less: St deduction u/s 16(ia)</b>	<b>(50,000)</b>	<b>(50,000)</b>
<b>Salary Income</b>	<b>196000</b>	<b>196000</b>
<b>Income from Other Sources</b>		
Interest income from PNB	NIL	10,000
<b>Gross Total Income</b>	<b>1,96,000</b>	<b>2,06,000</b>

In Case (a) Gross Total income of the assessee does not exceed Rs 2,00,000, therefore cost of travelling is fully tax free. For travelling purposes, RBI rules are not to be followed.

In case of (b) Gross total income of the assessee exceed Rs 2,00,000, therefore cost of travelling is fully taxable.

- 2) **Refreshment, recreational facilities, refresher courses**, goods (manufacturing by the employer) sold by employer to his employees at concessional rates are fully tax free.
- 3) **Free meals** provided during office hours **in a remote area** (i.e., located at least 40 k.m. away from a town having a **population not exceeding 20,000 based** on latest published census), or an offshore installation.

- 4) **Perquisites provided outside India** -All types of perquisites (and allowances) provided to **Govt. employee (Indian citizen)** posted abroad are fully tax free.

**Q 34 (P)** – Rajesh kumar, an Indian Citizen, is posted in the Indian High Commission at London during the **previous year 2022-23**. His emoluments consist of Basic Pay of Rs 1,40,000 p.m. and Overseas Allowance of Rs 40,000 p.m. Besides, he is entitled to airfare for going from and coming to India and also to free use of Government's car at London. He has **no taxable income except salary income** stated above. His Employer did **not deduct tax at source**. **Calculate total income**.

Will it make any difference if Rajesh Kumar is a Foreign Citizen? **Give reasons**.

**Answer—**

**Accrual in India—**u/s 9(1)(iii), salary paid by the Govt. of India to an Indian Citizen for services rendered outside India is deemed to accrue or arise in India and is therefore taxable in India.

**Exemption—**u/s 10(7), allowances or perquisites paid by the Govt. to an Indian Citizen for services rendered outside India, is fully exempt from tax.

**Analysis—**Here, Rajesh Kumar is an Indian Citizen, and his income for the previous year 2022-23 is computed below.

	Detail	Amount
Salary (Being Indian Citizen) (1,40,000 X 12)		16,80,000
Overseas Allowance (40000 X 12)	4,80,000	
<b>Less:</b> Exempt u/s 10(7)	(4,80,000)	NIL
Airfare and free use of Car in London is fully exempt		NIL
Gross Salary		16,80,000
<b>Less:</b> Deduction u/s 16 (i) of Standard Deduction		40,000
Income under the head Salaries		16,40,000

**Notes**

If Mr. Rajesh Kumar is **not an Indian Citizen**, then section 9(1)(iii) **does not apply to him**, and he is not liable to pay tax.

- 5) **Rent free accommodation** and conveyance facilities provided **to a Judge of High court or Supreme Court** is fully tax free.
- 6) Where an employer provides **rent free residential accommodation** located in **remote area** to his employee who is working at mining site or an **onshore** oil exploration site or a project execution site or an **offshore** site then it is a **fully tax free** perk for such an employee.
- 7) Accommodation provided on transfer of an employee in a **hotel for not exceeding 15 days** in aggregate.
- 8) **Telephone facility, mobile phone** for official purposes and the employee uses it partially for personal purpose is fully tax free.

- 9) If an employer provides **laptops and computers facility** to his employee or any member of his household for personal use then value of this perk is fully tax-free.
- 10) When the employer provides facility of **health club, sports** and similar facilities uniformly to all employees then such perks are fully tax free for all employees. However, this benefit of exemption is available only if it is provided in the employer's premises. If such facility is provided outside the employer premises, then it is fully taxable.
- 11) **Educational facility for children of employee**: Where the free education facility is provided by employer to the children of employees in an educational institution maintained and owned by the employer then value of such benefit will be nil provided cost of education per child does not exceed **Rs. 1,000/- per month.(no limit on children)** Note : This facility is made available only to the children of the employees and not for other members of household.
- 12) **Interest free or concessional loan facility** : This facility is fully tax free in the case where the amount of loan are petty i.e. not exceeding in the aggregate Rs. 20,000/- during the previous year. This facility is also fully tax-free when the loan amount is used for medical treatment in respect of **diseases specified in rule 3A** of Income-tax Rules. However, this exemption will not be applicable to the extent of amount reimbursed to employee under any medical insurance scheme.
- 13) Facility of **periodicals and journals** required for discharge of work is fully exempted.
- 14) Scholarship given to the children of employees by employer is absolutely tax free perk for employee.
- 15) **Family planning expenses** : Where the expenditure incurred by the employer on the promotion of family planning programme among its employees, then it is fully tax free for the employees.
- 16) **Where an employer provides free transport facility to employee** from the place of his residence to the place of his employment and vice versa then the value of this perk is fully tax free.
- 17) Payment of annual premium by employer on **personal accident policy** affected by him on his employee is a tax free perk.
- 18) **Leave Travel Concession or Passage Money u/s 10(5)** : The benefit of this perk is available to a servicing employee from his employer or to a retired employee from his former employer. Under this scheme employee can avail outstation journey anywhere in India along with his 'family' twice in a block of four year period commencing from the calendar year 1986. The exemption shall be allowed subject to the following:-

1	Where journey is performed by air: Amount of air <b>economy fair of National carrier by the shortest route</b> or actual amount spent, whichever is less, will be exempted.
2	Where journey is performed by rail:- Amount of air-conditioned <b>first class rail fare by the shortest</b> route or amount spent, whichever is less, will be exempted.
3	Where places or origin of journey and destination are connected by rail and the journey is performed by any mode of transport other than by rail: Maximum exemption will be the amount of air conditioned <b>first class rail fare</b> by the shortest route.
4	Where places or <b>origin of journey and destination are not connected by rail</b> and the journey is performed between such places: When a <b>recognized public transport system exists</b> then maximum exemption will be <b>first class or deluxe class fare</b> on such transport by the shortest route. Where no recognized public transport system exists then maximum exemption will be amount equivalent to air conditioned first class rail fare by the shortest route

**Carry-over concession-**

If an employee has availed travel concession or assistance during any of the specified four-year block periods on one of the two permitted occasions or has not availed travel concession on both occasions block of four year period then such facility can be availed by employee **in the very first year of the next block**. Where an employer **provides this facility to the employee every year** then value of this facility in the **first two year will be fully exempted** and in the subsequent year it will be fully taxable.

The exemption of this facility will not be available to more than two surviving children of an individual after 01-10-1998. However, this rule will not be applicable in the following cases:

- i) Children born before 01-10-1998
- ii) Multiple birth after one child

**Note :-**

1	Where the LTC is encashed without performing the journey then entire amount received by the employee would be taxable.
2	<b>Family include</b> a) Spouse and children of employee b) Parents, brothers, sisters of the employee, who are wholly or mainly dependent upon him.
3	The exemption is allowed <b>only in respect of fare</b> . Therefore, expenses incurred on boarding, lodging and conveyance from residence to the railway station/ air- port and bus stand will not qualify for the exemption.
4	<b>Family member travelling separately</b> —Exemption shall not be available if the family members are travelling separately without the employee who is not on leave.

**Q 35** Mr. D went on a holiday **on 25.12.2022** 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 Rs 60,000 (Rs 45000 for adults and Rs 15000 for the three minor children). Compute the **amount of LTC exempt**.

**Answer**—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.

**Q 36** – In above question, will there be any difference if among his three children the twins were **5 years old** and the **son 3 years old**? Discuss.

**Answer**—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 = 15000 X 1/3 = Rs 5000.

LTC exempt is only Rs 55,000 ( i.e. Rs 60000--- Rs 5000).

### VALUATION OF FRINGE BENEFITS OR AMENITIES UNDER NEW RULE 3(7)

Value of following fringe benefits or amenities shall be taxable perquisites for all employees.

#### 1) Interest free or concessional Loans:

If an employer gives the loan facility to his employee or any member of his household at interest free or concessional rate then value of this perk will be determined as sum equal to the interest **computed at the rate charged per annum by SBI**, as on the **first day of the relevant previous year** in respect of loans advanced by it. It is taxable on the following basis—

<b>Step 1</b>	Find out the " <b>maximum outstanding monthly balance</b> "(i.e. the aggregate outstanding balance for each loan as on <b>the last day</b> of each month).
<b>Step 2</b>	<b>Find out rate of interest charged by the SBI</b> as on the first day of the relevant previous year in respect of loan for the same purpose advanced by it.
<b>Step 3</b>	Calculate <b>interest for each month of the previous year</b> on the outstanding amount mentioned in Step 1 at the rate of interest given in Step 2
<b>Step 4</b>	From the total interest calculated for the entire previous year under Step 3, deduct interest actually recovered, if any, from the employee during the previous year.
<b>Step 5</b>	The balancing amount (i.e. Step 3 minus Step 4) is taxable value of the perquisite.

#### **Notes--**

1)	When the amount of <b>original loan</b> does <b>not exceed Rs. 20,000/-</b> in aggregate, then value of this perk will be nil.
2)	When the loan is given for <b>medical treatment in respect of diseases specified in rule 3A</b> , then value of this perk will be exempted. However, this exemption will not be available on reimbursement

	of medical treatment from insurance company.
3)	<b>Member of household includes</b> spouse, children and their spouses, parents, servants and dependants.

**Conceptual clarity of this provision—**

<b>Example 1</b>	X takes a loan of Rs 2,00,000 from his employer on May 1, 2022 for medical treatment of Mrs X (medical treatment is specified in rule 3A). Hospital bill is Rs 2,00,000. The perquisite is not chargeable to tax. Suppose in this case insurance claim of Rs 50,000 is received on October 15, 2022 which is retained by X. In such situation, interest on Rs 50,000 will be chargeable in the hands of X with effect from October 15, 2022.
<b>Example 2</b>	X takes a loan of Rs 15000 from his employer on May 28, 2022 (no other loan is taken so far). As the amount of loan does not exceed Rs 20,000, nothing is chargeable to tax. Suppose in this case another loan of Rs 5500 is taken from the employer on July 17, 2022. Now the aggregate amount of loan exceeds Rs 20,000. Consequently, interest on Rs 20500 (i.e. 15000+5500) will be chargeable to tax with effect from July 17, 2022.
<b>Example 3</b>	X takes a loan of Rs 1,70,000 from his employer on 1.10.2013. It is repayable by way of quarterly instalments. On 1.4.2022, the outstanding amount is Rs 20000. The perquisite is not exempt from tax, as the amount of original loan is more than Rs 20,000.

**Q 37** Y is employed by B Ltd. On April 1, 2022 he takes a car loan of Rs 12,50,000 from B Ltd. B Ltd. recovers interest @ 2.50% per annum from Y. (SBI lending rate: 9.25%). Determine the value of perk.

**Answer—**The lending rate of SBI on April 1, 2022 for festival loan is 9.25% p.a. and employer charges interest @ 2.50%. Therefore, the value of perk will be based on 6.75% pa. (9.25%—2.50%) on the amount of loan of Rs 12,50,000 from April to March 2023.

**Value of perk** = 1250000 X 6.75% = 84,375

**Q 38** C Ltd. gives the following interest free loan to Z an employee of the company—Rs 15000 for child education and Rs 5000 for purchasing a refrigerator. No other loan is given by C Ltd. Determine the value of perk.

**Answer—**In this case, the value of perk will be nil because the amount of loan does not exceed Rs 20000.

**Q 39** A purchases a Honda City 1.6Lxi on March 1, 2022 from a loan of Rs 8,00,000 taken at a concessional rate of 8.25 % p.a. from his employer XYZ Ltd. As per the agreed terms of repayment, A is supposed to repay in monthly installments of Rs 25,000 starting from Jan. 1, 2023. Compute the taxable value of perquisite in respect of concessional loan for the previous 2022-23. (SBI lending rate is 9.25%)

**Answer—**The lending rate of SBI for a similar loan is 9.25%. Employer charges 8.25%. Therefore, 1% is the value of perk.

Month	Maximum monthly outstanding amount	Interest
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	<b>on the last day of the month</b>	
April 30,2022	8,00,000	666.67 (800000 X 1% X 1/12)
May 31, 2022	8,00,000	666.67
June 30, 2022	8,00,000	666.67
July 31, 2022	8,00,000	666.67
August 31, 2022	8,00,000	666.67
September 30, 2022	8,00,000	666.67
October 31, 2022	8,00,000	666.67
November 30,2022	8,00,000	666.67
Dec. 31,2022	8,00,000	666.67
Jan 31 , 2023	7,75,000	645.83 (775000x1%x1/12)
Feb 28, 2023	7,50,000	625 (750000 x 1% x 1/12)
March 31,2023	7,25,000	604 (725000 x1% x 1/12)
<b>Total outstanding amount</b>	94,50,000	7875

**Value of perquisite** =  $94,50,000 \times 1\% \times 1/12 = 7875$

**Q 40** B takes an interest-free loan of Rs 7,00,000 from his employer PQR Ltd. On June 16, 2020 for medical treatment of his wife who is suffering from a disease specified in rule 3A. Mrs. B is also covered under a mediclaim insurance cover. Insurance company reimburses her of the hospitalisation charges of Rs 2,50,000 on January 1, 2023. According to terms of repayment of loan, B has to pay Rs 12,000 p.m. on the seventh day of each month starting November, 2022. Ascertain the taxable value of perquisite in respect of interest-free loan for the previous year 2022-23. SBI lending rate for similar loan is 18.5%. The amount paid by the insurance company is retained by B.

