

## **Income from Salary**

### **MEANING OF SALARIES & SOME IMPORTANT TERMS**

- Every payment made by an employer to his employee for **service rendered** would be taxable as Income from Salaries.
- **EMPLOYER-EMPLOYEE RELATIONSHIP:** To be taxable under the head "Salaries" -
  - (a) There should be Employer-Employee relationship.
  - (b) The Employee may be full-time or part-time employee.
  - (c) Employer may be operating in India or Abroad.

#### **Examples:**

(1) **Commission received by director** → Taxed u/h "Salaries" if he is employee of the company.

If he is not Employee → Such commission may be taxed u/h PGBP/IFOS depending on facts & circumstances.

(2) **Member of Parliament/State Legislature** → Not treated as Employee of Government & thus no Employer-Employee Relationship exist & their salary is not taxable u/h salaries. It is taxable u/h IFOS.

(3) Salary paid to a Partner by a Firm: is appropriation of profits. It is not treated as Salary since no Employer-Employee relationship exists b/w the partner & firm. It is taxed u/h PGBP.

**Note:** Amount received by Individual shall be treated as salary **only if relationship b/w payer & payee is of Employer & Employee or Master & Servant. (Principal & Agent).**

- Salary includes both **Monetary & Non-Monetary facilities.**
  - (a) Monetary Facilities: Basic salary, Bonus, Commission, Allowances etc.
  - (b) Non- Monetary facilities: Housing accommodation, Medical facility, Interest free loans etc.
- **Salary & wages** are **not different** terms for the purpose of Income Tax Act.
- **Salary from more than one source:** Salary from each source is taxable u/h Salaries.
- **SALARY PAID TAX-FREE**
  - This does not mean that tax is not levied on such salary.
  - It simply means that **Employer bears the burden of the tax** on the salary of the employee.
  - It does not matter whether employer pays the tax under terms of contract or voluntarily.
  - Thus, **Income from salaries = Salary Income + Tax on employee's Salary paid by the employer.**
  - However, as per section 10(10CC), **Income-tax paid** by the employer on **Non-Monetary Perquisites** on behalf of the employee would be **exempt** in the hands of the **employee.**
- **LOAN OR ADVANCE AGAINST SALARY NOT TAXED AS SALARY**
  - Loan is different from salary. It **cannot be taxed as Salary.**
  - Similarly, **advance against salary is different from advance salary.** It is an advance taken by the employee from his employer. This advance is generally **adjusted with his salary** over a specified time period.
  - When an employee takes a loan from his employer, which is repayable in certain specified

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installments, the loan amount cannot be brought to tax as salary of the employee.

## **DEFINITION OF SALARY [SECTION 17(1)]**

- Meaning of the term 'salary' for purposes of income-tax is much wider than what is normally understood.
- Salary includes the following:

Wages.
Annuity or Pension.
Gratuity.
Any fees, Commission, Perquisite or Profits in lieu of or in addition to any salary or wages.
Advance Salary.
Payment received in respect of any Period of Leave not availed by him.
Leave Salary or Leave Encashment.
Portion of the annual accretion in any PY to the balance at the credit of an employee participating in a recognised PF to the extent it is taxable.
Transferred balance in recognized PF (only taxable portion)
Contribution made by CG/other employer in PY under a pension scheme u/s 80CCD.

- **It is an inclusive definition & includes monetary as well as non-monetary items.**

## **BASIS OF CHARGE [SECTION 15]**

<b>1. Salary is chargeable to tax on <b>Due or Receipt basis</b> whichever is <b>earlier</b>.</b>
<b>2. Advance Salary:</b> Advance salary is <b>taxable on Receipt basis</b> . <ul style="list-style-type: none"><li>▪ Advance salary is taxable when it is received by the employee whether it is due or not.</li><li>▪ Thus when Advance Salary which has been taxed on Payment basis in earlier years, it cannot be subsequently brought to tax in the year in which it is due.</li><li>▪ Relief u/s 89(1) is available in this case.</li></ul>
<b>3. Salary in Arrears:</b> Salary in Arrears becomes <b>taxable on due basis</b> . <ul style="list-style-type: none"><li>▪ Since salary paid in arrears has already been assessed on due basis, the same cannot be taxed again on payment basis (when it is paid).</li><li>▪ <b>But there are circumstances when it may not be possible to tax on due basis.</b> <b>Ex:</b> If Pay Commission is appointed by CG &amp; it recommends revision of salaries of employees, arrears received in that connection will be charged on receipt basis. Here also, relief u/s 89(1) is available.</li><li>▪ Relief u/s 89(1) is available in this case.</li></ul>

### **Examples:**

- (i) A draws his salary in advance for April 2021 in March 2021 itself. Salary of April is taxable on receipt basis

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& is to be taxed as income of PY 2020-21. However, salary for PY 2021-22 will not include salary of April 2021.

(ii) If salary due for March 2021 is received by A later in month of April 2021, it is still chargeable as income of PY 2020-21 i.e. AY 2021-22 on due basis. Obviously, salary for AY 2022-23 will not include that of March 2021.

## **ANALYSIS OF SECTION 15**

<b>NATURE OF SALARY</b>	<b>PY OF TAXABILITY</b>
Salary becomes due in PY 2020-21 (Paid in Subsequent Year)	2020-21
Salary is received in PY 2020-21 (becomes due Subsequent Year)	2020-21
Arrears of salary received during PY 2020-21 although it pertains to one of the earlier years & same were <b>not taxed</b> on due basis.	2020-21
Arrears of salary received during PY 2020-21 although it pertains to one of the earlier years but same were <b>taxed</b> on due basis.	Year in which it was due.

## **FOREGOING OF SALARY**

**[Theory question may be asked in Exams]**

- Salary is chargeable to tax on due or receipt basis (whichever is earlier).
- If employee foregoes his salary, it does not mean that salary so foregone is not taxable.
- Once salary accrues, subsequent waiver by employee does not make it exempt from tax.
- Such waiver is **only an application** & hence, is **taxable**.

**Ex:** Mr. A, an employee instructs his employer that he is not interested in receiving salary for April 2019 & same shall be donated to a charitable institution. In this case, Mr. A cannot claim that he cannot be charged in respect of salary for April 2019. It is only due to his instruction that donation was made to a charitable institution by his employer. It is only an application of income. Hence, salary for the month of April 2019 will be taxable in hands of Mr. A. However, he is entitled to claim a deduction u/s 80G for the amount donated to the institution.

- **Surrender of Salary to Central Government:** If an employee surrenders his salary to u/s 2 of Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961 → Such Salary is **Exempt**.

## **PLACE OF ACCRUAL OF SALARY [SEC 9(1)]**

- **General Rule:** Salary is deemed to accrue or arise at the place where the **services are rendered**.

<b>Place of Service</b>	<b>Place of Payment</b>	<b>Deemed to accrue in India ?</b>	<b>Tax</b>
India	India	Yes	Yes
India	Abroad	Yes	Yes
India	Pension for such services is paid Abroad (o/s India)	Yes	Yes
Leaves Earned in service in India	Leave salary for such leaves is paid abroad	Yes	Yes

**Note:** If an employee gets pension paid abroad for 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.

### **Exception to General Rule - Sec 9(1)(iii)**

- **Salary paid by Government to Citizen of India (R/NR)** for services rendered **outside India** is **deemed to accrue/arise in India**.
- However any **Allowance or Perquisites** paid **outside India** by **GOI** to a **citizen of India** for rendering services outside India will be **fully exempt**. [Section 10(7)].

**Ex:** A, a citizen of India is posted in United States as our Ambassador. Obviously, he renders his services outside

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India. He also receives his salary outside India. He is also a NR. The question, therefore, arises whether he can claim exemption in respect of his salary paid by GOI to him outside India.

Under general principles of income tax such salary cannot be charged in his hands since services are rendered outside India. But section 9(1)(iii) provides that salaries payable by GOI to a citizen of India for services outside India shall be deemed to accrue or arise in India. However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7).

## **TABULAR SUMMARY of Sec 9(1)(ii) & Sec 9(iii)**

	Who is employee	Employer	Place of Service	Is it taxable in India	
				Salary	Allowance/Perquisite
<b>1</b>	<b>Indian Citizen (R/NR)</b>	<b>GOI</b>	<b>Outside India</b>	<b>Yes</b>	<b>No</b>
<b>2</b>	NR (Other than 1)	Any	Outside India	No	No
<b>3</b>	ROR (Other than 1)	Any	Anywhere	Yes	Yes

## **COMPONENTS OF SALARY & THEIR TAXABILITY**

<b>RECEIPTS</b>	<b>TREATMENT</b>
Basic Salary Dearness allowance/pay Leave encashment while in service Salary in lieu of Notice Fees & Commission Monthly Pension (uncommuted) Annuity from Employer Profits in lieu of Salary	Taxable
Advance Salary	Taxable in the year of Receipt
Arrears of Salary	Taxable in the year in which it accrues.
Leave Encashment on Retirement Gratuity/Commutated Pension	Govt. employee: Exempt Non-Government employee: Exempt in some cases.
Salary to Partner	Not taxable under "Salaries", but taxable under "PGBP"
Bonus	Taxable on Receipt Basis [if not taxed earlier on due basis].
Annual Accretion to the credit balance in RPF (Taxable Amount)	Excess of Employer's contribution over 12% of salary. Excess of Interest over 9.5% is taxable.
Retrenchment for Extra Duties	Fully Taxable
Retrenchment Compensation (Imp)	Least of the following is Exempt from tax: (a) Amount calculated under Industrial Disputes Act; or (b) An amount specified by Government (Rs. 5,00,000)
<b>Salary/Pension from UNO</b>	<b>Not chargeable to tax.</b>
Compensation received under VRS	Exempt in some cases.
<b>Pension under NPS</b>	<b>Taxable at the time of receipt.</b>

## **MEANING OF "SALARY" FOR DIFFERENT PURPOSES**

<b>Allowance/Perquisites</b>	<b>Definition of Salary for such purpose</b>
Gratuity for Covered Employees.	Basic Salary + DA (whenever DA is paid)

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(a) Gratuity for other cases (b) NPS (c) Employer's Contribution to RPF (d) Leave salary (e) HRA (f) VRS	Basic Salary + DA (if it forms part of salary for computing all retirement benefits) + Commission (if paid as % of turnover).
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**Perquisite in respect of Rent-Free Accommodation** = BS + DA (Forming part of salary for all retirement benefits) + Commission (Paid as % of turnover) + Bonus + Any Commission (Monthly/otherwise) + Any other monetary payment by whatever name called **but Excludes:**

- (a) Employer's contribution to PF of the employee; (b) Exempt Allowances;  
(c) Value of Taxable Perquisites u/s 17(2); (d) Medical Allowance to the extent it is not taxable.  
(d) Payment/Expenditure for Allotment of shares/Debentures/Warrants under ESOP etc.