**Answer**—The perquisite in respect of interest-free loan provided for medical treatment in respect of a **disease specified in rule 3A** is not taxable. However, it will not include that amount as has been reimbursement to the employee under any medical insurance scheme. Therefore, out of loan of Rs 7,00,000 granted to B, Rs 2,50,000 reimbursement by insurance company on January 1, 2021 will be taken into account for computing taxable value of perquisite. The SBI lending rate for a similar loan is 18.5% on April 1, 2022.

<b>Month</b>	<b>Maximum monthly outstanding amount on the last day of the month</b>	<b>Interest</b>
January 31, 2023	2,38,000	3669 (238000x18.5%x1/12)
February 28, 2023	2,26,000	3484 (226000x18.5%x1/12)
March 31, 2023	2,14,000	3299 (214000x18.5%x1/12)
		10,452

Taxable value of interest-free loan is Rs 7875 for the previous year 2022-23.

## 2) Use of movable assets

Where the employer provides the free use of movable assets (whether asset belongs to employer or hired by him) to the employee or any member of his household then the value of benefit will be taxable in the following manner:

(a) Use of laptops and computers	NIL
(b) Movable assets, other than laptops and computers and Assets already specified in the rules	<b>10% of p.a. of actual cost</b> of asset or hire charges paid or payable by employer, as case may be.

The amount so calculated will be reduced by the amount, if any, paid or recovered from the employee for such use.

Value of Perk	Xx
<b>Less:</b> Amount recovered from employee	(xx)
Value of taxable perk	xx

## 3) Transfer of any movable assets

Where the employer transfer any movable asset (which is belonging to employer) to the employee or any member of his household then the value of benefit will be taken in the following manner:-

<b>ASSETS TRANSFERRED</b>	<b>VALUE OF BENEFIT</b>
A) Computer and electronic gadgets	Actual cost will be reduced by <b>50%</b> of cost to employer for each completed year during which such asset was put to use by employer on the basis of w.d.v. method
B) Motor car	----- <b>20%-of w.d.v.</b> -----
C) Any other assets	----- <b>10% of cost</b> -----

**Note—Electronic gadgets includes** data storage and handling devices like computer, digital diaries and printers. They do **not include household appliance (i.e. white goods)** like washing machines, microwave ovens, hot plates, ovens etc.

If above said assets has more than 10 year old, then value of this perquisite is fully tax free.

**Q 41 (44.12P1)** Find out the taxable value of the perquisite in the following cases for the assessment year **2023-24**

- X is given a **laptop** by the employer company for using it for office and private purposes (**ownership is not transferred**). Cost of the laptop to the employer is Rs 96,000.
- On October 15, 2022 the company gives its **music system** to Y for domestic use. **Ownership is not transferred**. Cost of music system (in 2000) to the employer is Rs 15,000.
- The employer company sells the following assets to the employees on January 1, 2023--

Name of employee	Z	A	B
Asset sold	Car	Computer	Fridge
Cost of asset to employer	6,96,000	1,17,000	40,000
Date of purchase (put to use on the same day)	May 15, 2020	May 15, 2020	May 15, 2020
Sale price	2,10,000	24,270	1,000

Before sale on Jan 1, 2023 these assets were used for the business purposes by the employer.

**Answer—**

- X is provided use of laptop by the employer. The perquisite is fully tax free.
- Y is provided a music system by the employer. The taxable value of the perquisite is determined @ 10% p.a. of cost i.e. Rs 690 (being 15000 X 10% X 168/365).
- The taxable value of perquisite in the hands of Z, A and B shall be determined as follows:--

	Z	A	B
	Car	Computer	Fridge
Cost of asset on May 15, 2020	6,96,000	1,17,000	40,000
<b>Less:</b> Depreciation from 15 May 2020 to 14 May 2021	1,39,200	58,500	4000
Balance on May 15, 2021	5,56,800	58,500	36,000
<b>Less:</b> Depreciation from 15 May 2021 to 14 May 2022	1,11,360	29,250	4000
Balance as on May 15, 2022	4,45,440	29,250	32,000
<b>Less:</b> Depreciation from May 15 2022 to Jan 1 2023	NIL	NIL	NIL
Balance as on Jan 1, 2023	4,45,440	29,250	32,000
<b>Less</b> Sale consideration	2,10,000	24,270	1,000
Taxable value of the perquisites	2,35,440	4,980	31,000

**Note – Depreciation on part of the year will not be charged.**

### VALUATION OF CERTAIN FRINGE BENEFITS OR AMENITIES

- The value of traveling, 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**

Circumstances	Value of benefit or amenity
a) Where such facility is maintained by the employer, and is <u>not available uniformly to all employees</u>	It will be the value at which such facilities are <u>offered by other agencies to the public.</u>
b) Where the employee is on <u>official tour</u> and the expenses are incurred in respect of any member of	The amount of expenditure so incurred on the family member who accompany the employee.

his household accompanying him	
c) Where any official tour is extended as a vacation.	The value will be limited to the expenses incurred in relation to such <u>extended period of stay or vacation</u>
d) In any other case, where such facility is given to the employee or any member of his household.	A sum equal to the amount of expenditure incurred by the employer.

If any amount recovers from employee regarding above facilities, then such amount will be deducted from the value of such facility. The above rules shall not be applicable to any LTC.

## 2) Value of free food and non-alcoholic beverages

Circumstances	Value of benefit
a) Tea or snacks provided during working hours	Nil
Free food and non-alcoholic beverages during working hours provided in a: remote area an offshore installation	Nil
Free food and non-alcoholic beverages provided by the employer <b>during working hours:</b> at office or business premises; or through paid vouchers which are not transferable and usable only at eating joints	<b>Nil</b> , if the value thereof in either case is <b>up to Rs 50 per meal</b> .
d) In any other case	Actual amount of expenditure incurred by the employer as reduced by the amount if any paid or recovered from the employee for such benefit or amenity

**Note—Above exemption would not be available in case of an employee, being an assessee, who opts for provisions of section 115BAC.**

**Example-1** Rajan is provided free meals in the office, **during office hours**, for 300 days during the previous year. The cost of meals to the employer is **Rs 65 per meal**.

Determine the value of perquisite in respect of meals.

What shall be the value if the value per meal is Rs 50.

**Solution: (a)** If free meal is provided during office hours in the office or business premises, it shall be exempt to the extent of Rs 50 per meal and excess if any shall be taxable perquisite. Hence, value of perquisite in this shall be 4500 (65-50=15X300)

(b) The value of perquisite in this shall **be nil** (50—50=0X300).

**Example-2** Rajat, who is working in a **remote area**, is provided free meal during office hours for 300 days during the previous year. The cost to the employer per meal is Rs 60. Determine the value of perquisites.

**Solution:** The value in this case shall be nil as it is provided to an employee working in a remote area.

**Q 42** A Co. provides tea/coffee to X in an office (employer's expenditure being Rs 6000 p.a.). Besides the employer provides free lunch during office hours (cost being Rs 120 per meal for 300 working days amount recovered from X is Rs 20 per meal). Determine the value of perk.

**Answer**—In this case, nothing is taxable in respect of tea/coffee provided in office. However, Rs 15000 (i.e. Rs 300 X (120—Rs 50—Rs 20) in respect of subsidized lunch, is chargeable to tax.

### 3) Value of any gift, voucher or token

Gift in cash or convertible into money (like gift cheques)	Fully taxable
Gift in kind	Exempted upto Rs 5000 in aggregate

**Q 43** The employer provides a cash gift/ gift cheque of Rs 3000 to X. Besides, he gets a wrist watch of Rs 18000 as Diwali gift from the employer.

**Answer**—Rs 3000 being cash or gift cheque, is chargeable to tax. Further, Rs 13000 (i.e. Rs 18000—Rs 5000) is taxable in respect of gift-in-kind.

### 4) Expenses on credit cards

Circumstances	Value of benefit
a) Where expenses including membership fees and annual fees are 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, are paid for or reimbursed by the employer and such expenses are incurred for any purpose <b>other than mentioned under clause (b) below</b>	The amount paid for or reimbursed by the employer.
b) Where such expenses are incurred wholly and exclusively for official purposes	Nil

The value of perk in case of (a) will be **reduced by the amount recovered** from the employee.

### 5) Club membership and expenses incurred in a club

Circumstances	Value of benefit
---------------	------------------

a) Club bills of employee or by any member of his household paid or reimbursed by the employer (Personal nature)	Actual amount paid by the employer
b) Club bills of <b>official purposes</b>	Nil

The value of perk in case of (a) will be reduced by the amount recovered from the employee.

**e.g.** The employer provides a club facility to X and his family members. This facility is available to X for his personal use and also for entertaining official guests. The total expenditure incurred by the employer during the previous year is Rs 28,000 out of which Rs 4,000 as certified by the employer, is for official dinner to a foreign delegation. Rs 7,000 out of Rs 28,000 is for providing health/sports club facility to X. The employer provides all employees similar health/sports club facility. A sum of Rs 1,200 (Rs 700 for health/sports club facility and Rs 500 for other club facility) is recovered from X by the employer.

**Answer---**

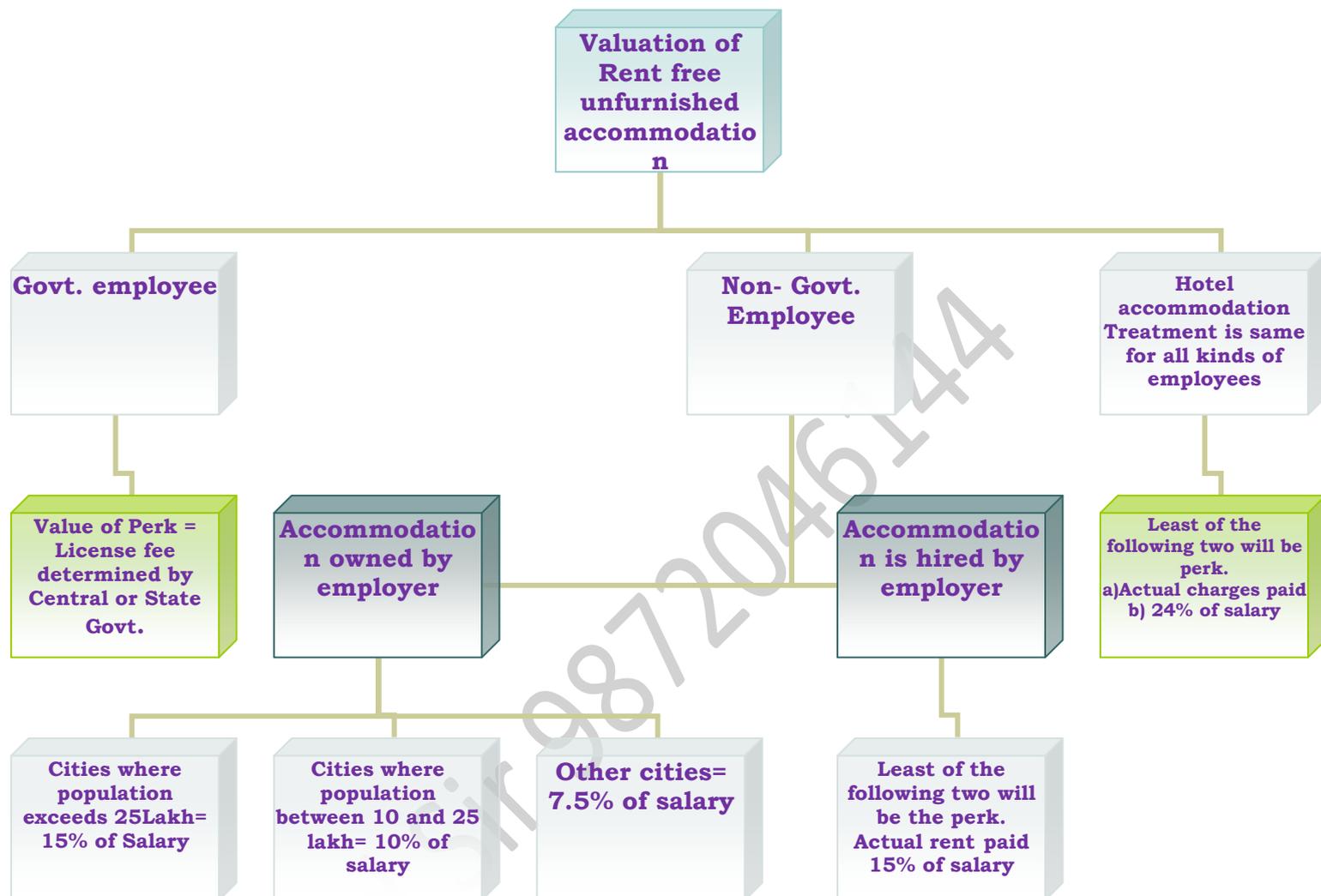
Amount taxable in the hands of X is given below---

	<b>Health club/sports club facility</b>	<b>Any other club facility</b>
Expenditure incurred by employer	7,000	21,000
Less: Expenditure incurred for official purposes as certified by employer	--	(4000)
Less: Amount recovered from X	(700)	(500)
Balance	6,300	16,500
<b>Amount taxable in the hands of X</b>	Nil	16,500

**6) Valuation of perk in respect of free transport**

<b>1</b>	Employees of railways or airlines	Fully exempted for such employees
<b>2</b>	Employees of any other transport undertaking	<b>Value of perk= Amt charged from public— amt recovered from employee</b>
Not taxable if the employee is a non-specified employee		

## ACCOMMODATION FACILITIES



### Valuation of Rent Free Accommodation:

- A) **Govt. Employee**—Where the accommodation is provided by the CG/SG to the Govt. employees, then license fee determined by CG/SG will be the value of rent free unfurnished accommodation.
- B) **Non-Govt. Employee**—When the accommodation is provided by non-govt. employer to employee, then value of perquisites will be determined in the following manner: -

Population of city as per 2001 census where accommodation is provided	Where the accommodation is owned by the employer	Where the accommodation is taken on lease or rent by the employer
<b>Exceeding <u>25 Lakh</u></b>	15% of salary in respect of the period during which the accommodation is occupied by the employee	Least of the following two will be the value of rent free unfurnished accommodation. a) 15% of salary; or

<b>Exceeding 10 lakh but not exceeding 25 lakh</b>	<b>10%</b> of salary in respect of period during which the accommodation is occupied by the employee	b) Lease rent (paid or payable) by employer
<b>Any other</b>	<b>7.5%</b> of salary in respect of period during which the accommodation is occupied by the employee	

**Value of Rent free furnished accommodation—**

Value of rent free unfurnished accommodation	Xx
<b>Add:</b> 10% p.a. of the cost of furniture or hire charges (Which is applicable)	xx
<b>Value of Rent free furnished accommodation</b>	Xx

**Value of Rent Free Accommodation when accommodation is provided in a Hotel, motel, service apartment or guest house--**

Where the accommodation is provided in a hotel, motel, service apartment or guest house (except where the employee is provided such accommodation for a period not exceeding in **aggregate fifteen days** on his transfer from one place to another), then the value of rent free accommodation for all kinds of employees (i.e. including Govt. employees) are calculated as under:--

	<b>Least of the following two</b> will be the value of rent free accommodation
a)	<b>24%</b> of salary paid or payable for the previous year
b)	the <b>actual charges</b> paid to such hotel,

**Value of Concessional Rent Free Accommodation—**

Value of Rent Free Furnished or unfurnished accommodation	Xx
<b>Less:</b> Rent charged by employer	(xx)
Value of taxable perk	Xx

**Notes:** No perquisite in case of any accommodation provided to an employee working at a mining site or an onshore oil exploration site or project execution site, or a dam site or a power generation site or an off-shore site.

**Note:** In case of transfer from one place to another, the employee is provided with accommodation 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 value with reference to the Table above for a **period not exceeding 90 days** and thereafter the value of perquisite shall be charged for both such accommodations in accordance with the Table.

**Important Note:-** If in the aforesaid case, the hotel accommodation is provided for more than 15 days, then the perk is tax free for the first 15 days. After that it is chargeable to tax.

Note --

1	Salary includes Basic pay + D.P. + D.A.(if enters) + All Taxable allowances + Bonus + Commission + Fees + Any monetary payment.
2	<b>Salary is to be taken on due basis</b> for that period in which rent free accommodation has been provided by the employer to employee. <b>e.g.</b> If employer provides RFA for the period of 1 <sup>st</sup> April,2020 to 30 <sup>th</sup> June, then only salary due for the month of April,2020, May 2020 and June,2020 will be taken.
3	Where the employee <b>receives salary from more than one employer</b> , then aggregate of salary received from all the employers for the period in which the accommodation is provided, has to be taken into the account for the purpose of valuation of RFA. <b>It is immaterial that the accommodation has been provided by one employer only.</b>
4	Advance salary, arrears of salary and gratuitous bonus is not considered for this purpose.
5	Payment of gas, electricity, water and income-tax bills are not taken into consideration.
6	<b>Leave encashment of salary</b> pertaining to the current year is taken into consideration.

### **Where the accommodation is located in a remote area**

Where the employer provides rent- free accommodation to employee in a remote area (who is working in mining site or an onshore oil exploration site), then the value of such **accommodation will be taken as NIL.**

**REMOTE AREA means** an area that is located at least 40 k.m. away from a town having a population not exceeding 20,000.

### **Accommodation provided at new place of posting on transfer while retaining the accommodation at other place :**

In this case, the value of benefit will be determined in the following manner :-

If accommodation is retained at both places for the period not exceeding 90 days then the value of benefit will be **lower value of the two.**

If accommodation is retained at both places for the **period exceeding 90 days** then the value of benefit will be determined with reference to only one such accommodation which has the lower value for a period **not exceeding 90 days** and thereafter the value of benefit shall be charged for both such accommodations.

**Q 44 (44.1-2E1)** X an employee of PQR Ltd., draws Rs 2,00,000 as basic pay, Rs 25,000 as dearness allowance (not forming part of salary for computing gratuity but it forms part of salary for calculating

pension) and Rs 20,000 as bonus. Besides, the company provides a rent-free unfurnished house in Goa. The house is **not owned by the company**. Determine the taxable value of the perquisite for the assessment year 2023-24 if lease rent of the house is: (a) Rs 20000 p.a. (b) Rs 48000 p.a. or (c) Rs 2600 p.a.

**Answer—**

**Salary** for this purpose = 2,00,000 + 20,000 = 2,20,000

	(a)	(b)	(c)
<b>Least</b> of the following two will be value of taxable perquisites:-			
Actual rent paid	20,000	48,000	2600
15% of salary	33,000	33,000	33,000
<b>Value of taxable perquisite</b>	20,000	33,000	2600

**Q 45 (44.1-2E2)** X, a sales manager of a paper company at Brajrajnagar (Orissa) (population 9.60 lakh as per 1991 census but 11.40 lakh as per 2001 census), draws Rs 4,80,000 per annum as basic salary. Besides, he gets Rs 6000 p.a. as travelling allowance (fully utilize for official purposes), Rs 18000 p.a. as bonus, Rs 30,000 as special allowance. His employer provides a rent-free unfurnished house in Brajrajnagar which is owned by the employer. Fair rent of the house is Rs 80,000 p.a. During the previous year 2022-23, X has also received Rs 10,000 as arrears of bonus of the financial year 2020-21. Determine the value of the perquisite.

**Answer—**

Salary for this purpose = 480000 + 18000 + 30000 = 528000

**Value of perquisites** = 10% of salary = 528000 X 10% = 52800

**Note—**Arrears of bonus will not be considered for the meaning of salary.

**Q 46 (SM)** Mr C is a Finance Manager in ABC Ltd. The company has provided him with rent free unfurnished accommodation in Mumbai. He gives the following particulars:-

Basic Salary	Rs 6000 p.m.
Dearness Allowance	Rs 2000 p.m. (30% for its retirement benefits)
Bonus	Rs 1500

Even though the company allotted the house to him on 1.4.2022 he occupied the same only from 1.11.2022. Calculate taxable value of perquisite for AY 2023-24.

**Answer—**

Salary for this purpose = 6000 X 5 + (2000 X 5 X 30%) + 1500 X 5 = 40500

Value of perquisites = 15% of Rs 40500 = 6075

**Q 46 A (SM)** Using the data given in Q 46, compute the value of perquisite if ABC Ltd. has provided a television (WDV Rs 10,000; Cost Rs 25,000) and two air conditioners. The rent paid by the company for the air conditioners is Rs 400 p.m. each. The television was provided on 1.1.2023. However, Mr C is required to pay a rent of Rs 1,000 p.m. to the company, for the use of this furnished accommodation.

**Answer—**Value of rent free concessional accommodation

Value of rent free unfurnished accommodation	6075
<b>Add:</b> Perquisite of TV (25000X10%X3/12)	625
<b>Add:</b> Perquisite of air conditioners (400 X 2 X 5)	4000
	10700
<b>Less:</b> Rent paid by the employee	(5000)
Value of furnished accommodation at concessional rent	5,700

**Q 47 --** X is appointed at Kolkata. He stayed in a hotel for 40 days and thereafter shifted in a house provided by the employer. From the following information determine the taxable value of perquisite, stay in hotel:

Room rent in hotel Rs 1000 per day;

Salary for valuation of accommodation during P.Y. Rs 365000

The employer recovered Rs 100 per day from X regarding stay in hotel.

**Answer-** Least of the following two will be the value of rent free accommodation

a) Actual charges paid to hotel i.e. Rs 25000 (25x1000)

b) 24% of salary (365000 X 24%= 87600 x 25/365= 6000) Rs 6000

Value of rent free accommodation = 6000

**Less:** Rent recovered by employer = 2500 (100 X 25)

Value of concessional rent free accommodation = 3500

**Q 48 -** An employer has taken a house on rent @ Rs 15000 p.m. He allotted half the house to Mr. A and the other half to Mr. B for residential purposes. The annual salary of Mr. A is Rs 3,00,000 and Mr. B Rs 7,00,000. Find out the value of rent-free house for Mr. A and Mr. B.

**Answer—** **VALUE OF RENT FREE ACCOMMODATION**

	A	B
Salary	3,00,000	7,00,000
Least of the following two:-		
a) Actual rent paid by employer	90,000 (7500 X 12)	90,000 (7500 X 12)
b) 15% of salary	45,000 (3,00,000 X 15%)	1,05,000 (7,00,000 X 15%)
Value of perk	45,000	90,000

**Q 49 (15KP)** Mr. Vipin is working in a Central Govt. office at Shimla. His salary particulars are as follows:-

Salary	3,60,000	DA (fully enters into pay for retirement benefits)	96,000
Hill compensatory Allowance	24,000	Transport Allowance	24,000
Provided with rent free house: Annual License Fee	72,000	Cost of furnishing	3,00,000

Calculate value of rent free house.

**Answer—**Rs 1,02,000

**Q 50 (16 KP)** Mr. A gets salary of Rs 40,000 p.m. and is provided with rent free unfurnished accommodation at Ludhiana (population 20 lakhs as per latest census) whose fair rental value is Rs 15,000 p.m. He gets leave encashment for the current previous year of Rs 20,000 during the year. House was provided to him with effect from 1.7.2022. His salary is due on 1<sup>st</sup> day of every month. Calculate the value of rent-free accommodation and gross salary.

**Answer**—33,333 and gross salary Rs 5,33,333

**Q 51 (17KP)** Mr. Y gets a salary of Rs 33,000 p.m. and he has been provided with rent-free furnished accommodation at Karnal (population 7.5 lakhs). The fair rental value of the unfurnished house is Rs 60,000 p.a. He gets D.A @ 40% of salary which is given as per terms of employment. He gets education allowance of Rs 500 p.m. for education of his son. The cost of furnishing of the house is Rs 2,30,000. The employee has been provided with hired air conditioner for five months and hire charges of Rs 1000 p.m. are paid by the employer. Calculate the value of rent free accommodation and gross salary.

**Answer**—69,940 and Gross salary Rs 629140

**Q 52 (19 KP)** Mr. Jitender is in receipt of annual salary of Rs 2,00,000. He is provided with a furnished accommodation at Gurgaon (Population is 11 lakhs) for which his employer pays a rent of Rs 4000 p.m. and deducts Rs 1000 p.m. from employee's salary. The cost of furnishing of the residence amounts to Rs 30,000. Calculate the value of perquisites if house is occupied for 9 months only.

**Answer**—15750

## 2. Valuation of Monetary obligation of the employee discharged by the employer

Where an employer meets monetary obligations of the employee then it will be **fully taxable for all employees**. The value of these benefits is the actual expenditure incurred by employer in this regard e.g. gas, electricity bill paid or reimbursed, children education expenses paid or reimbursed, medical expenses incurred, I.tax or professional tax paid by employer.

## 3. Valuation of specified security or Sweat equity shares for the purpose of section 17(2)(vi)

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) **The shares are listed on a recognised stock exchange:**--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 and closing price of the share on that date on the said stock exchange.
  - **If shares are listed on more than one recognized stock exchange**—However, where, on the date of exercising of the option, the share is listed on a recognized stock exchange, the fair market value shall be the average of the opening and closing price of the share on that date on the said stock exchange.

- **If no trading in share on recognized stock exchange** –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 recognized 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 recognized stock exchange, which records the highest volume of trading in such share, if the closing price, as on the date closet to the date of exercising of the option and immediately preceding such date, is recorded on more than one recognized stock.

Closing price of a share on a recognized stock exchange on a date shall be the price of the last settlement on such date on such stock exchange.

However, **where the stock exchanges 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 recognized stock exchange on a date shall be the price of 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) **If shares are not listed on the recognized stock exchange:--**In case where, on the date of exercising of the option, the share in the company is not listed on a recognized 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—

- The date of exercising of the option; or
- 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 exercising.

**Note—**Where any amount has been recovered from the employee, the same shall be deducted to arrive at the value of perquisites.

**Note—**

1)	FMV on the date of allotment is not to be considered for the calculation of perquisites.
2)	<b><u>Sweat equity shares means equity shares issued by a company to its employees or directors or former employees at a discount</u></b> or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions.
3)	ESOP is an abbreviation which stands for employee stock option plans. Under the ESOP plan, an employee (at his option) can acquire shares in the employer company at a reduced price after completion of a specified period of service.
4)	<b>Cost of acquisition</b> of the security for such employee will be the FMV of the security on the date of exercise of option.

**Q 53 (PM)** AB Co. Ltd. allotted 1000 sweat equity shares to Mr. Gaurav Jain in June 2022. The shares were allotted at Rs 200 per share as against the FMV of Rs 300 per shares on the date of exercise of option by the allotted viz. Mr. Gaurav. The FMV was computed in accordance with the method prescribed under the Act.

What is the perquisite value of sweat equity shares allotted to Mr. Gaurav?

In the case of subsequent sale of those shares by Gaurav, what would be the cost of acquisition of those sweat equity shares?

**Answer—**

Value of perquisites

<b>FMV</b> of the specified security or sweat equity shares on the date on which the option is exercised	3,00,000 (300 X 1000)
<b>Less:</b> Amount charged by employer from employee	(2,00,000)
Value of taxable perquisites	1,00,000

b) **Cost of acquisition of the security** = FMV of the security on the date of exercise of option.  
= 1000 shares X 300 = Rs 3,00,000

3. **Valuation of specified security, not being an equity share in a company for the purpose of section 17(2)(vi)**—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—

- The date of exercising of the option; or
- 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.