## **A. DIFFERENT FORMS OF ALLOWANCES & ITS TAXABILITY**

**Meaning of Allowance:** Fixed quantity of money given regularly to employees in addition to salary to meet some particular requirements connected with service or compensation for unusual conditions of that service. It is fixed, predetermined & given irrespective of actual expenditure.

<b>VARIOUS ALLOWANCES &amp; THEIR TAXABILITY</b>		
<b>Fully Taxable</b>	<b>Partly Taxable</b>	<b>Fully Exempt</b>
<ul style="list-style-type: none"><li>Dearness Allowance</li><li>Overtime Allowance</li><li>Fixed Medical Allowance</li><li>City Compensatory Allowance (to meet increased cost of living)</li><li>Interim Allowance</li><li>Servant Allowance</li><li>Project Allowance</li><li>Tiffin/Lunch Allowance</li><li>Any other cash allowance</li><li>Warden Allowance</li><li>Non-practicing Allowance</li><li>Transport Allowance <b>except</b> <b>handicapped employee.</b></li></ul>	<ul style="list-style-type: none"><li>House Rent Allowance</li><li>Special Allowances</li></ul>	<ul style="list-style-type: none"><li>Allowance to Government employees outside India</li><li>Sumptuary allowance granted to HC/SC Judges.</li><li>Allowance paid by UNO.</li><li>Compensatory Allowance received by a judge</li></ul>

### **HOUSE RENT ALLOWANCE [SEC 10(13A)] ▶ Least of the following is Exempt ↓**

1. Actual amount of <b>HRA received</b> for the Relevant Period.
2. Excess of <b>Rent paid over 10% of salary</b> for the Relevant Period.
3. <b>City</b> of Residence: (a) Mumbai, Delhi, Kolkata, Madras (chennai): <b>50% of Salary</b> for Relevant Period. (b) Other cities: <b>40% of Salary</b> for Relevant Period.

➤ **Salary shall be determined on Due Basis:** Salary is determined on due basis in respect of period during which rental accommodation is occupied by employee in PY.

Thus, Salary of the period other than PY is not considered even if it is received in P.Y & is taxable

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on receipt basis (Advance salary) & Salary of the period during which rental accommodation is not occupied in PY is also not considered.

- **No Exemption if employee lives in his own house/** in a house where he does not pay rent.
- Relevant period means the period during which the said accommodation was occupied by the assessee during the previous year.

**CQ1.** Mr. Shubham Sharma, staying at Chennai, receives Rs. 12,500 monthly as basic salary; Rs. 1,500 per month as DA provided in terms of employment & 4% as commission on turnover achieved by him. He is paid HRA of Rs. 1,800 per month. Turnover achieved by him for the year is Rs. 15 Lacs. House rent paid by him is Rs. 2,500 p.m. He received advance salary of Rs. 50,000 in March 2020 relating to the period April to July 2020. Find taxable HRA for AY 2020-21.

**Solution:** **Computation of Taxable House Rent Allowance of Mr. Shubham Sharma**

Particulars	Rs.	Rs.
Actual House Rent allowance (Rs. 1800 x 12 months)		21,600
<b>Less:</b> Exempt u/s. 10 (13A) to the extent of least of the following:		
1. Excess of rent paid over 10% of the salary (30,000 – 22,800)	7,200	
2. 50% of salary (50% of 2,28,000)	1,14,000	
3. Actual HRA received	<u>21,600</u>	<u>7,200</u>
<b>Taxable HRA</b>		<b>14,400</b>

Salary for HRA = BS + DA (Retirement Benefits) + Commission (% of TO) = (12,500 x 12 months) + (1,500 x 12 months) + 4% on 15,00,000 = Rs. 2,28,000.

**Note:** Though advance Salary is taxable in AY 2020-21 on receipt basis, it should not be considered in computing Salary for the purpose of calculating exemption u/s. 10(13A).

## **SPECIAL ALLOWANCES EXEMPT u/s 10(14)**

### **A. EXEMPTION DOES NOT DEPEND UPON ACTUAL EXPENDITURE BY EMPLOYEE**

- **Actual Expenditure** incurred by the employee is **IRRELEVANT** for the purpose of exemption.
- Exemption = Lower of (a) Allowance actually received or (b) Amount specified in Rule 2BB.

Name of Allowance	Nature & Given to & Conditions	Exemption
Special Compensatory (Hilly Areas) Allowance	High Altitude/Snow Area Allowance	Rs. 300 - Rs. 800 per month Rs. 7,000 per month in Siachen area of J&K.
Children Education Allowance	Given for children's education	Rs. 100 per month per child upto Maximum of 2 children
Hostel Expenditure	Given for meeting expenditure of child	Rs. 300 per month per child upto Maximum of 2 children
Transport Allowance	Expenses for communicating between place of his residence & place of duty.	Rs. 3,200 per month only for <b>Handicapped employee.</b>
Allowance for Transport Employees	Granted to meet his personal expenses during his duty but such employee is not in receipt of daily allowance.	(a) 70% of such Allowance; (b) Rs. 10,000 p.m ( <b>Lower</b> )
Border Area Allowance	Border area/Remote locality Allowance	Rs. 200 – Rs. 1,300 p.m

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Compensatory Allowance (a) Field area (b) Modified Field Area	Employee cannot claim Border Area Allowance if this exemption is taken	(a) 2,600 p.m in some cases (b) 1,000 p.m in some cases	
Underground Allowance	Employee working in/under mines.	Rs.800 p.m	
High Altitude Allowance	Granted to Members of Armed forces operating in High Altitude areas.	<b>Altitude (fts)</b>	<b>Exemption</b>
		9000-15000	Rs. 1,060 p.m
		Above 15000	Rs. 1,600 p.m
Highly Active Field Area	Granted to Members of Armed forces.	Upto Rs. 4,200 per month	
Island Duty Allowance	Granted to Members of Armed forces in Andaman & Nicobar ; Lakshadweep.	Upto Rs. 3,250 per month	
Tribal areas/ Scheduled Areas Allowance	For MP, Tamil Nadu, UP, WB, Bihar, Orissa, Karnataka, Tripura, Assam	Rs. 200 per month	
Counter Insurgency Allowance	Members of armed forces operating in areas away from their permanent locations.	Rs. 3,900 per month	

**Ex:** During PY 2020-21, following allowance are given to X by the employer company:

Name of Allowance	Received	Spent	Exempt	Tax
Tribal area allowance for X posted in Assam for 2 months	1000	NA	200 p.m	600
Child education allowance for X's elder son	1800	NA	100 p.m	600
Child education allowance for X's younger son.	900	NA	Nil	900
Child education allowance for X's daughter	1080	NA	100 p.m	Nil
Hostel expenditure allowance for X's elder son	6600	NA	300 p.m	3000

## **B. EXEMPTION DEPENDS UPON ACTUAL EXPENDITURE INCURRED BY EMPLOYEE**

- **Actual Expenditure** incurred by the employee is **RELEVANT** for the purpose of exemption.
- Exemption = Lower of (a) Allowance Received or (b) Amount utilized for specific purpose.

Allowances	Nature of Allowance
Travelling /Transfer Allowance	Allowance granted to meet the cost of travel on tour or on transfer (including any sum paid for transfer, packing & transportation of personal effects on such transfer).
Conveyance Allowance	Granted to meet expenditure on conveyance in <b>performance of duties of office.</b> <b>Note:</b> Expenditure for journey between office & residence is not exempt.
Daily Allowance	Allowance granted on tour or for journey in connection with transfer, to meet the ordinary daily charges incurred due to absence from his normal place of duty.
Helper allowance	Any allowance (by whatever name called) to meet the expenditure on a helper where such helper is engaged for the performance of official duties.
Research Allowance	Any allowance (by whatever name called) granted for encouraging the academic research & other professional pursuits.
Uniform Allowance	Any allowance (by whatever name called) to meet expenditure on purchase or maintenance of uniform for wear during the performance of duties of an office.

**Ex:** During PY 2020 -21, the following allowances are given to X by the employer company -

Nature of allowance	Amount of Allowance	Amount Actually spent	Amount taxable
Travelling allowance for official purposes	36,000	32,000	4,000
Transfer allowance given on transfer of X	40,000	41,000	Nil

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Conveyance allowance for official purposes	50,000	42,000	8,000
Helper allowance of helper for official purposes	68,000	64,000	4,000
Research allowance	1,00,000	90,000	10,000
Uniform allowance for official purposes	18,000	17,000	1,000

## **C. ALLOWANCES & PERQUISITES TO CHAIRMAN/MEMBER OF UPSC [SEC 10(45)]**

### **1. EXEMPT ALLOWANCE IN CASE OF SERVING CHAIRMAN & MEMBERS OF UPSC**

- Value of Rent-Free official Residence & Value of Leave Travel Concession.
- Value of Conveyance facilities including Transport Allowance,
- Sumptuary Allowance &

### **2. EXEMPT ALLOWANCE IN CASE OF RETIRED CHAIRMAN & MEMBERS OF UPSC**

- Value of Residential telephone free of cost & number of free calls upto Rs. 1,500 p.m (over & above free calls per month allowed by the telephone authorities).
- Upto Rs. 14,000 p.m for defraying the service of orderly & for meeting expenses incurred towards secretarial assistance on contract basis.

## **B. VARIOUS PERQUISITES & THEIR TAXABILITY**

**DEFINITION:** Any Casual Emolument or benefits attached to office/position in addition to salary.

- It is an extra benefit in addition to the basic salary.
- It may be provided in cash or kind.
- It is not necessary that a recurring or regular receipt is alone perquisites; even a casual or non-recurring receipt can be perquisite.

Any Sum received shall be taxed as Perquisite only if following conditions are satisfied:

- (a) Given by Employer. (If received from person other than employer → Taxed u/h PGBP/IFOS)
- (b) Given during the **continuance of employment** & must be directly related to service
- (c) Resulting in personal advantage to an employee;
- (d) Derived by virtue of employer's authority
- (e) Perquisite may be given for the **benefits of employee or his Member of household.**

### **POINTS TO REMEMBER:**

- ❖ Reimbursement of Expenses incurred in the official discharge of duties → Not a Perquisite.
- ❖ 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 a perquisite. Such unauthorized amount would be chargeable u/h IFOS.

**Ex:** Suppose Mr. A, an employee, is given a house by his employer. On 31.3.2020, he is terminated from service. But he continues to occupy the house without the permission of the employer for six more months after which he is evicted by the employer. The question arises whether the value of the benefit enjoyed by him during the six months period can be considered as a perquisite & be charged to salary. It cannot be done since the relationship of employer- employee ceased to exist after 31.3.2020. However, the definition of income is wide enough to bring the value of the benefit enjoyed by Mr. A to tax as "income from other sources".

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





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## **PERQUISITE IN CASE OF "RENT-FREE UNFURNISHED ACCOMODATION"**

- "Accommodation" includes a house, flat, farm house (or part), or accommodation in a hotel, motel, service apartment, guest-house, caravan, mobile home, ship or other floating structure.

<b>Employee</b>	<b>Value of perquisites</b>	
<b>(a) CG or SG employees</b>	<b>License fee</b> determined by CG or SG.	
<b>(b) Other than Government Employee</b>		
❖ Accommodation owned by Employer	Population of place of Accommodation	Perquisite
	Less than 10 lacs	<b>7.5% of salary</b>
	10 lacs – 25 lacs	<b>10% of salary</b>
	More than 25 lacs	<b>15% of salary</b>
❖ Accommodation is taken on lease/Rent by employer	<b>Lower of: (i) 15% of salary or (ii) Actual lease rent paid by employer for the occupied period.</b>	
<b>(c) Accommodation Provided in Hotel (Gov/Non-Government Employer)</b>	<b>Lower of (i) 24% of salary or (ii) Actual Hotel charges paid by employer.</b>	

**Note:** If Accommodation is provided  $\leq$  15 days on his transfer from one place to another → No Tax.

### **Accommodation provided at two places**

If any employee has been transferred and employer has provided him accommodation at the new place also, in such cases only one of the accommodation having lower perquisite value shall be taxable upto 90 days (three months) and after 90 days, both of the accommodations shall be taxable.

## **VALUATION OF FURNISHED ACCOMODATION**

- Valuation shall be done as if employer has provided **unfurnished accommodation**  
**Add: 10% p.a** of original cost of furniture (if furniture is owned by employer).  
**Add: Lease charges/Rent paid** for hiring furniture (If furniture is hired by employer).

### **Points to Remember:**

- ❖ Rent-free official residence provided to a Judge of HC/SC → Not taxable.
- ❖ Rent-free furnished house provided to an Officer of Parliament → Not taxable.

**CQ2.** Mr. Lakshman informs you the particulars of salary for previous year ending 31.03.2021:

Basic pay: Rs. 36,000; DA: Rs. 4,800 (not forming part of salary); Bonus: Rs. 6,000; Commission: Rs. 4,000; City Compensatory Allowance: Rs. 3,600. Calculate the value of perquisite in respect of rent-free furnished house if Mr. Lakshman stays in a city with a population (a) more than 25 Lacs, (b) less than 10 Lacs, (c) between 10 Lacs & 25 Lacs. Cost of furniture provided is Rs. 16,000. Sofa was taken on rent for Rs. 300 per month.

**Solution:** Salary for this purpose = BS + Bonus + Commission + City compensatory allowance = Rs. 36,000 + Rs. 6,000 + Rs. 4,000 + Rs. 3,600 = Rs. 49,600.

### **Value of Rent-free unfurnished Accomodation**

(a) Population > 25 Lacs	→ 15% of salary	= 15% of Rs. 49,600	= Rs. 7,440
(b) Population 10 lac - 25 lacs	→ 10% of salary	= 10% of Rs. 49,600	= Rs. 4,960
(c) Population < 10 lacs	→ 7.5% of salary	= 7.5% of Rs. 49,600	= Rs. 3,720

### **Value of Furnished Accommodation**

<b>Particulars</b>	<b>Population &gt; 25L</b>	<b>10 Lacs - 25 Lacs</b>	<b>Population &lt; 10L</b>
Value of unfurnished accommodation	7,440	4,960	3,720
Add: Perquisites for value of furniture [(10% of Rs. 16,000) + (300 x 12)]	5,200	5,200	5,200

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Value of furnished accommodation	12,640	10,160	8,920
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Note: Dearness allowance since not forming part of salary is not considered for the computation of Salary.

## **PERQUISITE IN RESPECT OF "MEDICAL FACILITIES"**

<b>A. Medical Facilities in India</b>	
<b>Place of Provision of Medical Treatment</b>	<b>Value of Taxable Perquisite</b>
(a) Hospital owned/maintained by employer; (b) Government Hospital; (c) Private Hospital (if recommended by Government for treatment of its employees). (d) Specified facility for prescribed diseases in hospital approved by PCC/CC.	<b>Nothing shall be Taxable</b> in such cases
(e) Any other facility in India (Ex: Family doctor)	<b>Fully Taxable</b>

<b>B. Medical Facility outside India</b>	
<b>Type of Expenditure</b>	<b>Value of Taxable Perquisite</b>
(a) Medical treatment in Abroad	▪ Exempt to the extent permitted by the RBI.
(b) Cost of Stay in Abroad (including one attendant who accompanies the patient)	▪ Taxable Perquisite = Amount exceeding the amount permitted by RBI.
(c) Cost on Travel (including one attendant who accompanies patient)	<b>Exempt only if GTI</b> of employee computed before including this expenditure <b>≤ Rs. 2 lacs</b>

### **Points to Remember:**

1. Health Insurance Premium paid by employer in approved scheme of CG/IRDA → **Not Taxable.**
2. Medical Facilities may be provided to an employee or any member of his family.
3. Family → Spouse + Children (Maximum 2) + [Dependent Parents + Brothers + Sisters].
4. Fixed Medical Allowance → Always taxable.

**CQ3.** Compute taxable perquisite on medical facilities received by Mr. G from his employer during PY 2020-21:

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

**Solution:**

### **Medical Facilities outside India**

Total Expenditure on Treatment + Expense of Stay = Rs. 50,000 + Rs. 30,000	Rs. 80,000
<b>Less:</b> Exempt to the extent permitted by RBI (Limit specified by RBI)	Rs. 75,000
Value of Taxable Perquisite	Rs. 5,000

### **Medical Facilities inside India**

Medical premium paid for insuring health of Mr. G	Exempt
Treatment of Mr. G by his family doctor	Rs. 5,000
Treatment of Mrs. G in a Government hospital	Exempt
Treatment of Mr. G's grandfather in a private clinic	Rs. 12,000
Treatment of Mr. G's mother (dependant) by family doctor	Rs. 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	Rs. 3,000

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Treatment of Mr. G's brother (independent)	Rs. 6,000
Perquisite of Medical facilities in India	Rs. 34,000
Perquisite of Medical facilities outside India	Rs. 5,000
<b>Total Perquisite</b>	<b>Rs. 39,000</b>

**Note:** Grandfather & Independent brother are not included within the meaning of family of Mr. G

## **INTEREST-FREE LOAN OR CONCESSIONAL LOAN**

➤ If a loan is given by employer to employee or member of his household, it is a taxable perquisite.

### **How to value the amount of Perquisite when loan is given:**

1. Find out the <b>Maximum outstanding Monthly balance</b> on last day of every month.
2. Find out <b>Differential Interest</b> for each month on the outstanding amount [SBI rate on loan of same kind – Concessional rate given by employee]
3. Value of Perquisite on loan = <b>Sum of Differential Interest of all months.</b>

➤ **“Maximum outstanding monthly balance”** = Aggregate outstanding balance for each loan as on the last day of each month.

**Exceptions:** In following cases, Interest-free Loan is not treated as perquisite:

(a) If the amount of **loans ≤ Rs. 20,000.**

(b) If **Loan** is given for **Medical Treatment of Prescribed Diseases** (Cancer, tuberculosis, etc).  
However, such amount to the extent it is reimbursed to the employee by insurance company shall be considered for valuation of Perquisite.

**Note:** Any loan given by CHC to its employee (who holds at least 10% voting power) which is treated as deemed dividend u/s 2(22)(e), it shall also be taxable as perquisite.

**CQ4.** Mr. Raju is employed in Kangana Ltd. and he has taken a loan of Rs. 5 lacs from employer on 20.04.2020 at a rate of 4% p.a. but SBI rate is 10% p.a. and loan was repaid in monthly installment of Rs. 1 lac each starting from 10.07.2020. Find the value of taxable perquisite.

**Solution:**

April 2020	$5,00,000 \times 6\% \times 1/12$	Rs. 2,500
May 2020	$5,00,000 \times 6\% \times 1/12$	Rs. 2,500
June 2020	$5,00,000 \times 6\% \times 1/12$	Rs. 2,500
July 2020	$4,00,000 \times 6\% \times 1/12$	Rs. 2,000
August 2020	$3,00,000 \times 6\% \times 1/12$	Rs. 1,500
September 2020	$2,00,000 \times 6\% \times 1/12$	Rs. 1,000
October 2020	$1,00,000 \times 6\% \times 1/12$	Rs. 500
<b>Taxable amount</b>		<b>Rs. 12,500</b>

## **PERQUISITE IN RESPECT OF TRAVELLING, TOURING, ACCOMMODATION**

<b>Circumstances</b>	<b>Value of perquisite</b>
Facility is provided <b>uniformly</b> to all employees	Actual Expenditure incurred by the employer

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# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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Facility is <b>not available uniformly</b> to all employees	Actual value offered to public by other agencies
Employee is on official tour & he takes his family member with him	Amount of expenditure incurred for such family member
Any official tour is extended as a vacation.	Expenses incurred for extended period.