Tax on perquisites of specified securities and sweat equity shares is required to be paid in the year of exercising of option. However, where such shares or securities are allotted by the current employer, being an eligible start-up, the perquisites is taxable in the year.

- after the expiry of 48 months from the end of the relevant assessment year
- in which sale of such security or share are made by the assessee
- in which the assessee ceases to be the employee of the employer,

Whichever is earlier.

## PERQUISITES TAXABLE FOR SPECIFIED EMPLOYEES

### Specified Employee

The employee who fulfill any of the following three conditions, is called specified employee:-

1)	If the employee is a director whether full time or part time.
2)	If the employee has <b>substantial interest</b> in the employer's company. Substantial interest

	means at least having 20% of voting power.
3)	<b>Any other employee whose salary income including all monetary payment (e.g. Basic salary, D.A., Advance Salary, Arrears of Salary, Encashment of earned leave only taxable part, salary in lieu of notice period, fees, commission, bonus, uncommuted pension, taxable part of gratuity, annuity, retrenchment compensation, all type of taxable allowance, amount reimbursed to the employee which is taxable perk u/s 17(2)) but <b>excluding value of all benefits given in kind, exceeds Rs. 50,000/-</b>. For determining Rs. 50,000/- deductions u/s 16 will be allowed.</b>

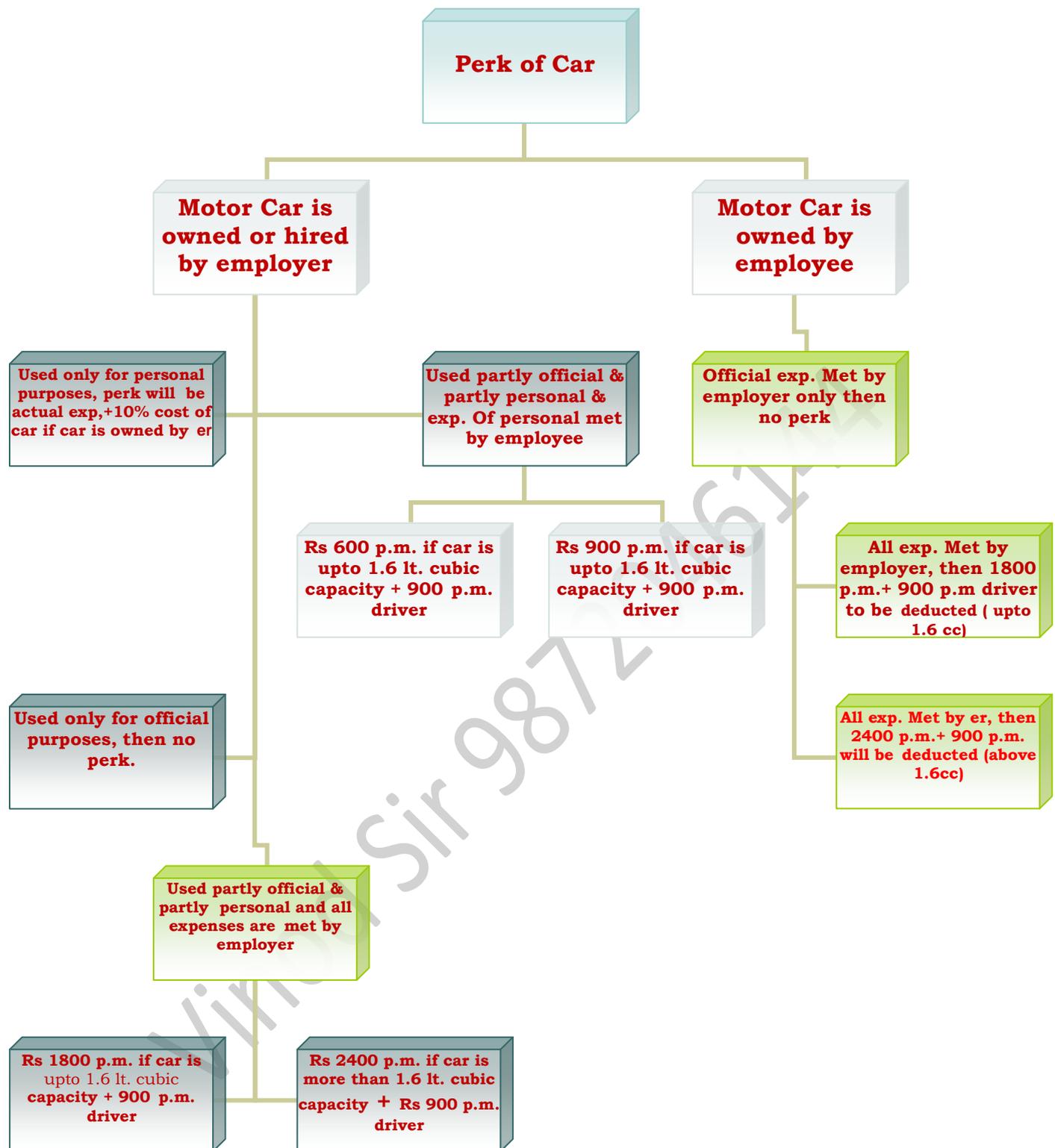
Employer's contribution towards provident fund is not to be taken for determining specified employee.

If an individual is the employee of two concerns and his salary income from both concerns in aggregate exceeds Rs 50,000, then he is a specified employee for both concerns.

If an individual is the employee of the two concerns and his salary income does not exceed Rs 50,000, but he is a director in 1st company, then in that case he is the specified employee for 1st concern and not for 2<sup>nd</sup> concern.

**NOTE** – Where salary is received from more than one employer during the relevant previous year, then aggregate salary from these employers will have to be taken into account for the purpose of determining the aforesaid monetary ceiling (Rs 50,000).

#### 1. PERQUISITE OF CAR



If motor car is owned or hired by the employer, then the value of perk will be better understood with the help of the following table:-

Circumstances	Cubic capacity of engine does not exceed 1.6 litres	Cubic capacity of engine does exceed 1.6 litres
M Car is used exclusively for office purposes	No Perk	No Perk
M Car is used only for personal purposes	Actual expenditure incurred	Actual expenditure incurred

	by employer + 10% of cost of car (if car is owned by employer)—amt recovered from employee	by employer + 10% of cost of car (if car is owned by employer)—amt recovered from employee
Partly official and partly personal and all expenses met by employer	Rs 1800 p.m. + Rs 900 p.m. driver/ chauffeur	Rs 2400 p.m. + Rs 900 p.m. driver/ chauffeur
Partly official and partly personal and all expenses of personal met by employee	Rs 600 p.m. + Rs 900 p.m. driver/ chauffeur	Rs 900 p.m. + Rs 900 p.m. driver/ chauffeur

**If motor car is owned by employee, then the value of perk will be better understood with the help of the following table:-**

Expenses of official use are fully met or reimbursed by the employer	No Perk	No Perk
All expenses of M Car are paid or reimbursed by the employer	Actual expenditure incurred by the employer—Rs 1800 p.m. –Rs 900 p.m. if driver	Actual expenditure incurred by the employer—Rs 2400 p.m. –Rs 900 p.m. if driver

**Where the employee owns any other automotive conveyance, then the value of perk will be better understood with the help of the following table:-**

Expenses of official use are fully met or reimbursed by the employer	No perk
All expenses of conveyance are paid or reimbursed by the employer	Actual amount incurred by the employer—Rs 900p.m.

**Note: 1** Where **one or more motor-cars are owned/hired by the employer** and the employee or any of his household member of are allowed the use of such motor-car/cars (otherwise than wholly and exclusively for official duties), the value of perquisite shall be the amount calculated by **making two options. 1st options – 1st car is treated as partly personal and partly official purposes** And 2<sup>nd</sup> Car is treated as fully personal purposes. **2nd option—1st Car is treated as fully personal purposes** and 2nd car is treated as partly personal and partly official purposes. The option which gives the less value of perk will be considered as value of perk of car.

**Note: 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 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 attributable to official use of the vehicle provided that the employer has maintained complete details of journey undertaken for official purpose.

**OTHER IMPORTANT POINTS**

- 1) The word '**month**' here means **complete calendar month** and part of the month is completely ignored.
- 2) Where more than one motor car is provided
  - Any one car is treated as partly used for official and partly for private purposes (i.e. Rs 1800p.m. or Rs 2400 p.m. + Rs 900 p.m. for chauffeur)]
  - Remaining car or cars are treated as used fully for private purposes.

**Q 54 (44.14P1) – Find out the taxable value of perquisites in respect of car in the following different situations for the assessment year 2023-24—**

- 1) X is employed by a company. He has been provided a car (1200CC) owned by the employer, cost of the car is Rs 4,26,000. The expenditure incurred by the company on maintenance of the car is – petrol: Rs 46,000, driver: Rs 36,000 and maintenance Rs 10,000. The car can be used by X **partly for official purposes partly for private purposes**. A sum of Rs 12,000 is recovered from X.
- 2) Assume in situation 1 that the car is used **only for private purposes**.
- 3) A car (1800cc) is owned by the employer (cost of the car being Rs 4,80,000), X an employee, can use it partly for official purposes and partly for private purposes. Expenses for private purposes are, however, incurred by X. During the previous year 2022-23 the total expenditure incurred by X is Rs 50,000 on car and Rs 20,000 on driver.
- 4) Assume in situation 3 that the car can be used only for private purposes.
- 5) X owns a car (1400cc). He uses it partly for official purposes and partly for private purposes. During the previous year 2022-23, he incurs a sum of Rs 40,000 on running and maintenance of car. Besides, he has engaged a driver (salary Rs 24000). The employer reimburses the entire expenditure of Rs 64000. Log book of the car is not maintained.
- 6) Assume that in Situation 5 that the log book of the car is maintained and 70% of the expenditure is attributable towards the official use of the car. The employer to this effect gives a certificate.
- 7) A car (1700cc) is owned by the employer. All expenses (Rs 56000) are incurred by the employer. The employer maintains logbook of the car. X, an employee uses the car only for official purposes. The employer gives a certificate that the car is used only for official purposes.

**Answer—**

- 1) The employer owns the car. All expenses are met by the employer. The car is partly used for official purposes and partly for private purposes. The perquisites will be valued as follows—
 

Car (1800 X 12)	= 21600
Driver (900 X 12)	= <u>10800</u>
Value of perquisites	= <u>32400</u>

Amount recovered from employee is not to be considered.
- 2) Car can be used only for private purposes. The value of perquisites will be determined as follows—
 

Depreciation (10% of Rs 426000)	= 42600
---------------------------------	---------

Petrol	= 46000
Driver	= 36000
Maintenance	= <u>10000</u>
Total	134600
<b>Less:</b> Amount recovered from X	<u>(12000)</u>
Value of the perquisites	<u>1,22,600</u>

- 3) The employer owns the car. It can be used partly for official purposes and partly for private purposes. X incurs expenses for private purposes. The perquisite will be valued as follows—

Car (900p.m.)	10800
Driver (it is not provided by employer)	<u>Nil</u>
Value of perquisites	<u>10,800</u>

- 4) The employer owns the car which can be used by X only for private purposes. All expenses are incurred by X. Rs 48000 (being 10% of Rs 4,80,000) is the taxable value of the perquisites.

- 5) X owns a car which is used by him for official and private purposes. The value of the perquisites shall be determined as follows—

Amount reimbursed by the employer	= 64,000
<b>Less:</b> Deduction for official use (for car 1800 X12 + 900 X12)	= <u>32400</u>
Value of the perquisites	<u>31600</u>

- 6) The value of the perquisites shall be determined as follows—

Amount reimbursed by the employer	= 64000
<b>Less:</b> Amount for official purposes as certified by the employer (70% of 64000)	= <u>44800</u>
Value of the perquisites	<u>19200</u>

- 7) The employer maintains complete details of the expenditure. A certificate is given by the employer that the expenditure is incurred only for official purposes. Therefore, nothing is chargeable to tax.

**Q 55 (44.14-P2)** X is employed by X Ltd. (salary being Rs 90,000 p.m.). He holds 14% equity share capital and 50% preference share capital in the company. Remaining shares in X Ltd. are owned by the relatives of X. X is not a director in X Ltd. He has been provided three cars for official and personal use. These cars cannot be used by any other employee of the company. The company incurs the following expenses in respect of these cars:

	Car 1 (1800 cc)	Car 2 (1200 cc)	Car 3 (1600 cc)
Petrol bills	40,500	60,600	38,500
Maintenance expenses	8,100	7,800	9,200
Insurance	6,700	6,300	4,900
Salary of Driver	24,000	--	--

Cost of cars to the employer is: Rs 4,89,000, Rs 5,10,000 and Rs 3,50,000. Find out the value of perquisite for the assessment year 2023-24.

**Answer—**Since X has been provided three cars for official and private purposes, only one car will be taxed as if it is used for both official and private purposes and other two will be taxed as if they are used only for private purposes. Accordingly, X has the following 3 options—

	Option 1	Option 2	Option 3
Car 1	39,600 (Both official and private)	1,28,200 (Private)	1,28,200 (Private)
Car 2	1,25,700 (Private)	21,600 (Both official and private)	1,25,700 (Private)
Car 3	87,600 (Private)	87,600 (Private)	21,600(Both official & private)
	2,52,900	2,37,400	2,75,500

Therefore, X should Opt option 2. Taxable value of the perquisite in respect of cars should be Rs 2,37,400.