## **PERQUISITE IN RESPECT OF "FREE EDUCATION"**

<b>Nature of Expenditure</b>	<b>Taxable Perquisite</b>
1. <b>Training</b> of employees	<b>Not Taxable</b>
2. <b>Education facility</b> provided to <b>family members</b> Payment/reimbursement of <b>tuition fees</b> .	Fully Taxable. <b>No Exemption</b> is available.
3. <b>Education facility</b> provided to <b>children</b> of Employee	<b>Reasonable cost</b> of education is <b>taxable</b> . <b>Exemption → Rs 1000 per month per child</b>

- **Scholarship** given by an employer-company to **children** of its employees (solely at its discretion without reference to terms of employment) → Not a perquisite.

**CQ5.** The employer has made arrangements for the education of three children's of his employee in his own school and has incurred Rs. 1,500 per month per child and has recovered Rs. 300 per month per child from the employee. Calculate the value of taxable perquisite in the hands of employee.

**Solution:** Exemption of Rs. 1,000 per month is available irrespective of number of children.

Value of perquisite per children = Rs. 1,500 – Rs. 300 – Rs. 1,000 (Exemption) = Rs. 200 per month.

Value of taxable perquisite = Rs. 200 per month × 12 months × 3 children = Rs. 7,200.

## **VALUATION OF LEAVE TRAVEL CONCESSION IN INDIA [SEC 10(5)]**

<b>Different situations of Journey</b>	<b>Amount of exemption (LOWER OF 1 or 2)</b>
1. Journey by Air	(a) Fare of <b>Economy class</b> by shortest route (b) Amount spent
2. Journey by Rail OR Journey by other mode even if Route of journey are connected by rail	(a) Fare of <b>AC 1<sup>st</sup> class rail</b> by shortest route or (b) Amount spent.
3. If <b>origin &amp; destination</b> of journey (or part) <b>not connected</b> by rail: (i) If <b>Recognised</b> public transport <b>Exists</b> (ii) If <b>No recognised</b> public transport Exist	(i) 1 <sup>st</sup> /Deluxe fare by shortest route (ii) AC 1 <sup>st</sup> class rail fare by shortest route

### **Points to Remember:**

- ❖ **Exemption** is available only for going anywhere **in India along with family**.
- ❖ **Family:** Spouse & children (Max 2 children), Dependent Parents, brothers, sisters.
- ❖ **Only 2 journeys in a block of 4 years are Exempt:** The block of 4 years applicable for AY 20-21 is 2019-2021 (1 Jan 2018 - 31 Dec 2021). Earlier blocks were 2014-2017 & so on.
- ❖ Exemption is based on **Actual Expenditure:** No Exemption without performing any journey.
- ❖ Exemption is available only on **Bus fare, Rail fare, Air fare:** No exemption of taxi charges,

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loading charges, boarding expenses is available.

## ❖ **CARRY FORWARD OF EXEMPTION**

If any of the LTC available in earlier block has not been availed by the assessee, then assessee can claim carry forward of such unavailed exemption (**ONLY ONE**) in first calendar year of the next block. The carried forward exemption so availed will not be counted for future exemptions allowable in respect of two journey.

**Ex:** For the block of 2014-2017, X can claim exemption of LTC on two occasions. If X has not availed the exemption (or has availed exemption only on one occasion) during 2014-2017, then he can carry forward unavailed concession. The benefit of carry forward is available in respect of only one journey in 1<sup>st</sup> year of the next block (i.e during calendar year 2018). In addition, he can avail exemptions on two more occasions during 2018-2022.

**CQ6.** Mr. D went on a holiday on 25.12.209 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. 45,000 for adults and Rs. 15,000 for the three minor children). Compute the amount of LTC exempt.

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

**CQ7.** In the 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.

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

**Taxable LTC = 15000 \* 1/3 = Rs. 5000. LTC exempt = Rs 55000. [60000-5000]**

## **PREQUISITE IN RESPECT OF "GIFT, VOUCHER OR TOKEN"**

- Value of perquisite = Actual cost to the employer.
- However, **Aggregate Exemption of Rs. 5,000 in a year** is available if gift is **received in kind**.
- **Cash gifts are fully taxable without any exemption.**
- Gift or voucher or token may be received by the employee or by member of his household.

**Ex:** Employer provides a cash gift of Rs 3,000 to X. Beside this, X gets a wrist watch of Rs. 8,000 from his employer.  
**Answer:** Rs. 3,000 being cash is fully taxable. Further Rs. 3,000 (Rs. 8,000 – Rs. 5,000) is taxable for gift-in-kind.

## **PERQUISITE IN CASE OF "TELEPHONES/MOBILE PHONES BILLS"**

- If employer pays/reimburses telephone bills or mobile charges of employee → No Perquisite.

**Note:** In case of Retired chairman/members of UPSC, Value of residential telephones free of cost & number of free calls up to Rs. 1,500 p.m (over & above free calls allowed by telecompany → **Exempt.**

## **PERQUISITE IN RESPECT OF "FREE DOMESTIC SERVANTS"**

- Taxable Amount = **Actual Cost** (Total salary paid by employer – amount recovered from employee)

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**Note:** When a house owned by employer is given to employee & employer incurs expenditure on maintenance of garden → Not a perquisite.

As per CBDT circular, provisions of gardener (when gardener is provided along with a house owned by the employer) cannot be taken as a perquisite, as employer in any case would have maintained the garden irrespective of the fact whether building was occupied by employee or lying vacant.

**CQ8.** Mr. X employed in XYZ Ltd. as a computer analyst gives you the list of perquisites provided by the company to him for the entire financial year 2019-20:

(i) Domestic servant was provided at the residence of Mr. X. Salary of domestic servant is Rs. 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).

(ii) Free education was provided to his two children Y & Z in a school maintained and owned by the company. The cost of such education for Y is computed at Rs. 900 per month and for Z at Rs. 1,200 per month. No amount was recovered by the company for such education facility from Mr. X.

(iii) A gift voucher worth Rs. 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.

(iv) Telephone provided at the residence of Shri Bala and the bill aggregating to Rs. 25,000 paid by the employer. Compute the chargeable perquisite in the hands of Mr. X for the AY 2020-21.

## **Solution:**

(i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees. Taxable perquisite value = Rs. 1,500 × 12 = Rs. 18,000.

(ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child ≤ Rs. 1,000 p.m. Therefore, there would be no perquisite in respect of cost of free education provided to his child Y.

However, the cost of free education provided to his child Z would be taxable, since the cost exceeds Rs. 1,000 per month. The taxable perquisite value would be Rs. 2,400 (Rs. 200 × 12).

(iii) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during the previous year is exempt. Value of perquisite would be Rs. 5,000.

(iv) Telephone provided at the residence of the employee & payment of bill by the employer is a tax-free perquisite.

## **FREE FOOD & NON-ALCOHOLIC BEVERAGES**

<b>Nature of expenditure</b>	<b>Taxability of perquisite.</b>
1. Tea or snacks provided during working hours	Not a perquisite
2. Food & non-alcoholic beverages provided in remote area or an off-shore installation	Not a perquisite if provided in working hours
3. Meal provided in office	Cost to the employer (in excess of Rs 50) – Amount recovered from the employee

**Note:** Working hours include overtime & working on holidays.

**Ex:** Mr. X is employed in the office of Chartered Accountant and during the year he was given free lunch on many occasions and value per lunch is Rs. 175. In such case Rs. 125 (Rs. 175 – Rs. 50) per lunch is taxable.

## **PREQUISITE IN RESPECT OF “CREDIT CARD EXPENSES”**

- **Perquisite** = Total expenditure incurred (including Membership fees) by the employer  
**Less:** Expenditure incurred for **official purposes** [Complete details should be maintained]  
**Less:** Amount recovered from employee.

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## **PREQUISITE IN RESPECT OF "CLUB EXPENDITURE"**

- **Perquisite** = Total expenditure incurred (including annual fees) for club facilities  
**Less:** Expenditure incurred for official purposes [Complete details should be maintained]  
**less:** Amount recovered from employee.
- Expenditure pertaining to **health club, sports facilities** etc. → **not a perquisite.**

**Note:** Where the employer has obtained corporate membership of the club, the value of perquisite shall not include the initial fee paid for acquiring such corporate membership.

## **PERQUISITE IN RESPECT OF "FREE/CONCESSIONAL TICKETS"**

- **Employer:** Engaged in the carriage of passengers or goods;
  - **Services given:** Free/concessional Tickets for Personal Journey/Goods;
  - **Perquisite** = Value at which such benefit or amenity is offered by such employer to the public
- Note:** Employees of an airline or the railways → **No Perquisite.**

## **PERQUISITE IN RESPECT OF "USE OF MOVEABLE ASSETS"**

- Value of perquisite is determined as follows:

<b>Asset given</b>	<b>Value of benefit</b>
(a) Laptops & computers	NIL
(b) Other Movable assets	10% p.a. of Actual Cost (Hire/Rent Charges)

- **Completed years of Use is not required. Even use of asset for part of year will be perquisite.**

## **TRANSFER OF MOVEABLE ASSETS AT DISCOUNTED/ NOMINAL PRICE**

- **Perquisite** = WDV [Actual Cost – Depreciation] – Sale Consideration paid by employee.
- Depreciation shall be calculated only if asset has been used by employer for business purpose.
- Depreciation is deductible for **completed years of use only.** (Fraction of years → Ignored)
- Depreciation **shall be calculated as follows:**

1. Computer & electronics items	50% on WDV for each completed year of usage.
2. Motor car	20% on WDV for each completed year of usage.
3. Any other Asset	10% on SLM for each completed year of usage

- Electronics items do not include household electronic appliances.

**CQ9.** Find out the taxable value of the perquisite in the following cases for the AY 2020-21:

1. Mr. X is given a laptop by his employer for using it for private purpose. Cost of the laptop is Rs. 96,000.
2. On 18.10.2019, the company gives its music system to Mr. X for domestic use. Ownership is not transferred. Cost of music system (in 2011) to the employer is Rs. 30,000.
3. The employer sells the following assets to the employees on 1.1.2020

<b>Name of employee</b>	<b>W</b>	<b>X</b>	<b>Y</b>
Asset sold	Car	Computer	Fridge
Cost of the asset to employer	Rs. 8,50,000	Rs. 95,000	Rs. 30,000
Date of purchase [put to use on the same day]	14.5.2017	14.5.2017	14.5.2017



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Sale price	Rs. 3,00,000	Rs. 19,000	Rs.10,000
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Before sale on 1.1.2020, these assets were used for business purpose by the employer.