**Working Note –1** Taxable value of the car if used for both official and private purpose—

	Car 1	Car 2	Car 3
Running and maintenance	28800	21600	21600
Driver	10800	NIL	NIL
Total	39,600	21,600	21,600

**Working Note 2** Taxable value if these cars are used only for private purposes—

	Car 1	Car 2	Car 3
Total expenditure on petrol, maintenance and insurance	55,300	74,700	52,600
Driver	24,000	--	--
Normal wear and tear (10% of Cost)	48,900	51,000	35,000
<b>Total</b>	<b>1,28,200</b>	<b>1,25,700</b>	<b>87,600</b>

## 2) Provision of Domestic Servants, Sweeper, Watchman and Gardener



**Case A Appointed by employee :** Where any of above servants is appointed by employee and the employer pays or reimburses his salary then actual amount of salary paid to servants will be the taxable perk for all employees.

**Case B Appointed by employer :** Where any of the above servants is appointed by employer and also pays or reimburses his salary then actual amount of salary paid to servant will be the taxable perk for specified employees only.

Domestic servant allowance given to an employee is always chargeable to tax. It is taxable even if the allowance is used for engaging a domestic servant.

**Perk of Gardener –** If house is owned by employer and facility of gardener is also provided then the perk of gardener will be fully tax free in the hands of employee. If house is not owned by employer but the facility of gardener is also provided then the perk of gardener will be fully taxable.

### 3. **Gas, Electric Energy & Water**

**Point I** Where the employer provides this facility from resources owned by him to the employee then value of this perk will be the actual manufacturing cost per unit incurred by the employer.

**Point II** Where the employer provides this facility to the employee after purchasing from an outside agency then value of this perk will be the amount paid by the employer on such facility.

If the connection of Gas, electric energy and water supply is in the name of the employee and bills are paid or reimbursed by the employer then the value of this perk is taxable for all employees.

However, if the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value so arrived at.

### 4. **Education Facility**

Where educational institution is itself owned & maintained by employer or where free educational facilities are allowed for any member of employee's household in any other educational institution by reason of his being in employment of that employer:-

- a) **Educational facility provided to children of the employee** : The value of this perk will be nil provided the cost of such education per child does not exceed Rs. 1000/- p.m. If the cost of education exceeds Rs. 1000/- p.m., then value of perk will be the cost of education in a similar institution or in near locality—Rs 1,000 per month per child –amount paid or recovered from the employee.
- b) Where educational facility is provided to member of his household (other than children), then cost of such education in a similar institution in or near the locality –amount paid or recovered from the employee.

**Payment of school fees of employee's children**—School fees of the family members of the employee paid by the employer directly to the school is taxable as a perquisite for all employees u/s 17(2)(iv).

**Reimbursement of school fees of employee's children**—Reimbursement of expenditure incurred for education of the family members of the employee is taxable as a perquisite for all employees.

## **DEDUCTIONS FROM SALARY**

For calculating salary income of an employee, the following deductions are allowed out of gross salary of the employee :

- 1) **Standard Deduction u/s 16(ia)**—A standard deduction **of Rs 50,000 or the amount of salary**, whichever is lower, is to be provided to the employees.

## 2) Deduction of entertainment allowance u/s 16(ii)

The benefit of this deduction **is available only to the Govt. employees**. First of all entertainment allowance received by an Govt. employee is to be included in the gross salary and after that deduction u/s 16(ii) will be allowed in the following manner :-

Least of the following three will be allowed as deduction :-

1)	1/5 <sup>th</sup> of basic salary
2)	Rs. 5,000/- ( <b>Statutory limit</b> )
3)	Actual entertainment allowance received

Actual expenditure incurred by employee for entertainment will **not be considered**. The deduction u/s 16(ii) will be given on flat basis. Non-Govt. employee (including employees of statutory corporation and local authority) cannot take the benefit of this deduction. **Sumptuary allowance** has to be treated as entertainment allowance.

## 2) Deduction of Employment tax/Professional tax u/s 16(iii)

. If an employee pays employment tax or professional tax then he can claim deduction u/s 16(iii) to the extent of actual amount paid as employment tax. If professional tax is **paid by employer on behalf of employee** then it will be included in the gross salary of employee as a perquisite. And after that deduction u/s 16(iii) will be allowed to such employee from his gross salary. It is important to note that such deduction will be available only on payment basis and not on due basis. Under article 276 of the Constitution, a State Govt. **cannot impose more than Rs 2500 p.a.** as professional tax. Under the Income-Tax Act, whatever professional tax is paid during the previous year, is deductible.

**Q 56 (M)** - Mr. Goyal receives the following emoluments during the previous year ending **31.3.2023**.

Basic Pay	Rs 2,50,000
Dearness Allowance	Rs 15,000
Commission	Rs 10,000
Transport Allowance	Rs 60,000 (Actual expenditure incurred Rs 10000)
Entertainment allowance	Rs 4,000
Medical expenses reimbursed	Rs 25,000
Professional tax paid	Rs 3000 (Rs 2000 was paid by his employer)

Mr. Goyal contributes Rs 5000 towards statutory provident fund. He has no other income. Determine the income from salary **for AY 2023-24**, if Mr. Goyal is a state Govt. employee.

**Answer—**

### **COMPUTATION OF SALARY INCOME OF MR. GOYAL** **For the Assessment year 2023-24**

Particulars	Detail	Amount
Basic Salary		2,50,000

Dearness Allowance		15,000
Commission		10,000
Transport Allowance		60,000
Entertainment Allowance received		4,000
Employer's contribution to SPF		--
Medical Expenses reimbursed		25,000
Professional tax paid by the employer		2,000
<b>Gross salary</b>		<b>366,000</b>
<b>Less: Standard Deduction u/s 16(ia)</b>		<b>50,000</b>
<b>Less: Deductions u/s 16 (ii) of Entertainment allowance</b>		
Least of the following will be the amount of deduction.		
a) Actual allowance received	Rs 4000	
b) Rs 5000 (statutory limit)	Rs 5000	
c) 1/5 of the Basic salary	Rs 50000	(4000)
Deduction u/s 16(iii) of Professional Tax paid		(3000)
<b>Salary Income</b>		<b>309,000</b>

### PROFIT IN LIEU OF SALARY U/S 17(3)

Profit in lieu of salary is the amount paid by the employer to employee in addition of employee's salary or wages. The following are payments made by employer to employee are to be included in the Gross Salary as profit in lieu of salary.

#### 1) Terminal compensation

The compensation which is to be received by employee from employer on account of termination of his employment or the modification of terms and conditions of employment, is termed as terminal compensation and taxable in the hands of employee as profit in lieu of salary.

#### 2) Payment from an Unrecognised provident fund or an Unrecognised superannuation fund

Employer's contribution and interest on employer's contribution received by employee out of Unrecognised provident fund or Unrecognised super annuation fund will be taxable in the hands of employee as profit in lieu of salary.

#### 3) Payment received under Keyman insurance policy

w.e.f. 1.10.96 any payment received under a Keyman insurance policy including bonus will be taxable as profit in lieu of salary.

#### 4) Any amount received before joining or after cessation of employment

Where the employee receives any amount in lump sum from any person before joining employment with that person or after cessation of employment with that person, then such amount will be taxable as profit in lieu of salary.

5) **Payment of gratuity exempted u/s 10(10)**

6) **Payment of HRA exempted u/s 10(13A)**

7) **Payment of commuted pension exempted u/s 10(10A)**

**Q 57 (P)** - Rajan requests you to compute his taxable income for the previous year ending **31.3.2023**, from the following data—

a) Joined service on **1.10.2022**, on a consolidated salary of Rs 25000 p.m.

b) He was paid Rs 40,000 in **September 2022**, so that he should not join elsewhere.

c) He contributed towards—(i) Life Insurance Premium—Rs 20,000, (ii) National Saving Certificate Rs 10,0000

**Answer—**

Particulars	Details	Amount
<b>Income under the head Salaries</b>		
Consolidated Salary (25000 X 6)		150,000
Amount received for not to join elsewhere—Profits in lieu of salary u/s 17(3)(iii)		40,000
Gross Salary		1,90,000
<b>Less:</b> Deduction u/s 16 (ia) Standard deduction		50,000
GTI		1,40,000
<b>Less: Deduction u/s 80C—LIP Premium Paid</b>	20,000	
National Savings Certificate	10,000	30,000
<b>Total Income</b>		110,000

## TREATMENT OF PROVIDENT FUND

Provident fund scheme is a **welfare scheme** for all employees and other persons. The word '**Provident**' means to provide for the future. Under this scheme, certain amount of salary is deducted by employer as treating employee's contribution for this fund. The employer also makes his contribution to this fund. When the employee retires/resignation and satisfies certain conditions then the accumulated balance of this fund is given to employee. In case of death of the employee, balance of this fund (including interest) is given to the wife and children or legal heirs of the deceased employee.

### Kinds of Provident Fund

1) **Statutory Provident Fund / Provident Fund Act, 1925 OR PF ACT 1925**—Applicable only for govt. or semi govt employee, local authorities, statutory corporation.

**2) Recognised Provident Fund/ Provident Fund Act 1952**

It is created under the employees P.F. Act and Misc. Provision Act 1952 Applies. According to this Act, any person who employs **20 or more** employees, is under an obligation to register his firm under PF Act 1952 and starts a PF scheme for his employee in his organization after three years of its establishment.

**3) Unrecognized Provident Fund**

When a scheme of PF is started by employer and employee in an establishment and such a scheme is not approved by chief commissioner of I.Tax then such PF scheme is called an URPF. It is immaterial whether the approval of commissioner of PF is obtained or not.

**4) Public Provident Fund/P.F Act 1968**

**Who can contribute in this fund**---Only Employee or individual himself

**Max contribution**—Rs 1,50,000

**Interest on this fund**---Fully exempted

**Minimum Contribution**—Rs 500

**Maturity Amount** ---Fully exempted

**Period of Scheme**—15 years

For the purpose of salary, only three types of P.F.s are considered. Provisions for such P.F.s are as follows :-

<b>Particulars</b>	<b>Statutory PF</b>	<b>Recognized PF</b>	<b>Unrecognized PF</b>	<b>Public Provident Fund</b>
Constituted under	Provident Funds Act, <b>1925</b>	EPF and Misc. Provisions Act, <b>1952</b> & recognized by Commissioner of PF and CIT	Not recognized by commissioner of Income tax	Public Provident Fund Act, <b>1968</b> Account in Banks or Post offices
Contribution by	Employer and employee	Employer and employee	Employer and employee	All assessee independently.
Assessee's Contribution	Deduction u/s 80C	Deduction u/s 80C	No income tax benefits	Deduction u/s 80C
Employer's contribution	Not taxable	Amount exceeding <b>12%</b> of salary is taxable	Not taxable at the time of contribution	Not applicable
Interest credited	Fully exempt	<b>Exempt upto 9.5%</b> p.a. any excess is taxable	Not taxable at the time of credit	Fully exempted,
Withdrawal at the time of retirement etc.	Exempt	Exempt u/s 10 (12) subject to conditions	Employee's contribution is not taxable. Int is taxable under OS. Employer's cont. and int. is taxable under Salary.	Exempted

### Important Points on Recognized Provident Fund

- 1) If the employee has rendered continuous service with his employer for a period of 5 years or more, then amount received under this fund is fully exempted.
- 2) The condition of continuous service of 5 years with same employer is not required in the following cases :
  - a) When the employee is terminated **on account of illness**.
  - b) When the employee is **terminated on account of contraction** or discontinuance of employer's business or any other cause beyond the control of employee.
  - c) Where the employee voluntarily resigns from his post before the completion of five years service then tax concession availed by employee in earlier years will be forfeited. Total employer's contribution plus interest thereon (which was exempted earlier), shall be taxable under the head salary as profit in lieu of salary. Interest on employee's contribution will also be taxable under the head Income from Other Sources. However the employee can avail the relief us 89(i) of Income-tax Act.

**Q 58** Calculate the taxable amount of annual accretion to RPF if following information is provided by assessee:

- i) Pay @ Rs 24,500 p.m.
- ii) Commission received by him on the basis of turnover achieved by him Rs 36000
- iii) Employer's contribution to RPF @ 14% of salary:
- iv) Interest credited during the year to RPF Balance @ 12% is Rs 24000.

**Answer**—Rs 6600 and 5000= 11600

**Q 59** Compute taxable part of annual accretion from information given below:

- (i) Salary @ 48000 p.m,
- (ii) Commission @ 1% of turnover of Rs 80,00,000 achieved by him during the previous year.
- (iii) Employer's contribution to RPF @ Rs 7000 p.m.
- (iv) Interest credited to RPF balance @ 12% p.a. is Rs 72000

**Answer**—Rs 5280+15000=20280

### Transferred Balance u/s 17(1)(vii)

The balance of unrecognized provident fund, which is transferred to RPF is called "Transferred Balance".

#### **Provisions**

- 1) The fund will be treated as RPF from the date fund was instituted.
- 2) The employer's contribution of URPF shall qualify for exemption upto 12% of salary and excess shall be taxable.
- 3) The interest credited to the accumulated balance shall be exempted if rate of interest was upto 9.5%. Excess if any, is taxable.
- 4) The taxable amount under point (ii) and (iii) above shall be the income of the previous year in which fund gets recognition. The remainder of the transferred balance shall be ignored.

**Example**—Mr. X joined a new job on 1.4.2020 at Rs 15000 p.m. due on last day of the month. He started contributing to URPF @ Rs 2500 p.m. His employer was also contributing same amount. The Fund was recognized from 1.8.2022. Interest credited during 2020-21 at the rate of 11% was Rs 4400 and for the period 1.4.2022 to 31.7.2022 was Rs 3300. Compute the amount of transferred balance of URPF to RPF as on 1.8.2022 and its taxable portion.

**Answer—**

Computation of transferred balance and taxable portion thereof

Previous year 2021-22		Previous year 2021-22	
Employee's contribution	30,000	Employer's Contribution 30000 Less: Exempted @ 12% of Salary (180000X12%) 21600	8400
Employer's contribution	30,000	Interest credited @ 11% 4400 <b>Less:</b> Exempted @ 9.5% 3800	600
Interest on balance	4400	<b>Previous year 2022-23 (4 months)</b>	
<b>Previous year 2022-23 upto 31.7.2022 (i.e. 4 months)</b>		Employer's Contribution 10000 <b>Less:</b> Exempted @ 12% of Salary 7200	2800
Employee's contribution	10,000	Interest credited @ 11% 3300 <b>Less:</b> Exempted @ 9.5% 2850	450
Employer's contribution	10,000		
Interest on balance	3300		
<b>Transferred balance to RPF on 1.8.2022</b>	<b>87700</b>	<b>Taxable portion of transferred balance</b>	<b>12250</b>

**Employer's contribution towards approved superannuation fund** —The employer's contribution towards approved superannuation fund is **fully exempted upto Rs 1,50,000 per year**. Excess of Rs 1,50,000 will be taxable in the year of contribution. **E.g.** If employer contributes Rs 120000 in the approved superannuation fund in the name of the employee Mr. Rohit, then such contribution will be fully exempted in the hands of Rohit. On the other hand, If employer contributes Rs 190000 in the approved superannuation fund in the name of the employee Mr. Sudhir, then such contribution will be fully exempted upto Rs 1,50,000 and Rs 40,000 will be taxable under the head salary in the hands of Rohit. Any payment received from this fund by the employee at the time of retirement is fully exempted from tax. However, any payment received from this fund by the legal representative of the employee after the death of the employee is fully exempted.

**Very Important Point regarding contribution by the employer**

Amount or aggregate of amounts of any contribution made--

- in a recognized provident fund
- in NPS referred to section 80CCD(1)

- in an approved superannuation fund by the employer to the account of the assessee, to the extent it exceeds Rs 7,50,000 will be included in the employee's salary.

### Meaning of Salary

General meaning	Long meaning	Short meaning
Basic Salary+ D.P. + D.A (if enters) + Fixed %age of Sales	Basic Salary + D.P. + D.A. (if enters) +All Taxable allowances + All commission + Bonus + Encashment of Earned leave during service	Only Basic Salary
For Gratuity, encashment of earned leave, employer's contribution towards RPF or SPF, HRA,	For value of rent free accommodation	For Deduction of Entertainment allowance to Govt. Employees only

### Deduction u/s 80C

The benefit of deduction is available to individual and HUF only. If the assessee makes the contribution to the following funds and scheme then he can claim the benefit of this **deduction maximum to the extent of Rs 1,50,000.**

1	<b>LIP paid to Insurance company</b> for himself, <b>spouse</b> and <b>children</b> (whether dependent or not dependent, married or not married) <b>Max.</b> to the extent of <b>20%</b> of capital sum insured and <b>10% of capital sum insured</b> if policy is issued on or after 1.4.2012.
2	Employee contribution towards <b>RPF, SPF, approved superannuation fund</b>
3	<b>Contribution to PPF</b> ( <b>Max. 1,50,000</b> , minimum Rs 500, 15 years account, interest fully exempted)
4	Investment in <b>NSC VIII issue. Accrued interest</b> on these certificates is also qualifies for ded.
5	<b>Tuition fees</b> (excluding development fees or donation) of <b>any two children</b> paid to the any university, college, school or other educational institution situated <b>within India.</b>
6	<b>ULIP of the UTI</b> or LIC or any other mutual fund covered u/s 10(23D)
7	<b>Repayment of residential loan</b> taken for purchase or construction of a <b>new RHP.</b> The income from such property must be <b>chargeable to tax under HP head.</b> Loan must be <b>borrowed from Central Govt. or any state govt.</b> or Any bank or Co-operative Bank or LIC or National Housing Bank or Any public co. engaged for residential housing finance only.
8	<b>Stamp duty, registration fee</b> paid to Stamp duty Authority for the purpose of transfer of such house property to the assessee.
9	<b>Fixed Deposit or Term Deposit</b> for a period of <b>not less than five years</b> with a scheduled bank or In a Post Office
10	<b>Contributions to approved annuity plans</b> of LIC (New Jeevan Dhara and New Jeevan Akshay)

11	Equity Linked Saving Scheme (ELSS)
12	<b>Subscription to any deposit scheme</b> or contribution to <b>any pension fund</b> set up by the National Housing Bank i.e. National Housing Bank (Tax Saving ) Term Deposit Scheme, 2008

**COMPUTATION OF SALARY INCOME OF  
FOR THE ASSESSMENT YEAR 2023-24**

Basic Salary		
Dearness allowance (whether enters or not)		
Bonus/ Commission on sales or commission on profits		
Medical Allowance (fully taxable without any exemption)		
Lunch allowance/Refreshment allowance		
Entertainment allowance		
Children Education Allowance	Xx	
<b>Less:</b> Exempted Rs 100 per month per child maximum of two children	(xx)	
Children Hostel Allowance	Xx	
<b>Less:</b> Exempted Rs 300 per month per child maximum of two children	(xx)	
Transport allowance	Xx	
<b>Less:</b> NIL (Rs 3200 p.m. in case of blind or deaf or dumb or orthopedically handicapped employee)	(xx)	
Other Allowances		
<b>Taxable Perquisites</b>		
<b>Valuation of rent free accommodation</b>		
a) If accommodation is owned by the employer		
• Cities having population >25 lakh, 15% of salary –rent recovered from employee.		
• Cities having population >10 lakh ≤ 25 lakh, 10% of salary—rent recovered from employee		
• In other cities <b>7.5% of salary</b> —rent recovered from employee		
b) If accommodation taken on lease by the employer		
<b>Lower of the following</b>		
• Rent paid by the employer		
• 15% of salary		
<b>Less:</b> Rent recovered from the employee		
Valuation of use of motor car		
Any other perquisites		
Taxable annuity or uncommuted pension		
Taxable commuted pension		
Taxable gratuity		
Leave encashment		
Leave travel concession/Voluntary retirement compensation/Retrenchment		

compensation etc.		
Professional tax (if paid by the employer)		
<b>Gross Salary</b>		
<b>Less: Standard Deduction u/s 16(ia) (Max Rs 50000)</b>		
<b>Less:</b> Deduction of entertainment allowance (only for govt. employee)		
<b>Less:</b> Professional tax paid (whether paid by employee or employer)		
<b>Income under the head salary</b>		

### Practice Questions

**Q 60 (KP6)** Compute gross salary from information given below:

- i) Salary @ 25000 p.m.
- ii) DA @ Rs 5000 p.m. (Rs 2500 pm. Enters into pay for service benefits).
- iii) Advance salary for two months Rs 35000
- iv) Arrear of salary for the PY 2020-21 Rs 30000
- v) Employer's contribution to RPF Rs 3500 p.m.

**Answer—**Rs 417400

**Q 62 (28K)** X is a pilot in NEPC airlines at Chennai (Population above 25 lakhs). He draws Rs 80,000 p.m. as salary, Rs 12000 p.m. as DA (**not considered for computing retirement benefits**), Rs 58000 Advance salary, Rs 80,000 bonus and Rs 24000 p.a. as educational allowance. He has got two children studying in the nearby school. He is also paid a flight allowance of Rs 4000 p.m. to meet his personal expenses while on duty. He has been provided with a rent free unfurnished flat the fair rental value of which is Rs 2,40,000 p.a. Determine the taxable value of the perquisite and gross salary.

**Answer—**

#### COMPUTATION OF SALARY INCOME FOR THE AY 2023-24

	Detail	Amount
Basic Salary (80000X12)		9,60,000
D.A (12000X12)		1,44,000
Advance Salary		58,000
Bonus		80,000
Educational allowance (24000—100X12X2)		21,600
Flight Allowance (48000—33600)		14,400
Least of the following will be the exempted amount of Flight allowance		
a) 70% of actual allowance received (48000X70%= 33600)		
b) Rs 10000 p.m. (10000X12) 120000		
<b><u>Value of rent free unfurnished accommodation</u></b>		
Salary for this purpose = 960000+80000+21600+14400=1076000		
Value of rent free unfurnished accommodation = 15% of 1076000=		1,61,400
<b>Gross Salary</b>		14,39,400
<b>Less: Standard Deduction u/s 16(ia)</b>		(50,000)
<b>Salary Income</b>		13,89,400

**Q63 (53E1)** X (age 26 years) is an employee of a co-operative society at Varanasi. During the previous year 2022-23, he gets Rs 65,000 per month as basic salary, Rs 8000 per month as bonus and Rs 4500 per month as **dearness allowance (32% of it form part of salary for computation** of retirement benefits) and Rs 2,000 p.m. **as medical allowance** (medical expenses is, however, more than Rs 2000 p.m.). He is a member **of RPF to which** the employer contributes Rs 1,19,874 ( X also makes a matching contribution). X gets an **interest free loan** (repayable within 8 years) of Rs 82,330 from the employer for purchasing a house (SBI lending rate:10.10%). Besides, he gets Rs 11,30,760 as interest on company deposits from a private sector undertaking. X Deposits Rs 31000 in PPF a/c. Determine the taxable income and tax liability of X for the assessment year 2023-24. Ignore section 115BAC.

**Answer--**

**COMPUTATION OF TOTAL INCOME OF MRS X**

For the Assessment Year 2023-24

	Detail	Amount
<b>Salary Income</b>		
Basic Salary (65,000 X 12)	7,80,000	
Bonus (8000 X 12)	96,000	
Dearness Allowance (32% of 54000 enters for retirement) 17280		
Other dearness allowance <span style="float: right;"><u>36720</u></span>	54,000	
Medical Allowance (Rs 2000 p.m. X 12 as <b>fully taxable</b> )	24,000	
Contribution to RPF in excess of 12% of salary		
Salary for this purpose = Basic salary + Dearness Allowance (7,80,000 + 17,280 = 7,97,280)		
Actual Contribution = 119874		
<b>Less: 12% of salary = <u>(95674)</u></b>	24,200	
Perquisite of interest free home loan (82330 X 10.10%)	8315	
	986515	
<b>Less: Standard Deduction u/s 16(ia)</b>	(50,000)	9,36,515
<b>INCOME FROM OTHER SOURCES</b>		
Interest on company deposit from private sector undertaking		11,30,760
		20,67,275
<b>Gross Total Income</b>		
<b>Less: Deduction U/S 80C (Employee Contribution to RPF+PPF)</b>		
Actual amount contributed = 1,50,874		
Maximum Deduction = 1,50,000		(1,50,000)
<b>Total Income</b>		1917280 or 1917280

**Tax on Total Income**

Upto 2,50,000	NIL
2,50,001 to 5,00,000 @ 5%	12,500
5,00,001 to 10,00,000 @ 20%	1,00,000
10,00,001 to 19,17,280 @ 30%	2,75,184
	3,87,684
<b>Add: Health and education cess @ 4%</b>	15,507
<b>Total Tax</b>	<b>4,03,190</b>

**Q 64 (53E2)** Mrs X (age 62 years) is a part-time lecturer in a college of the Delhi University. The details of her salary and other income for the previous year 2022-23 are as follows:

Basic Salary	2,60,000
Dearness Allowance (forming part of salary)	52,400
Special Allowance	2,10,000
<b>Education Allowance</b> for two children (expenditure being Rs 600)	3,600
<b>Hostel Expenditure allowance</b> for one child (expenditure being Rs 7000)	6,800
House rent allowance	80,800
Remuneration from the Calcutta University for acting as examiner	1,42,180

**Allowance for research** which is to be completed during Jan- April 2023 (actual

Expenditure incurred for completing the research: upto March 31,2023: Rs 1500; during April 2023; Rs 3000) 6,000

She is a member of **SPF** to which she contributes 12% of her salary and similar amount is contributed by the college. Besides, the college reimburses Rs 21,000 being expenditure incurred by Mrs X on **medical treatment of her daughter in a private clinic.**

During the year, she spent Rs 700 on the purchase of books for her teaching purposes. She has maintained a scooter for the whole year for office as well as private purposes. She has been living in a **rented house and paying Rs 9,000 p.m. as rent.**

For the year 2022-23, she paid Rs 6,500 as insurance premium on her life policy for Rs 40,000 (date of payment April 3,2023). Mrs X deposits Rs 80,000 in public provident fund every year.

Compute the total income and tax liability for the assessment year 2023-24. Ignore section 115BAC.

**Answer—**

**COMPUTATION OF TOTAL INCOME OF MRS X  
For the Assessment Year 2023-24**

	Detail	Amount
<b>Salary Income</b>		
	Basic Salary	2,60,000
	Dearness Allowance (enters for retirement)	52,400
	Special Allowance	2,10,000
	Education Allowance (Rs 3600 –100 X 2 X12)	1200
	Hostel Expenditure allowance (6800 – 300 X 12)	3200
	Allowance for research (6000 –1500—3000)	1500
	Taxable Part of HRA ( <b>working Note 1</b> )	4040

Perquisite of Medical Facilities in Private Clinic	21000	
	5,53,340	
<b>Less: Standard Deduction u/s 16(ia)</b>	(50,000)	5,03,340
<b><u>INCOME FROM OTHER SOURCES</u></b>		1,42,180
Remuneration from Calcutta University		6,45,520
<b>Gross Total Income</b>		
<b>Less: Deduction U/S 80C (Employee Contribution to SPF+PPF)</b>		
Actual amount contributed = 117488		
Maximum Deduction = 1,50,000	117488	(117488)
<b>Total Income</b>		5,28,032
		Or
		5,28,030

**Working Note**

Calculate Taxable Part of HRA

**Salary for this purpose** = Basic Salary + Dearness Allowance = 312400

Least of the following three will be the exempted amount of HRA

a)	Rent paid – 10% of Salary i.e. 9000 X 12 ---10% of 312400	76760
b)	50% of Salary (312400 X 50%)	156200
c)	Actual HRA received	80,800

Exempted HRA = 76760

Taxable HRA = 80800—76760 = 4040

**Tax on Total Income**

Upto 3,00,000	Nil
3,00,000 to 5,00,000 @ 5%	10,000
5,00,000 to 5,28,030 @ 20%	5,606
	15,606
<b>Add: HEC (4%)</b>	624
<b>Total Tax</b>	16,230

**Q 65 (53E 17)** Mrs. X (age 55 years), an employee-director of XYZ Ltd. submits the following information relevant for the assessment year 2023-24.