## **Solution:**

1. Free use of laptop is not a taxable perquisite.
2. S is provided a music system by the employer. Taxable perquisite is determined @ 10% p.a. of cost for the period of use (From 18.10.2019 – 31.3.2020). Thus Taxable perquisite = Rs. 1,356 [Rs. 30,000 x 10% x  $\frac{165}{365}$ ].
3. The taxable value of the perquisite in the hands of W, X & Y shall be determined as follows-

Particulars	Car	Computer	Fridge
Cost of the asset on 14.5.2017	8,50,000	95,000	30,000
Less- Normal wear & tear for first year ending 13.5.2018 (20% of Rs. 8,50,000; 50% of Rs. 95,000; 10% of Rs.30,000)	1,70,000	47,500	3,000
Balance on 14.5.2018	6,80,000	47,500	27,000
Less- Normal wear & tear for second year ending 13.5.2019(20% of Rs. 6,80,000; 50% of Rs.47,500; 10% of Rs. 30,000)	1,36,000	23,750	3,000
Balance on 14.5.2019	5,44,000	23,750	24,000
Less- Sale consideration	3,00,000	19,000	10,000
Taxable value of the perquisite	2,44,000	4,750	14,000

**Note:** Normal wear & tear for a part of the year is not taken into consideration.

**CQ10.** Mr. X is employed with ABC Ltd. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for Rs. 60,000 on 01.05.2016 & given him on the same date. The motor cycle was finally sold to him on 01.08.2019 for Rs. 30,000. Compute the taxable perquisite in the hands of Mr. X.

## **Solution:**

**(i) Perquisite for Use of motor cycle** = 60,000 x 10% p.a. for 4 months [1.4.2019 – 31.7.2019] = Rs. 2,000.

**Note:** Only the period of use in this previous year shall be considered for valuation of perquisite. Because we are determining the taxability for this PY. **Students generally make mistake on this point.**

**(ii) Perquisite in respect of Transfer of motor cycle:**

Depreciated value of the motor cycle = Original cost - Depreciation @ 10% p.a. for 3 completed years  
= Rs. 60,000 - (Rs. 60,000 x 10% p.a. x 3 years) = Rs. 42,000.

**Taxable Perquisite** = Rs. 42,000 - Rs. 30,000 = Rs. 12,000.

## **PAYMENT OF PREMIUM ON PERSONAL ACCIDENT INSURANCE POLICIES**

- **No immediate benefit** would become payable and benefit will accrue at a future date only if certain events take place.
- Moreover, employers would be taking such policy in their **business interest only**, so as to indemnify themselves from payment of any compensation.
- Therefore, the premium so paid will **not** be a **taxable perquisite** in the **employees' hands**.

## **PERQUISITE IN RESPECT OF "SWEAT EQUITY SHARES/ESOP"**

- **Perquisite = FMV on Exercise Date – Amount Actually paid by the Employee.**
- Year of taxability: Taxable in the year of Allotment of Shares.

**Ex.** Mr. X is employed in ABC Ltd. & employer has issued 100 equity shares to the employee for free on 1.07.2019 & FMV is Rs. 150 per share on the exercise date. In this case, taxable amount = Rs. 15,000. {100 x (150 – 0)}

**Note:** If the shares have been sold by the employee, cost of acquisition = FMV on exercise date [Sec 49(2AA)].

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# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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**FMV on Exercise Date** shall be determined as follows:

**[To be read once]**

- Listed shares in India:** Average of opening & closing price on the date of exercise of option.
  - If Listed on more than one RSE in India on Exercise Date: Average value on RSE which have highest volume of trading in the shares.
  - If No Trading on Exercise Date: Closing price on any RSE on closest date of exercise date.
- Unquoted (unlisted) Shares:** Value determined by Merchant Banker on the specified date.  
Specified Date = (i) Date of Exercising options or (ii) Any date earlier (not more than 180 days) than the date of exercise of option.

## **PERQUISITE IN RESPECT OF GAS, ELECTRIC ENERGY OR WATER SUPPLY**

- Taxable amount = Actual Cost (Total Expenditure of Employer – Amount Recovered from Employee)
- If Employee himself is manufacturer → Perquisite = **Manufacturing cost** incurred by employer.

**Ex:** Mr. X is employed in Bisleri and the company has provided him free water facility for which manufacturing cost of the company is Rs. 1,000 and its market value is Rs. 1,100, in this case, perquisite value shall be Rs. 1,000.

**CQ11.** Mr. X is drawing a consolidated salary of Rs. 60,000. Employer provides Gas, Water & Electricity facilities for which bills settled during the year amount to Rs. 24,000. Calculate the value of taxable perquisite. **[Rs. 24,000]**

## **PERQUISITE IN RESPECT OF "USE OF MOTOR CAR"**

<b>Owned by</b>	<b>Expenses by</b>	<b>Purpose of use</b>	<b>Taxable Perquisite</b>	
1. Employer	Employer	Fully Official	No Perquisite	
2. Employer	Employer	Fully Personal	(a) Actual expenditure on car + (b) Remuneration to driver + (c) Depreciation @ 10% p.a on actual cost.	
Expenses recovered from employee are deductible. No limit of Rs. 900 for driver's salary.				
3. Employer	Employer	Partly official & Partly Personal	<b>CC of Engine</b>	<b>Perquisite</b>
			Upto 1600 CC	1,800 p.m + 900 p.m for driver = Rs 2,700 p.m
			Above 1600 CC	2,400 p.m + 900 p.m for driver = Rs 3,300 p.m
Rs. 900 p.m shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.				
4. Employer	Employee	Partly official & Partly Personal	<b>CC of Engine</b>	<b>Perquisite</b>
			Upto 1600 CC	600 p.m + 900 p.m for driver = Rs 1,500 p.m
			Above 1600 CC	900 p.m + 900 p.m for driver = Rs 1,800 p.m
Rs. 900 p.m shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.				
5. Employee	Employer	Partly official & Partly Personal	<b>Actual Expenditure</b> incurred <b>Less</b> ↓	
			<b>CC of Engine</b>	<b>Perquisite</b>

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# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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			Upto 1600 CC	1,800 p.m + 900 p.m for driver = Rs 2,700 p.m
			Above 1600 CC	2,400 p.m + 900 p.m for driver = Rs 3,300 p.m
Rs. 900 p.m shall be taxable if driver is provided. Expenses recovered from employee are NOT deductible.				
6. Employee	Employer	Official use	Not a perquisite.	
7. Employee owns other conveyance but not car	Employer	Partly official & Partly Personal	Actual Expenditure incurred by Employer <b>Less:</b> Rs. 900 p.m	
8. Employer	Employee	Fully Personal	10%p.a on actual cost of Car/hire charges	

## **Points to Remember:**

- ❖ **Meaning of Month:** Month means **completed months**.
- ❖ **When two or more cars are provided by employer to the employee:** If an employer provides two or more cars (which falls in category 3), taxable value of only one such car (at employee's option) shall be determined according to the rules given in category 3. For other cars, value of perquisite shall be calculated under category 2.
- ❖ **Car facility between residence & office: Not taxable.**
- ❖ **Facility for HC/SC Judges/Chairman/members of UPSC: Not taxable.**
- ❖ **Transport allowance provided to serving chairman/members of UPSC is also not taxable.**

## **ANY OTHER BENEFIT/AMENITIES PROVIDED BY EMPLOYER (Residual provision)**

➤ Perquisite = Cost to Employer (Arms length price) – Amount recovered from employee.

**CQ12.** Mrs. Roma, an employee of XYZ Ltd., submits the following information for the AY 2020-21: Salary: 1,86,000; City compensatory allowance: 8,000; Bonus: 10,200; Education allowance: 4,000 (for her grandchildren); Income tax penalty paid by the employer: 2,000; Medical expenses reimbursed by the employer: 12,000; Leave travel concession: 1,000 (expenditure incurred by the employee nil); Free residential telephone: 4,000; Free refreshment during office hours 4,000; reimbursement of electricity bill by the employer: 1,060; reimbursement of gas bills: 1,000; Professional tax paid by the employer: 300 on behalf of Mrs. Roma; Professional tax paid by Mrs. Roma: 150. Determine the Total Income of Mrs. Roma for the AY 2020-21.

### **Solution:**

### **Computation of Salary**

Basic Salary	1,86,000
City Compensatory Allowance	8,000
Bonus	10,200
Education Allowance [Fully taxable since given for grandchildren]	4,000
Income tax Penalty paid by employer [Income tax paid by employer on Non-monetary perquisites is exempt. In this case, penalty is paid. Thus, it is a taxable perquisite]	2,000
Medical Reimbursement [other medical facilities are fully taxable]	12,000
Leave Travel Concession [taxable since actual expenditure is not incurred]	1,000
Refreshment [Since during office hours]	Nil
Residential Telephone	Nil
Payment of electricity bills by employer [It is a taxable perquisite]	1060
Reimbursement of gas bills [It is a taxable perquisite]	1000
Professional tax paid by employer [First included in salary & then allowed as deduction from gross salary u/s 16(iii)]	300
Gross Salary	2,25,560
Less: Professional Tax paid by employee as well as employee [300 + 150]	(450)
Taxable salary	2,25,110

**19. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)  
Income tax by Nitesh Sir**

## **MEANING OF SPECIFIED EMPLOYEE & NON-SPECIFIED EMPLOYEES**

1. **Specified Employee** means

<b>Director Employee</b>	<ul style="list-style-type: none"><li>Any Director of the company.</li></ul>
<b>Substantial Interest</b>	<ul style="list-style-type: none"><li>Person has a substantial interest in a company if he is a beneficial owner of equity shares carrying 20% or more of the voting power in the company.</li></ul>
<b>Salary &gt; Rs. 50,000</b>	<ul style="list-style-type: none"><li>Employee drawing a salary of more than Rs. 50,000.</li><li>While calculating limit of Rs. 50,000, following payment shall be ignored:<ul style="list-style-type: none"><li>(a) all non-monetary benefits;</li><li>(b) Monetary benefits exempt u/s 10. [Ex: HRA to the extent exempt]</li><li>(c) Standard deduction of Rs. 40,000; Deduction for Entertainment allowance &amp; Professional tax.</li></ul></li></ul>

2. **Non-Specified Employee** → Employees other than specified employees.