Salary: Rs 8,00,000; entertainment allowance Rs 20,000; bonus Rs 1,60,000; education allowance; Rs 3,000 (**for her grand children**), **IT penalty** paid by employer Rs 8,000; LTC: Rs 80,000; free residential telephone: Rs 17,500; free refreshment during office hours: Rs 12,000; payment of electricity bills by employer Rs 11000; reimbursement of gas bills: Rs 4500; professional tax paid by Mrs. X: Rs 2,000; furnished flat owned by the employer at concessional rate at Cochin (population: 31 Lakh) - fair rent of the house: Rs 40,800; cost of maintenance: Rs 2000, salary of two watchmen: Rs 10,000, salary of personal attendant: Rs 21,200, rent of AC Rs 12,000, cost of furniture Rs 48,000; Maruti 800cc car owned by the employer for official and personal use—depreciation of the car: Rs 40,000; maintenance of car: Rs 78,000, salary of driver: Rs 72,000(10% of the expenditure is attributable for the journey between office and residence and back); **arrears of bonus of 2019-20 (not taxed earlier)** Rs 70,000, payment of

delegation fee to FICCI for attending all India Conference of Corporate Managers and Tax Executives Rs 6,000; employer's contribution towards recognized provident fund Rs 75,000, interest credited in PF Account @ 14% of Rs 2,12,000(credited on June 10, 2022);; dividend from XYZ Ltd. a foreign company: Rs 91,50,000; and agricultural income from Nepal: Rs 8,00,000.

During the year Mrs. X makes the following contribution and expenditure (a) rent of furnished house paid to the employer: Rs 14000, (b) payment in respect of use of Maruti Car Rs 3,000 as per service rule Mrs X has to pay an amount equal to Rs 1.60 Km., whenever car is used for personal purposes; however, nothing is payable in respect of journey from office to residence and back, (c) contribution towards recognized provident fund Rs 67,200 (d) insurance premium (since 2006) for a policy of Rs 45,000 on life of her husband Rs 10,400 (e) **insurance premium for a policy of Rs 10,000 on life of her father Rs 4,000** (f) expenditure on fare Rs 86,000. Calculate the net income of Mrs X for the AY 2023-24. X owns a residential house in Cochin which is vacant, as a suitable tenant is not available. Ignore section 115BAC.

**Answer-- COMPUTATION OF TOTAL INCOME OF Mrs X  
For the Assessment Year 2023-24**

	Detail	Amount
Basic Salary	8,00,000	
Entertainment Allowance	20,000	
Bonus	1,60,000	
Education Allowance for grand child (fully Taxable)	3,000	
Income Tax penalty paid by employer	8,000	
Leave Travel Concession (80,000---86000)	NIL	
Telephone Facility	NIL	
Refreshment during office hours	NIL	
Electricity bill paid by employer	11,000	
Reimbursement of gas bill	4,500	
Salary of two watchman	10,000	
Salary of personal attendant	21,200	
Rent of AC	12,000	
Perquisite of Car (1800 x 12 + 900 x 12)	32,400	
Arrears of Bonus	70,000	
Payment of delegation fee	NA	
Employer 's contribution towards RPF (75000—96000)	NIL	
Interest on RPF in excess of 9.5% (2,12,000 X 4.5/14)	68,143	
Employer contribution to approved gratuity funds	NA	
Value of rent free accommodation		
Salary for this purpose= Basic salary + Entertainment allowance + Education allowance + Bonus = 9,83,000		
Value of rent free accommodation = 15% of salary =	147450	
Add: 10% of cost of furniture	= 4800	
	152250	
<b>Less: Amount paid to Employer</b>	<u>(14,000)</u>	1,38250

Gross Salary	1358493	
<b>Less: Standard Deduction</b>	(50,000)	
<b>Less:</b> Professional tax paid	(2,000)	
	<u>1306493</u>	13,06,493
<b>Income From Other Sources</b>		
Dividend from foreign companies	91,50,000	
Agriculture Income Nepal	8,00,000	99,50,000
<b>Gross Total Income</b>		1,12,56,493
<b>Less: Deduction u/s 80C</b>		
Contribution to RPF	67,200	
LIP of her husband (20% of 45,000 or Rs 10400)	9000	76,200
<b>Total Income</b>		1,11,80,290

**Q 66 (53 P-1)** During the previous year 2022-23, X (45 years) is employed by a pharmaceutical company situated at Kanpur. He gets the following from the employer—

Basic salary Rs 34000 p.m., Dearness Allowance: 30% of basic salary (40% is considered for calculating retirement benefits like gratuity and pension), dearness pay: Rs 5000 p.m. (nothing is considered for retirement benefits), fixed commission: Rs 4000 p.m., commission (as incentive): 5% of turnover (and extra commission of 2% if annual turnover exceeds Rs 15,00,000), house rent allowance Rs 15000 p.m. (rent paid is Rs 17000 p.m. upto June 30, 2022 and after that he shifts in his own house but house rent allowance is received throughout the previous year), employer's contribution towards recognized provident fund: Rs 5400 p.m., interest credited in PF account: Rs 56,000 (rate of interest 11%).

X has been provided health club facility at a 4 star hotel in Kanpur by the employer-company. This facility is available to all employees of the company. Annual expenditure for providing this facility is Rs 7000 p.m. (which is borne by the employer). The employer company also provides **tea and snacks to all employees during tea break** (expenditure incurred by the company is approximately Rs 60 per day for 310 working days).

Calculate salary income of Mr X for the assessment year **2023-24** on the assumption that monthly turnover achieved by X is Rs 1,00,000.

**Answer—**Taxable part of HRA 141924; Salary Income = 884725

**Note: Health club facility—**Health club facility provided uniformly to all employees, is not chargeable to tax. However, this benefit of exemption is available only if it is provided in the employer's premises. In this case, health club facility is provided in a 4 star hotel not owned by the employer.

**COMPUTATION OF SALARY INCOME OF  
FOR THE ASSESSMENT YEAR 2023-24**

<b>Basic</b> Salary (34000X12)	4,08,000
Dearness Allowance (30% of Rs 4,08,000)	1,22,400
Dearness Pay (5000X12)	60,000
Fixed Commission (4000X12)	48,000
Commission on sales (12,00,000x 5%)	60,000

Taxable Value of HRA Salary for this purpose= 102000+12240+15000=129240 Least of the following three will be exempted amount of HRA a) Rent paid -10% of salary (51000-12924)38076 b) 40% of salary (129240x40%)51696 c) Actual HRA received (15000x3)45000 Exempted HRA =38076 Taxable HRA = 15000x12=180000—38076= Employer's contribution towards RPF in excess of 12% of salary (5400x12=64800—12%(408000+40%of 122400+60000)i.e.62035 Interest in excess of 9.5% (56000X 1.5/11) Club Facility		
		1,41,924
		2,765
		7,636
		84,000
<b>Gross Salary</b>		<b>9,34,725</b>
<b>Less: Standard Deduction u/s 16(ia)</b>		<b>(50,000)</b>
<b>Salary Income</b>		<b>8,84,765</b>

**Q 67 (53 P-2)** Mrs. X (48 years) is a deputy manager in a Mumbai based company. She gets Rs 54,000 p.m. as salary. Cost of education is approximately Rs 1,80,000 for the two children (out of which Rs1,36,000 is tuition fees paid by Mrs X). Besides, she gets child education allowance of Rs 450 p.m. (for daughter) and Rs 80 pm. (for son). She gets hostel expenditure allowance for her daughter at the rate of Rs 300 p.m. (but the daughter is a post graduate student in Mumbai college and does not stay in any hostel).

The employer-company provides 1800 cc for official and private purpose and incurs the entire expenditure on running and maintenance of the car. Personal use of the car as per log book is approximately 65%. With effect from November 1, 2022 she gets driver (to whom the company pays Rs 6000 p.m.).

The employer has provided an unfurnished flat at Andheri (East). It is owned by the company (however, company pays Rs 900 p.m. as maintenance charges to the society). The company maintains unrecognized provident fund and contributes 18% of salary towards it for each employee. Mrs. X, however, contributes Rs 8000 p.m. Compute salary income of Mrs. X for the AY 2023-24.

**Answer—Salary Income = 7,37,470; Value of rent free accommodation = 98,370**

**Note—**Maintenance charges are not taxable. Hostel allowance is fully taxable because daughter does not stay at a hostel.

**COMPUTATION OF SALARY INCOME OF  
FOR THE ASSESSMENT YEAR 2023-24**

Basic Salary (54000x12)	6,48,000
Education Allowance (450-100= 350x12 + 80-80=nil)	4,200
Hostel Education Allowance (300x12)	3,600
Perk of Car (2400x12+900x5)	33,300
Value of Rent free accommodation	
Salary for this purpose=648000+4200+3600=655800	
Value of rent-free accommodation (655800x15%)	98,370

Gross Salary	8,31,470
Less: Standard deduction u/s 16(ia)	(50,000)
Salary Income	7,37,470

**Q 68 (53 p-3)** X (22 years) is a mechanical engineer and is employed by a power generation company as chief production manager. He gets Rs 84,000 p.m. as salary and 2 months salary as bonus. Upto October 31,2022, he was posted at the corporate office of the company at Chennai. He had been provided a rent-free unfurnished accommodation at Chennai upto October 31,2022, which is owned by the company. With effect from November 1, 2022 he has been transferred to the power generating site of the company which is situated in a “remote area”. After October 31, 2022, he gets the following allowances/perks from the company—

**Transfer allowance** Rs 1,40,000 (amount spent on fare and other incidental expenses in connection with transfer: Rs 1,02,000), a rent free furnished flat at power generating site (owned by the company), club facility at the power generating site for personal entertainment of the employee and family members (expenditure of the company is Rs 500 p.m.). Maruti Car (for official and personal purposes, but without driver, expenses of the company Rs 40,000), education facility to the dependent brother of X in a school owned by the company in the remote area at power generating site (cost of education in a similar institute is Rs 600 p.m.), meal at the generating site (cost of meal Rs 80 per day) and medical facilities in employer’s hospital at the power generating site (expenditure incurred by company is Rs 16000). Company maintains unrecognized provident fund and contributes 14% of salary towards it. X contributes Rs 10000 p.m. Compute salary income.

**Answer—1281400 ; Value of rent free accommodation Rs 1,02,900.**

**Note—Perquisites of car is fully taxable even if he has been employed in remote area.**

**COMPUTATION OF SALARY INCOME OF  
FOR THE ASSESSMENT YEAR 2023-24**

Basic Salary(84000x12)	10,08,000
Bonus (84000x2)	1,68,000
Trans	
Value of Rent-free accommodation	
Salary for this purpose= $588000 + 168000 / 12 \times 7 = 686000$	
Value of rent free accommodation (686000x 15%)	1,02,900
Transfer allowance (140000-102000)	38,000
Value of rent free accommodation at remote area	Tax free
Perk of car(1800x5)	9,000
Perk of club facility (fully taxable because not available for all employee )	2,500
Perk of Education (600x5)	3,000
Free meal at remote area	Tax free
Medical facilities at employer’s hospital	Tax free
Employer’s contribution in unrecognized provident fund	Tax free
<b>Gross Salary</b>	<b>13,31,400</b>
<b>Less: Standard Deduction u/s 16(ia)</b>	<b>50,000</b>
<b>Salary Income</b>	<b>12,81,400</b>

**Q69 (53 P4)** X (38 years) is a cost accountant. He is posted at Kozhikode (Kerala). He gets Rs 65,000 p.m. as salary and Rs 10,000 p.m. as **hard allowance**. The employer company has provided a rent free unfurnished house at Kozhikode (population as per 2001 census is 16 lakh). The employer company pays Rs 16,000 p.m. as rent of the unfurnished house. However, the same house is purchased by the company for Rs 80,00,000 from the landlord on December 1, 2022 and after that no rent is paid (only expenditure of the company is running and maintenance of the property which approximately comes to Rs 400 p.m.)

The company has been provided 1600 cc car at the place of posting. Car is taken on lease by the company (monthly lease rent is Rs 19,000). The entire expenditure of the car is met by the company up to December 31, 2022. From January 1, 2023, expenditure pertaining to personal use of the car is met by X and expenditure pertaining to official use and lease rent is paid by the employer company. Free residential telephone is provided to X for personal use (expenditure of the employer is Rs 20,000).

Employer and employee contribute towards RPF (contribution of each of them is 12% of salary upto December 31, 2022 and increased to 12.5% from January 1, 2023. Interest is credited on January 1, 2023 (rate of interest :9%). X pays Rs 80,000 on March 31, 2023 to Kerala Housing Board (house is yet to be allotted) (out of Rs 80,000, the **employer company has contributed Rs 30,000 out of its pocket which is not recoverable from X.**) Compute salary income.

**Answer—SI 1018975; Value of rent free house =90000+30000=120000 Perk of Car 18000.**

Note—Telephone expenses are not taxable even if it is used for personal purposes.