### **PERQUISITES TAXABLE ONLY IN HANDS OF SPECIFIED EMPLOYEES [SECTION 17(2)(iii)]**

- Monetary perquisites are taxable in the hands of all employees [Specified + Non-Specified].
- Non- Monetary perquisites are taxable in the hands of **specified employees** only.

Followings perquisites will be taxable in the hands of specified employees.

- Provision of sweeper, gardener, watchman or personal attendant
- Facility of use of gas, electricity or water supplied by employer
- Free or concessional tickets
- Use of motor car
- Free or concessional educational facilities.

## **C. RETIREMENT BENEFITS**

### **LEAVE SALARY [SECTION 10(10AA)]**

- Amount received by encashment of **unutilized leave** on retirement/termination of employment.
- **Leave salary received during the period of service** → Fully Taxable. (Gov/Non-Gov. Employees)
- Taxability of leave salary received **at** the time of **retirement is different**. It is as follows:

Government Employees (at the time of retirement)	Fully Exempt
Non-Government Employees (at the time of retirement)	Partly Exempt

### **TAXABILITY AT THE TIME OF RETIREMENT FOR NON-GOVERNMENT EMPLOYEES**

**Least** of the following is **EXEMPT** ↓

(i) Leave Salary Actually received.
(ii) Rs. 3,00,000
(iii) $10 \times \text{AMS}$ (on the basis of average salary of last 10 Months)
(iv) Leaves Earned (in No. of Months) $\times$ AMS.

- **Leaves Earned** = [Completed years of service  $\times$  No. of leaves credited/month (Maximum 30 days allowed in a year)] - Leaves actually taken/ availed.
- AMS = Average Salary of 10 months immediately preceding **date of retirement**.

**20. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)**  
**Income tax by Nitesh Sir**

# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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- Leave entitlement credited cannot exceed 30 days for every year of actual service rendered.

## **Points to Remember:**

- ❖ **Receipt of Leave salary from two or more employers:** in the same year/ different year, then the **aggregate** amount of leave salary **exempt** from tax **cannot exceed Rs. 3,00,000**.  
If Leave salary is received in any earlier year from former employer & again received from another employer in later year, limit of Rs. 3,00,000 will be reduced by amount of leave salary exempt earlier.
- ❖ **Leave salary paid to legal heir → Exempt.**
- ❖ Leave salary received by family of government servant who died in harness (on duty) → Exempt.

**CQ13.** X was employed by PQR Ltd. upto March 15, 2005. At the time of leaving PQR Ltd, he was paid Rs. 3,50,000 as leave salary out of which Rs. 57,000 was exempt from tax u/s 10(AA)(ii). Thereafter he joined ABC(P.) Ltd. & received Rs. 4,12,200 as leave salary at the time of his retirement on December 31, 2019. Determine taxable leave salary:

Particulars	Rs.
Salary at the time of retirement (per month)	22,900
Average salary received during 10 months ending on December 31, 2019	
- From March 1, 2019 to July 31, 2019 (per month)	22,600
- From August 1, 2019 to December 31, 2019 (per month)	22,900
Duration of service (a)	14.75 years
Leave entitlement for every year of service (b)	45 days
Leave availed while in service (c)	90 days
Leave at the credit of employee at the time of retirement $[(14 \times 45 - 90)/30]$	18 months
Leave salary paid at the time of retirement @ Rs. 22,900 per month (i.e., Rs. 22,900 x 18)	Rs. 4,12,200

## **Solution:**

(i) Rs. 4,12,200.
(ii) Rs. 3,00,000 – 57,000 (already exempted from previous employer) = Rs. 2,43,000.
(iii) $10 \times 22,750 = \text{Rs. } 2,27,500$ . [Note 1]
(iv) $11 \times 22,750 = \text{Rs. } 2,50,250$ . [Note 2]

Leave salary exempt = Rs. 2,27,500; Taxable leave salary = Rs. 4,12,200 - Rs. 2,27,500 = Rs. 1,84,700.

**Note:** (1) AMS =  $[(22600 \times 5) + (22900 \times 5)] = \text{Rs. } 22,750$ .

(2) Leaves Earned = {Completed years of service × No. of leaves credited/month (Maximum 30 days allowed in a year)} – Leaves actually taken.} / 30 days. =  $[(14 \times 30) - 90] / 30 = 11$  months.

## **[SECTION 10(10)]**

- It is a retirement benefit payable at time of cessation of employment on basis of duration of service.

A. **GOVERNMENT EMPLOYEES** → **Fully Exempt** u/s 10(10)(i).

B. **NON-GOVERNMENT EMPLOYEES:** Taxable Gratuity = Gratuity Received – Gratuity Exempt

<b>I. COVERED BY GRATUITY ACT, 1972</b>	<b>Least of following is Exempt</b>
<b>(a) How to calculate LOS:</b> More than half year = Full year [Ignore less than half part]	
<b>(b) 15 days salary =</b> $\frac{\text{Salary last drawn} \times 15}{26}$	

**21. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)**  
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# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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<b>II. NOT COVERED BY GRATUITY ACT, 1972</b>	<b>Least of following is Exempt</b> <div style="border: 1px solid black; height: 60px; width: 100%; background-color: #ffffcc;"></div>
<b>AMS:</b> Avg. salary for 10 months immediately preceding <b>Retirement Month</b> (& not date).	

## **Points to Remember:**

- ❖ Gratuity Received during the **period of Service** → Fully Taxable.
- ❖ Gratuity received by Members of **Defence Service** → Fully Exempt.
- ❖ Retirement Gratuity received by Employees of CG/Members of Civil Services/LA → Fully Exempt.
- ❖ Gratuity is received by Widow, Children or Dependents of Deceased Employee → Fully Exempt.
- ❖ **Completed YOS** (year of service) will **include** the period of **earlier employment** if the employee was **not entitled** to gratuity at that time/during that employment.
- ❖ **Exemption Limit of Rs. 20 Lacs/10 Lacs is the maximum amount of gratuity exempt.** If gratuity is received in any earlier year from former employer (if any) & again received from another employer in later year, limit of Rs. 20 Lacs/10 Lacs will be reduced by the amount of gratuity exempt earlier.

**CQ14.** Mr. Raj not being covered by the Payment of Gratuity Act, 1972 retires during PY 2019-20 from XYZ Private Ltd, and receives Rs. 45,000 as gratuity after a service of 40 years 11 months. Her average monthly salary during the last 10 months of services was Rs. 2,200. Determine the taxable gratuity in her case for AY 2020-21.

**Solution:** **Computation of taxable gratuity Of Mr. Raj**

Particulars	Rs.
Actual Gratuity	45,000
<b>Less:</b> Exempt u/s. 10(10) to the extent of least of the following:	
1. Rs. 10,00,000	
2. $2,200 \times \frac{1}{2} \times 40 = \text{Rs. } 44,000.$	
3. Actual Gratuity received = Rs. 45,000	<u>44,000</u>
<b>Taxable gratuity</b>	<b><u>1,000</u></b>

## **PENSION [SEC [10(10A)]**

➤ Pension means a periodic payment made to employee in consideration of past services payable after his retirement. Pension is of two types:

1. **COMMUTED PENSION:** Commutation means Inter-Change.
  - Converting future right to receive monthly pension into lumpsum amount receivable immediately on retirement/superannuation.
  - It is lumpsum payment in lieu of periodical payment.
2. **UNCOMMUTED PENSION (Monthly pension):** It is periodical payment of pension.
  - It is **always TAXABLE** in the hands of both Government/Non-Government Employee.

**Ex:** If a person is entitled to receive a pension of Rs. 10,000 p.m. for the rest of his life. He may commute 50% of this amount & get a lumpsum of Rs. 3 lacs (random amount). After commutation, his monthly pension will now be the balance 50% of Rs. 10,000 p.m. = Rs. 5,000 p.m.

**22. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)**  
**Income tax by Nitesh Sir**

## 1. TAX TREATMENT OF COMMUTED PENSION

A. **GOVERNMENT EMPLOYEE** → Always **EXEMPT**.

B. **NON-GOVERNMENT EMPLOYEE:** Taxable Pension = Pension Received – Exempt Pension.

<b>I. If Gratuity is Received by Employee</b>	▪ <b>Exemption = 1/3<sup>rd</sup> of the Pension</b> which he would have been normally entitled to receive had he not commuted the pension ( <b>Total Pension</b> ).
<b>II. If Gratuity is Not received by Employee</b>	▪ <b>Exemption = 1/2<sup>th</sup> of the Pension</b> which he would have been normally entitled to receive had he commuted the pension ( <b>Total Pension</b> ).
<b>Note:</b> For this purpose, $\text{Total Pension} = \frac{\text{Commuted Pension}}{\% \text{ of commutation}}$	

### Points to Remember:

- ❖ Commuted Pension to Judges of HC/SC → Fully Exempt.
- ❖ Commuted Pension received by Individual out of annuity plan of LIC → Exempt.
- ❖ Pension received from UNO by the employee or his family members → Exempt.
- ❖ Family Pension received by the family members of Armed forces → Exempt u/s 10(19).
- ❖ Family Pension received by family members after death of an employee (Other than armed forces) → **Taxable u/h IFOS. Deduction u/s 57 = Lower of Rs 15000 OR 1/3<sup>rd</sup> of Pension.**

## 2. TAX TREATMENT OF UNCOMMUTED (MONTHLY) PENSION

- It is **always TAXABLE** in the hands of both Government/Non-Government Employee.

**CQ15.** Mr. X retires from PQR Ltd. on 31.3.2018. He is paid Rs. 1,800 p.m. as pension. On his request, RG Co. Pays Rs. 36,000 in lieu of 50% of monthly pension from 1.12.2018. Assume that i) Gratuity is paid, (ii) No Gratuity is paid. Calculate taxable pension includible in the salary income for AY 2020-21.

**Solution:** Mr. X has commuted his pension from 1.12.2019. Till 31.11.2019 (i.e for 8 months), he was receiving monthly pension of Rs. 1,800. Now from 1.12.2019, he will receive only Rs. 900 as monthly pension since he has commuted 50% of his monthly pension. Total pension =  $\frac{\text{Rs. } 36,000}{50\%} = \text{Rs. } 72,000$  for the purpose of exemption.

# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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### Computation of taxable pension of Mr. Sundar

Case I : Gratuity is paid	Rs.	Rs.
(1) Uncommuted pension before the date of commutation (1,800 x 8)		14,400
(2) Uncommuted pension after the date of commutation (900 x 4)		3,600
(3) Commuted pension received	36,000	
Less: Exempt commuted pension = 1/3 <sup>rd</sup> of Total Pension [Rs. 72,000 x 1/3]	<u>24,000</u>	
Taxable Commuted Pension		<u>12,000</u>
<b>Total Taxable Pension</b>		<b>30,000</b>

Case II : Gratuity is not paid	Rs.	Rs.
(1) Uncommuted pension before the date of commutation (1,800 x 8)		14,400
(2) Uncommuted pension after the date of commutation (900 x 4)		3,600
(3) Commuted pension received	36,000	
Less: Exempt commuted pension = 1/2 of Total Pension [Rs. 72,000 x 1/2]	<u>36,000</u>	
Taxable Commuted Pension		<u>Nil</u>
<b>Total Taxable Pension</b>		<b>18,000</b>

### NATIONAL PENSION SCHEME

<b>Applicability</b>	Only to new employees of government or any other employer.
<b>Scheme</b>	Every employee is required to contribute 10% of his salary every month towards NPS. A matching contribution is made by the employer.
<b>Tax treatment</b>	<ol style="list-style-type: none"> <li>1. <b>Employer's contribution:</b> First included in salary income of the employee &amp; deduction (upto 10% of salary) is given u/s 80CCD(2).</li> <li>2. <b>Employee's contribution:</b> Deductible (upto LOWER OF 10% of salary or 1.5 lacs ) u/s 80CCD(1).</li> </ol>
<b>Maturity amount</b>	Pension received out of the aforesaid amount → Taxable to recipient.

### RETRENCHMENT COMPENSATION [SECTION 10(10B)]

- Any compensation received by a workman at the time of his retrenchment shall be **Exempt** to the Extent of **Lower** of the following:
  - (a) Actual Amount Received. (b) Rs. 5,00,000.
  - (c) 15 days Average Pay × Length of service (More than half year shall be treated as full year).
- Average pay = Average of the wages payable to a workman: [To be read once]
  - (a) **In 3 Complete calendar months:** In case of Monthly paid workman,
  - (b) **In 4 calendar weeks:** In case of weekly paid workman
  - (c) **In 12 full working weeks:** In case of daily paid workman.

preceding the date on which the average pay becomes payable if the workman had worked for 3 complete calendar months/4 Complete weeks/12 full working days.
- Where such calculation cannot be made, the average pay shall be calculated as the average of the wages payable to a workman during the period he actually worked.

**24. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)  
Income tax by Nitesh Sir**



# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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**Note:** Where retirement compensation is received by workman ap per the scheme approved by CG (for extending special protection to workman), entire compensation received is exempt u/s 10(10B).

**CQ16.** 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. 6,000 p.m. Compute his taxable retrenchment compensation.

**Solution:** Taxable Retrenchment compensation = Rs. 10 lacs – Rs. 4,50,000 = Rs.

5,50,000 Calculation of exempt Retrenchment compensation = Lower of

(a) Actual Amount Received = Rs.

10 lacs (b) Rs. 5,00,000.

(c) 15 days Average Pay × Length of service (More than half year shall be treated as full year).

= Rs. 26000 × 15/26 × 30 years = **Rs. 4,50,000.**

## **COMPENSATION RECEIVED ON VOLUNTARY RETIREMENT [SEC**

### **10(10C)]**

➤ Maximum Exemption upto **Rs. 5,00,000** is available if following condition is satisfied:

**Condition:** Amount payable for VRS should not exceed [Higher of (a) or (b)]

(a) **3 Months Salary** for each completed year of service.

(b) Salary @ time of retirement × Balance months of service left before retirement/superannuation.

### **Points to Remember:**

- ❖ Relief u/s 89 is not available if exemption is taken in this section.
- ❖ Exemption u/s 10(10C) shall be allowed once in a lifetime.

**CQ17.** 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.; Dearness allowance (which forms part of pay) Rs. 5,000 p.m. Compute his taxable VRS, assuming that he does not claim any relief u/s 89.

**Solution:** Exemption of Rs. 5,00,000 is available if Amount payable for VRS does not exceed Higher of

(a) 3 Months Salary for each completed year of service = 3 × Rs. 25,000 × 30 years = Rs. 22,50,000;

(b) Salary @ time of retirement × Balance months of service left before retirement = Rs. 25,000 × 72 = Rs.

18 lacs; Thus, If VRS Compensation received does not exceed Rs. 22,50,000, Exemption of Rs. 5,00,000 will be available. Amount of VRS Compensation received = Rs. 7,00,000. Thus Rs. 5,00,000 will be Exempt.

Taxable VRS = Rs. 2,0,000.

### **Some other Points:**

**[To be Read once]**

(i) Only the employee of the following undertakings are eligible for exemption under this clause:

- Public sector company/Any other company/LA/Co-operative society.
- Authority established under a Central/State or Provincial Act
- University established or incorporated under a Central/State or Provincial Act.
- Indian Institute of Technology/Institute of Management notified by CG in Official Gazette
- Central Government/Any State Government

**25. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)**

**Income tax by Nitesh Sir**

# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

**call: - 9386035411, 7870266699, 9709443092**

- An institution, having importance throughout India or in any State as notified by CG.
- (ii) It applies to an employee who has completed 10 years of service or completed 40 years of age.  
[Except: Employee of a public sector company under voluntary separation scheme framed by the company].
- (iii) It applies to all employees except directors of a company or a cooperative society.

## **DEDUCTION ALLOWED FROM SALARY INCOME**

➤ Income taxable u/h 'Salaries' is computed after making the following deductions:

### **1. STANDARD DEDUCTION [SECTION 16(ia)]**

- Lower of (i) **Rs. 40,000** or (ii) Amount of Salary is deductible from salary Income.

### **2. ENTERTAINMENT ALLOWANCE [SEC 16(ii)]**

- It is first included in salary income & then deduction is available u/s 16.
- **Least of the following is Exempt for GOVERNMENT EMPLOYEES only**

Amount of entertainment allowance actually received during PY.
Rs. 5,000.
20% of basic salary.

- **Actual expenditure** towards entertainment is **NOT RELEVANT**.
- In the case of **Non-Government Employee** → Entertainment allowance is **not deductible**.

Mr. D, a Government employee gets Rs. 20,000 per year as entertainment allowance out of which he spends Rs. 2,000 for official purpose; Rs. 3,200 for personal purposes & save the balance Rs. 14,800. Basic salary amounts to Rs. 60,000. Compute the taxable entertainment allowance.

**Solution:** **Computation of taxable entertainment allowance**

Entertainment allowance for the year	20,000
Least of the following is deductible	
1. Rs. 5,000	
2. 1/5 <sup>th</sup> of salary – Rs. 8,000	
3. Actual entertainment allowance – Rs. 20,000	5,000
<b>Taxable Entertainment Allowance</b>	<b>15,000</b>

### **3. PROFESSIONAL TAX [SEC 16(iii)]**

- It is levied by a State under Article 276 of the Constitution. SG cannot impose more than Rs. 2,500 as profession tax.
- It is deductible only when it is **actually paid** by the Employee during PY.

**26. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)**

**Income tax by Nitesh Sir**

# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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Student should note that the Limit of Rs. 2,500 is for the levy of professional tax in a previous year by the State Government. However, under Income Tax Act, there is no such limit on claiming deduction in a PY. Thus, if Rs. 5,000 is paid as professional tax during the PY, whole of Rs. 5,000 will be deductible in the PY in which it is paid.

- If an Employer pays Professional Tax on behalf of Employee, it shall be first included in salary of the employee as perquisite & then shall be allowed as deduction on payment basis.

## **RELIEF [SECTION 89] (Only for INDIVIDUALS)**

- If any individual receives any portion of his salary in arrears or in advance or receives profits in lieu of salary (gratuity, commuted pension), family pension & as a result of such receipt, his income is assessed at a higher rate than the rate at which it would have been assessed if there was no such aforesaid receipts, he can claim relief u/s 89.
- Procedure for computing relief as given in Rule 21A is as follows:

<p>1. Calculate the <b>tax payable of PY</b> in which the arrears/ advance salary is received on</p> <p>(a) Total Income <b>including</b> of advance salary/ salary in arrears.</p> <p>(b) Total Income <b>excluding</b> of advance salary/ salary in arrears</p> <p>The difference between (a) &amp; (b) is the tax on additional salary included in the total income.</p>
<p>2. Calculate the tax payable of PY to which the advance salary/salary in arrears relates.</p> <p>(a) Total Income <b>including</b> of advance salary/ salary in arrears</p> <p>(b) Total Income <b>excluding</b> of advance salary/ salary in arrears.</p> <p>Calculate the difference between (a) &amp; (b) for every PY to which the additional salary relates.</p>
<p><b>3. Excess tax on additional salary as calculated in 1 &amp; 2 shall be Relief admissible u/s 89.</b></p>

**CQ19.** Mr. Hari, who turned 66 years on 28.3.2020, salary for PY 2019-20 is Rs. 10,20,000 & Arrears of salary received is Rs. 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary	Arrears now received
2011 - 2012	7,10,000	1,03,000
2012 - 2013	8,25,000	1,17,000
2013 - 2014	9,50,000	1,25,000

Compute the relief available u/s 89 & the tax payable for the AY 2020-21.