**COMPUTATION OF SALARY INCOME OF  
FOR THE ASSESSMENT YEAR 2023-24**

Basic Salary (65,000x12)	7,80,000
Hard Allowance (10,000 x12)	1,20,000
Perk of Car(1800X9+600x3)	18,000
<b><u>Value of rent free accommodation</u></b>	
Salary for this purpose=65000x8+10000x8=6,00,000	
Value of rent free accommodation for 8 months	
Least of the following two will be the rent free accommodation	
a) 15% of 6,00,000= 90,000	
b) Actual Rent paid (19000x8)152000	
Therefore, value of rent free accommodation for 8 months = 90000	
Value of rent free accommodation for 4 months	
Salary for this purpose = 65000x4+10000x4=3,00,000	
Value of rent free accommodation (3,00,000x 10%) =30,000	
Total Value of rent free accommodation (90,000+30,000)	1,20,000
Employer's contribution towards RPF in excess of 12% (65000x3=195000x0.5%)	975
Employer's contribution towards Kerala Housing Board	30,000
<b>Gross Salary</b>	<b>10,68,975</b>
<b>Less: Standard Deduction u/s 16(ia)</b>	<b>50,000</b>

Salary Income	10,18,975
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**Q 70 (53 P5)** During the previous year 2022-23, X (39 years) is employed by a private sector company. He gets Rs 45000 p.m. as Basic Salary, Rs 15000 p.m. as dearness allowance (30% is considered for calculation of provident fund), Tiffin allowance of Rs 1000 p.m., medical allowance of Rs 1500 p.m. Besides he gets a fixed commission of Rs 5000 p.m. The employer company has been provided a watchman at the residence of X (company bears salary of Rs 4000 p.m. out of which Rs 1000 p.m. is recovered from X). The company provides a car (1200 cc) for personal and official use of X (the entire expenditure on salary and driver of approximately Rs 76000 is incurred by the company along with hire charges of car of Rs 18000, only a sum of Rs 9000 is recovered for providing car from X). The employer company contributes 15% of "salary" towards RPF. A matching contribution is made by X. However, with effect from January 1, 2023, X makes an additional contribution of Rs 4000 p.m. Interest of Rs 74000 is credited in provident fund account at the rate of 10% on October 1, 2020. Compute salary income.

**Answer—**

**COMPUTATION OF SALARY INCOME OF MR. FOR THE ASSESSMENT YEAR 2023-24**

Basic Salary (45000x12)	5,40,000
Dearness Allowance (15000x12)	1,80,000
Tiffin Allowance (1000x12)	12000
Fixed medical Allowance (1500x12)	18000
Fixed commission (5000x12)	60000
Watchman(4000-1000=3000x12)	36000
Car(1800+900=2700x12)( <b>amount recovered is not deductible</b> )	32400
Employer's contribution towards recognized provident fund in excess of 12% of salary (3% of (540000+30% of 180000))	17820
Credit of interest in provident fund (74000x0.5/10)	3700
<b>Gross Salary</b>	<b>8,99,920</b>
<b>Less: Standard deduction</b>	<b>(50,000)</b>
<b>Salary Income</b>	<b>8,49,920</b>

**Q 71 (53 P6)** Mrs X (34 years) is in the IT department of A Ltd. She joined the company on November 1, 2020 in the pay scale of Rs 80,000--Rs 5000—Rs 2,00,000. At the time of joining her salary was fixed at Rs 84,000. Besides, she gets Rs 10,000 p.m. as dearness allowance (not forming part of salary for any retirement benefits purposes). As per service rules, she is entitled to the following –

Fixed servant allowance: Rs 1250 per month

Fixed meal allowance: Rs 1500 p.m.

Conveyance allowance : Rs 3000 p.m.

**Garden allowance:** Rs 1900 per month (it is allowed with effect from May 1, 2022)

These allowances are used for personal purposes. However, conveyance allowance has been discontinued with effect from January 1, 2023. A car (1400cc) is provided for official and private use with

effect from January 1, 2023. The entire expenditure (i.e. Rs 43000 including driver's salary) is paid by the employer-company. Mrs X contributes 15% of her salary towards unrecognized provident fund. A matching contribution is made by the employer. Interest of Rs 81,000 is credited in the provident fund account at the rate of 11%. Compute salary income. Salary becomes due on the last day of each month.

**Answer—**

**COMPUTATION OF SALARY INCOME OF MR. FOR THE ASSESSMENT YEAR 2023-24**

Basic Salary (89000x7+94000x5)		10,93,000
DA (10000x12)		1,20,000
Fixed Servant Allowance (1250x12)		15,000
Fixed meal allowance (1500x12)		18,000
Conveyance allowance (3000x9)		27,000
Car Perk (1800+900=2700x3)		8,100
Garden Allowance (1900x11)		20,900
<b>Gross Salary</b>		<b>13,02,000</b>
<b>Less: Standard Deduction u/s 16</b>		<b>(50,000)</b>
<b>Salary Income</b>		<b>12,52,000</b>

**Note—Employer's contribution towards URF are ignored.**

**Q 72 (SM4)** Mr. Balaji employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2023:

- 1) Basic Salary upto 31.10.2022 Rs 50,000 p.m.  
Basic Salary from 1.11.2022 Rs 60,000 p.m.  
Salary is due on the last day of the month.
- 2) Dearness allowance @ 40% of basic salary.
- 3) Bonus equal to one month salary. Paid in October 2022 on basic salary plus dearness allowance applicable for that month.
- 4) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- 5) Profession tax paid Rs 2500 of which Rs 2000 was paid by the employer.
- 6) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop Rs 45000 and computer Rs 35000 were acquired by the company on 1.12.2022.
- 7) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 1.11.2022 meant for both official and personal use. Repair and running expenses of Rs 45000 from 1.11.2022 to 31.3.2023, were fully met by the employer. The motor car was self-driven by the employee.
- 8) 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 Rs 30,000 for adults and Rs 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 for the A Y 2023-24 assuming he has not opted for the provisions of section 115BAC.

**Answer—967500 (BONUS Rs 70000 i.e 50000 + 40% of 50000)**

**COMPUTATION OF SALARY INCOME OF MR. FOR THE ASSESSMENT YEAR 2023-24**

Basic Salary (50000x7+60000x5)	6,50,000
Dearness Allowance (40% of 6,50,000)	2,60,000
Bonus (50,000 +40% of 50,000)	70,000
Employer's contribution towards RPF in excess of 12% of salary (650000x4%)	26,000
Professional tax paid by the employer	2,000
Perk of Computer	Tax free
Perk of Car (2400x5)	12,000
Perk of LTC	Tax free
<b>Gross Salary</b>	<b>10,20,000</b>
<b>Less: Standard deduction</b>	<b>(50,000)</b>
<b>Less: Professional Tax</b>	<b>(2500)</b>
<b>Salary Income</b>	<b>9,67,500</b>

**Q 73 (SM5)** From the following details, find out the salary chargeable to tax for the AY 2023-24:

Mr X is a regular employee of Rama and Co. in Gurgaon. He was appointed on 1.1.2022 in the scale of Rs 20,000-1000-30000. He is paid 10% DA & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and DA 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 Rs 10,000 p.m. He is also provided with following facilities:

- Facility of laptop costing Rs 50,000.
- Company reimbursed the medical treatment bill of his brother of Rs 25,000, who is dependent on him.
- The monthly salary of Rs 1,000 of a house keeper is reimbursed by the company.
- A cash gift of Rs 10,000 on the occasion of his marriage anniversary.
- Conveyance allowance of Rs 1000 p.m. is given by the company towards actual reimbursement.
- He is provided personal accident policy for which premium of Rs 5,000 is paid by the company.
- He is getting **telephone allowance** @ Rs 500 p.m.

**Answer—343464 (rent free accommodation = 44145)**

**Note—**Telephone allowance is fully taxable.

**COMPUTATION OF SALARY INCOME OF MR. FOR THE ASSESSMENT YEAR 2023-24**

Basic Salary (20,000x9+21000x3)	2,43,000
Dearness Allowance (10%of 243000)	24,300
Bonus	21,000
Employer's contribution towards RPF in excess of 12% (267300 x 3%)	8,019
Telephone Allowance (500x12)	6,000
Value of Rent free accommodation	
Salary for this purpose= 243000+24300+21000+6000=294300	
Least of the following two will be the value of rent free accommodation	
a) 15% of Salary (294300 x 15%)	44145

b) Actual rent paid by the employer 120000	
Value of rent free unfurnished accommodation	44,145
Perquisites of Laptop	Tax free
Reimbursement of Medical facility	25,000
Perquisites of house keeper's salary (1000 x 12)	12,000
Cash gift	10,000
Conveyance allowance	Exempted
Personal accidental policy	Tax free
<b>Gross Salary</b>	<b>3,93,464</b>
<b>Less: Standard deduction</b>	<b>(50,000)</b>
<b>Salary Income</b>	<b>3,43,464</b>

### A final Touch to Salary

S No	Particulars	Amount
1	Basic Salary (Net salary received+ employee's contribution to RPF + income tax deducted at source)	
2	Dearness allowance –Whether forming part of salary or not	
3	Advance Salary, Arrear of Salary, City compensatory allowance, Commission, commission on sales, <b>Lunch allowance, Medical allowance, Telephone allowance</b> , Overtime allowance	Fully Taxable
4	Employer's contribution towards RPF in excess of 12% of salary Interest on RPF in excess of 9.5%	Taxable
5	Uniform allowance, Research allowance, helper allowance, conveyance allowance, daily allowance, travelling allowance, <b>exempted upto actual expenditure</b> incurred for the discharge of official duties.	
6	<b>Children education allowance</b> –exempted upto Rs 100 p.m. per child maximum two children study in India <b>Hostel expenditure allowance</b> –exempted upto Rs 300 p.m. per child maximum two children study in India <b>Education facility</b> = If cost of education is upto or less than Rs 1000 p.m. then it is tax free perquisites. If cost of education is more than Rs 1000 p.m. then perk will be = school fee charged by other similar school –Rs 1000 p.m.	
7	<b>Running allowance</b> or flight allowance or personal allowance received by employee working in Transport system—Exempted least of the following two— a) 70% of actual allowance received b) Rs 10,000 p.m.	
8	<b>House Rent allowance</b> —Treatment same for all employees. Exempted if employees lives in a rented accommodation. Least of the following three will be the exempted amount of HRA.	

	<p>a) Rent paid –10% of salary  b) 40%/50% of salary  c) Actual HRA received</p> <p><b>Taxable HRA = Total HRA Received – Exempted HRA</b></p>	
9	<p><b><u>Valuation of Rent free Accommodation=</u></b></p> <p><b>Case 1 Govt Employee</b></p> <p>Value of rent free unfurnished accommodation (As per License fee) = xx  <b>Add: 10% of cost of furniture (if furniture provided by employer) = xx</b>  Total Value of rent free accommodation = xx</p> <p><b><u>Case 2 Non Govt Employee</u></b></p> <p>If accommodation is owned by employer—  15% of salary if population is more than 25 lakhs  10% of salary if population is between 10 lakh and 25 lakhs  7.5% of salary in other cities</p> <p>If <b>accommodation is owned by employee</b>, then value of rent free unfurnished accommodation will be <b>least</b> of the following two.</p> <p>a) Rent paid by employer  b) 15% of salary</p> <p><b>Value of rent free furnished accommodation = Value of rent free unfurnished accommodation + 10% of cost of furniture</b></p> <p>If <b>accommodation is provided by employer in Hotel</b>—in this case, treatment is same for all kinds of employees.</p> <p>Least of the following two will be the value of rent free accommodation.</p> <ul style="list-style-type: none"> <li>• 24% of salary</li> <li>• Actual charges paid to hotel</li> </ul>	

### Use of Movable assets

S No.	Asset given	Value of benefit
a)	Use of laptops and computers	NIL
b)	Movable assets other than— <ul style="list-style-type: none"> <li>• laptops and computers; and</li> <li>• assets already specified</li> </ul>	10% of the actual cost of such asset, or the amount of rent or charge paid or payable by the employer, as the case may be less Amount paid/recovered from an employee

**Transfer of movable assets**—Actual cost of asset to employer—cost of normal wear and tear—Amount paid or recovered from employee

S No.	Assets Transferred	Computation of cost of normal wear and tear
	Computer and electronic items	@ 50% on WDV for each completed year of usage
	Motor Cars	@ 20% on WDV for each completed year of usage
	Any other asset	@ 10% of actual cost of asset to the employer for each completed year of usage.

**Perquisite value of Motor Car**

S No	Car owned /hired by	Expenses met by	Wholly official use	Partly official and partly personal use	
				Cc of engine	Perquisite value
1	Employer	Employer	No Value	Upto 1.6 ltrs	Rs 1800 p.m.
				Above 1.6 ltrs	Rs 2400 p.m.
				If chauffeur is also provided Rs 900 p.m. should be added to the above rules.	
2	Employee	Employer	No value	Actual amount of expenditure incurred by the employer as reduced by the perquisite value arrived at in (1) above	
3	Employer	Employee		<b>Cc of engine</b>	<b>Perquisite value</b>
				Upto 1.6 litres	Rs 600 p.m.
				Above 1.6 litres	Rs 900 p.m.
				If chauffeur is also provided Rs 900 p.m. should	

**Note-** Where car is owned by employer and expenses are also met by the employer, the taxable perquisite in case such car is used wholly for personal purposes of the employee would be equal to the running and maintenance expenses and normal wear and tear (calculated @ 10% p.a. of actual cost of motor car) less amount charged from the employee for such use.

**A word and a stone let go cannot be recalled.**

**“THE FUTURE BELONGS TO THOSE WHO BELIEVE IN THE BEAUTY OF THEIR DREAMS”**

**Team work divides the task and double the success.**

**The Road to success is always under construction.**