**Note: Rates of Taxes:**

AY	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2012-13	Upto 2,40,000	Nil	Upto Rs. 1,60,000	Nil
	2,40,001 - 5,00,000	10%	Rs. 1,60,001 - Rs. 5,00,000	10%

**27. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)  
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# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

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	5,00,001 - 8,00,000	20%	Rs. 5,00,001 - Rs. 8,00,000	20%
	Above 8,00,000	30%	Above Rs. 8,00,000	30%
2013-14	Upto 2,50,000	Nil	Upto Rs. 1,80,000	Nil
	2,50,001 - 5,00,000	10%	Rs. 1,80,001 - Rs. 5,00,000	10%
	5,00,001 - Rs. 8,00,000	20%	Rs. 5,00,001 - Rs. 8,00,000	20%
	Above Rs. 8,00,000	30%	Above Rs. 8,00,000	30%
2014-15	Upto Rs. 2,50,000	Nil	Upto Rs. 2,00,000	Nil
	2,50,001 - 5,00,000	10%	Rs. 2,00,001 - Rs. 5,00,000	10%
	5,00,001 - 10,00,000	20%	Rs. 5,00,001 - Rs. 10,00,000	20%
	Above 10,00,000	30%	Above Rs. 10,00,000	30%

**Note:** Education cess @ 2% & SHEC @ 1% was attracted on the income-tax for all above preceding years.

## **Solution: Computation of tax payable by Mr. Hari for the AY 2020-21**

Particulars	Incl. arrears of salary	Excl. arrears of salary
Current year salary	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
<b>Taxable Salary</b>	<b>13,65,000</b>	<b>10,20,000</b>
Income-tax thereon	2,19,500	1,16,000
Add : HEC @ 4%	8,780	4,640
<b>Total payable</b>	<b>2,28,280</b>	<b>1,20,640</b>

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

Particulars	AY 2012-13		AY 2013-14		AY 2014-15	
	Incl. arrears	Excl. arrears	Incl. arrears	Excl. arrears	Incl. arrears	Excl. arrears
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
<b>Taxable salary</b>	<b>8,13,000</b>	<b>7,10,000</b>	<b>9,42,000</b>	<b>8,25,000</b>	<b>10,75,000</b>	<b>9,50,000</b>
Tax	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
<b>Tax payable</b>	<b>1,00,837</b>	<b>78,280</b>	<b>1,38,638</b>	<b>1,02,485</b>	<b>1,51,925</b>	<b>1,18,450</b>

## **Computation of Relief u/s 89**

Particulars	Rs.	Rs.
Tax payable in AY 2020-21 on arrears:		
Tax on income including arrears	2,28,280	
Less : Tax on income excluding arrears	1,20,640	1,07,640
Tax payable in respective years on arrears :		
Tax on income including arrears (Rs. 1,00,837 + Rs. 1,38,638 + Rs. 1,51,925)	3,91,400	
Less: Tax on income excluding arrears (Rs. 78,280 + Rs. 1,02,485 + Rs. 1,18,450)	2,99,215	92,185
Relief u/s 89 [Diffn b/w tax on arrears in AY 2020-21 & tax on arrears in respective years]		<b>15,455</b>

## **TREATMENT OF PROVIDENT FUND**

### **Kinds of Provident Funds:**

**28. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)  
Income tax by Nitesh Sir**

# **RANKERS' COMMERCE (KANKARBAGH PATNA)**

**call: - 9386035411, 7870266699, 9709443092**

## **A. Statutory Provident Fund (SPF)**

- This fund is **set up** under the **Provident Fund Act, 1925**.
- This Scheme is mainly meant for:
  - Government employees/ Semi Government employees,
  - University/Educational Institutions affiliated to a university established by statute.

## **B. Recognized Provident Fund (RPF)**

- RPF means a provident fund recognised by CIT for Income Tax purposes.
- It is governed by Part A of Schedule IV to the Income-tax Act, 1961.
- RPF Scheme is a scheme to which Employee's Provident Funds & Miscellaneous Provisions Act, 1952 applies.
- According to this Act, any person who employs 20 or more employees is under an obligation to register himself under the PF Act, 1952 & start a provident fund scheme for the employees in his organization.
- If CIT grants the approval to such fund, it is called a recognized provident fund scheme.

## **C. Unrecognized Provident Fund (URPF)**

- A scheme started by employer & employees in an establishment which is **not approved by CIT** is called URPF

## **D. Public Provident Fund (PPF)**

- This scheme is covered under Public PF Act, 1968. In this scheme there is **no employer's contribution**.
- Any member of the public, whether in employment or not, may contribute to this fund.
- **Therefore, even self-employed persons may contribute to this fund.**
- Individual may contribute to the fund on his own behalf as also on behalf of a minor of whom he is the guardian.
- The employee can deposit money in PPF a/c in addition to other provident fund schemes.
- The minimum contribution to this Fund is Rs. 500 & maximum Rs. 1,00,000 per year.
- The sums contributed to PPF earn interest at 7.6% p.a. compounded quarterly.

## **TREATMENT OF PROVIDENT FUND FOR INCOME-TAX PURPOSES**

<b>Particulars</b>	<b>SPF</b>	<b>RPF</b>	<b>URPF</b>	<b>PPF</b>
1. Employees contribution	Deductible u/s 80C.	Deductible u/s 80C	No deduction.	Deductible u/s 80C.
2. Employer's contribution	Fully exempt.	Exempt upto 12% of salary. Amount in excess of 12% of salary is taxable.	1. Accumulated Employee's contribution is not taxable. 2. Accumulated Employer's contribution + Interest on	NA as there is only assessee's own contribution.

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3. Interest on PF	Fully exempt.	Exempt upto 9.5% p.a. <input checked="" type="checkbox"/> Any excess over 9.5% p.a. is taxable.	Employer's contribution is taxable as profit in lieu of salary. 3. Interest on Employees Contribution is taxable u/h IFOS.	Fully exempt.
4. Withdrawal on retirement	Fully exempt u/s 10(11)	Exempt subject to certain conditions.		Fully exempt u/s 10(11)

### **IMPORTANT NOTES**

**1. URPF:** Employer's contribution & Interest on provident fund are not taxable/deductible in the year of payment or credit of interest. It becomes taxable when accumulated balance is withdrawn by employee.

**2. RPF:** Withdrawal of accumulated balance by employee from RPF is exempt in following cases:

(i) If employee has rendered continuous service with his employer for a period of 5 years/more.

**(ii)** If service has been terminated by reason of (a) employee's ill health, (b) discontinuance of employer's business, (c) reasons which are beyond employee's control. **[even if continuous service < 5 years]**

(iii) If employee obtains employment with any other employer on cessation of his employment & accumulated balance due to him is transferred to his individual account in any recognized fund maintained by such other employer. In such case, for calculating period of service for (i) & (ii) above, period for which employee rendered continuous service **under his former employer shall be included.**

**3.** If accumulated balance due to an employee in RPF is paid to him otherwise than in the circumstances referred to above(ex: where employee voluntarily resigns from the post before completion of 5 years of service with the employer, amount paid to the employee is taxable. In such cases, tax relief or deduction allowed to the assessee shall be withdrawn. **Thus,**

Employer's contribution + Interest on it (which was not taxed earlier) → Taxed as Profit in lieu of salary.

Interest on employee's contribution → Taxable u/h IFOS.

**CQ20.** On his retirement from service, Mr. Rahul received a sum of Rs. 9,00,000 from unrecognized provident fund, the composition being as follows:

Employee's contribution	4,10,000
Interest on Employee's contribution	40,000
Employers contribution	4,10,000
Interest on Employer's contribution	40,000
<b>Total</b>	<b>Rs. 9,00,000</b>

**Answer:** Whenever any amount is withdrawn or at the time of retirement, the credit balance in unrecognized provident fund is refunded to the employee,

(a) Employer's contribution & Interest on Employer's contribution is taxable in the hands of the employee, as profits in lieu of salary. Thus, taxable amount shall be Rs. 4,10,000 + 40,000 = Rs. 4,50,000.

(b) Interest on Employee's own contribution in URPF is taxable u/f IFOS. Thus, Rs. 40,000 is taxable u/h IFOS.

(c) Employee's contribution (Refunded) from URPF is not taxable, since it was not allowed as deduction when it was paid.

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## **THEORY QUESTIONS**

### **Q1. Salary in lieu of notice**

#### **period. Answer:**

Meaning of notice period: Normally, if any employer wants to terminate the services of an employee, he gives notice of his intention to do so.

Ex: As per the contract of service, he may have to give three months notice in advance to the employee. This is known as notice period.

Sometime employer instead of giving him a notice gives him salary for the notice period & terminates him immediately. This amount paid by employer is known as salary in lieu of notice period & is fully taxable to employee in PY in which it is received.

### **Q2. What is Foregoing of salary & surrender of salary?**

[Refer Text above]

### **Q3. What is annuity. Discuss its tax implication. Answer:**

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

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

(iii) Annuity received from a past employer is taxable as profit in lieu of salary.

(iv) Annuity received from person other than employer is taxable as u/h IFOS.

### **Q4. Profit in lieu of salary. [SECTION1**

**7(3)]**

**Answer:** These payments are received by employee in lieu of or in addition to salary. They are:

**(i) Terminal Compensation:** Compensation received by employee from his present/former employer in connection with termination (retirement, premature termination, resignation or otherwise) of his employment or the modification of terms & conditions of the employment.

**(ii) Payment from URPF/URSF:** Accumulated balance of URPF/URSF consists of employee's contribution plus interest on employee's contribution & employer's contribution plus interest on employer's contribution.

☞ Employer's contribution & interest on the employee's contribution as well as employer's contribution are not taxed during the period of employment.

☞ When the accumulated balance is paid to the employee either on retirement or on termination of service, the untaxed portion, i.e. the employer's contribution & interest thereon is taxed

☞ Interest on employee's contribution is taxed as 'Income from other sources'.

**CRUX:** Payment received by employee on termination of employment from URPF/URSF to the extent of total employer's contribution & interest on such employer's contribution → Taxable as "profit in lieu of salary".

**NOTE:** Since employee is not eligible for deduction u/s 80C for contribution to URPF, employee's share received

from the URPF is not taxable at the time of withdrawal.

**(iii) Payment under Keyman Insurance Policy:** Any payment received by an employee, under a Keyman Insurance Policy including bonus on such policy will be regarded as profit in lieu of salary.

**(iv)** Any amount due or received before joining or after cessation of employment.

**(v)** Any other sum received by the employee from the employer: This is a comprehensive provision by

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virtue of which all payments made by an employer to an employee whether made in pursuance of a legal obligation or voluntarily are brought to tax under "profit in lieu of salary".

Following receipts are not termed as 'profits in lieu of salary' to the extent they are exempt u/s 10.

Death-cum-retirement gratuity - Sec. 10(10)	Commutated Pension - Sec. 10(10A)
Payment received from SPF - Sec 10(11)	Payment received from RPF - Sec. 10(12)
Any payment from an Approved Superannuation fund as per Sec. 10(13)	
HRA exempt u/s 10(13A)	
Retrenchment compensation received by a workman Sec. 10(10B)	

**Q5.** The question whether a particular income "Income from Salary" or "Income from Business" depends upon whether the contract is a 'Contract of Service' or is a 'Contract for Service'. Discuss.

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